



Boeing Capital Corporation

Current Aircraft Finance Market Outlook 2015



The *Current Aircraft Finance Market Outlook* for 2015 anticipates continued strength in the primary commercial aircraft finance sectors, with balance among funding sources and an unprecedented diversity of capital providers. Aircraft finance and investment is attracting a broad cross-section of new market participants in response to decades of predictable and attractive returns—including stable performance through the global financial crisis—and investor appetite for asset diversification. In 2015, commercial aircraft finance strength should result in efficient financing for airlines and historically low levels of export credit usage, with commercial bank debt and the capital markets expected to cumulatively account for approximately 60 percent of delivery financing. Much of the bank debt and capital markets activity should be for lessors, who are expected to fund about 40 percent of all deliveries.

With more than \$120 billion expected to be needed for deliveries in 2015, and even higher numbers forecast for future years, there is tremendous opportunity for aircraft finance market participants and investors, but also some unique challenges. Today, many of the commercial banks in aviation are relatively new players who are still developing their aircraft finance expertise. Along with a tighter regulatory environment, this is expected to concentrate competition for new commercial bank loans at first-tier airlines, boosting demand for aircraft leasing among second-tier carriers. In addition, investor demand for aircraft-secured debt continues to outstrip supply. Satisfying this unmet appetite for aircraft asset exposure will depend on the ability of global airlines to efficiently access the capital markets as well as innovation in lessor portfolio sell-down structures. Investor demand and portfolio sell-down initiatives should also support continued interest and investment in the used aircraft market.

The strength we're seeing in aircraft finance is largely the result of a healthy and balanced global demand for new aircraft, driven by anticipated passenger traffic growth, record airline profitability, and the continuation of a

replacement cycle to improve the fuel and performance efficiency of a large portion of the global fleet. The fleet continues to operate at historically high utilization levels and record load factors. Complementing a strong passenger market is the growth in air cargo demand. As described in Boeing's *Current Market Outlook*, we continue to see growth in this sector's volumes, which may signal the anticipated return of air cargo traffic growth to historical levels.

Concerns about fuel prices, interest rate hikes, currency volatility, political unrest, and health epidemics are responsible for some market angst. However, as long as these variables do not undermine global economic growth, the current trends for new airplane demand should continue in 2015, supporting continued strength and balance for the global aircraft finance industry.

Working together, we can translate this forecast into sensible business for all market constituents.

—Boeing Capital Corporation
December 2014

Working Together

for sustainable and efficient aircraft financing



Capital Providers



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Healthy aircraft financing environment

In 2015, the aircraft finance market is expected to provide diverse liquidity at record low prices. We forecast that lessors should again be responsible for funding the largest share of new deliveries. While politics are creating some uncertainty around export credit, that should be offset by balanced funding from commercial banks and capital

markets. We expect to welcome a number of new commercial bank and capital market participants over the coming year, which should drive continued diversity in these sources. Manufacturer support is expected to remain isolated to a limited number of airline and jurisdiction-specific challenges.

● SATISFACTORY ● CAUTIONARY ● MAJOR CONCERN



Growing industry delivery finance requirements

We expect strong market demand for new, fuel-efficient airplanes to result in about \$124 billion of commercial aircraft deliveries industry-wide in 2015, double the amount from 2010. Looking ahead, the next five years are expected to bring robust, albeit slower, growth in airplane delivery financing requirements, with a projected \$156 billion of delivery financing needed in 2019. The aircraft finance industry grew and evolved to successfully meet the rapidly-rising demand of the past five years and appears to be well-positioned for the next five as well.

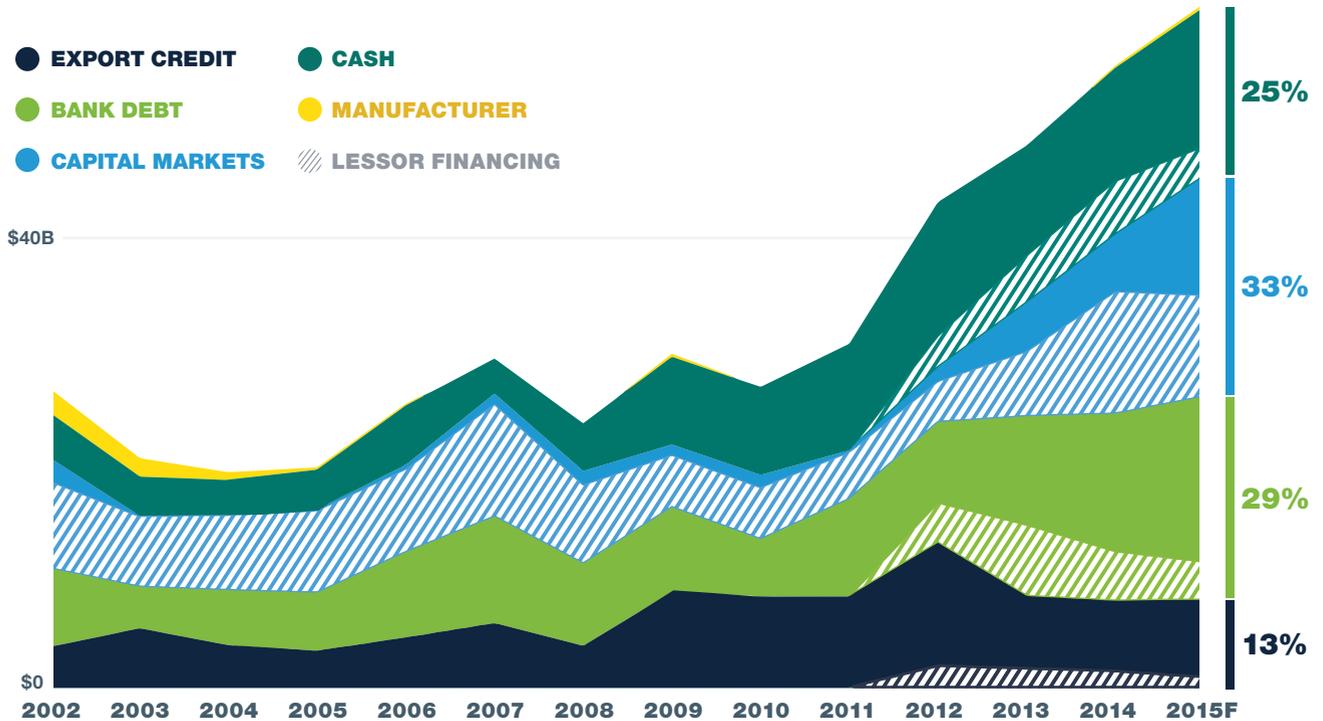
● EXPORT CREDIT ● CAPITAL MARKETS
● BANK DEBT ● CASH
● TAX EQUITY



Balanced funding for Boeing deliveries

Funding for Boeing deliveries in 2015 is expected to mirror that of the broader industry, with unprecedented liquidity driving strength and diversity in major sources of financing. Continued deleveraging and resilient airline profitability are expected to support relatively high levels of cash equity, with funding for 2015

deliveries projected to be roughly balanced between cash, commercial bank debt, and capital markets. Reflecting the current strength of commercial markets, export credit usage should be at historically low levels. As with the broader industry, lessors are expected to play a significant role in supporting Boeing deliveries.



Key updates

We created the *Current Aircraft Finance Market Outlook (CAFMO)* to provide a forecast of the sources of financing for new commercial airplane deliveries in the coming year and the industry's total delivery financing requirements over the next five years. Each year, we strive to improve the CAFMO, with the aim of enhancing its utility. Our seventh annual forecast brings several notable changes, including the replacement of historical forecast data with actual funding levels. This adjustment highlights two notable trends in 2012-2014: Bank debt liquidity was higher than expected and export credit usage declined faster than was forecast.

The Lessor Self-Fund category, which was previously used to capture deliveries funded

through parent companies, has been rolled into the lessor segment of Capital Markets to simplify the forecast and more accurately reflect the ultimate source of capital used to fund these deliveries. A side benefit of this change is that the segmentation of the Capital Markets category between airlines and lessors now provides an indication of the type of funding being used, with leasing companies primarily relying on unsecured capital market transactions to support deliveries.

With the emergence of new market participants, we increased granularity in our forecast for commercial bank debt, breaking out expected contributions from banks in the U.S. and Australia.

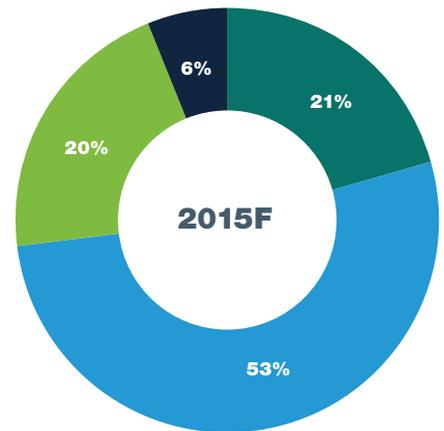


Lessors

Aircraft lessors are expected to support a large share of 2015 deliveries while driving significant innovation in aircraft finance. Over the past three years, leasing companies shifted the bulk of their leverage from commercial bank debt to more efficient capital market funding. This expanded capital market liquidity is attracting new institutional investors and stimulating interest in the creation and evolution of aircraft portfolio securitization structures.

- CASH
- CAPITAL MARKETS
- BANK DEBT
- EXPORT CREDIT

Sources of lessor financing for Boeing deliveries



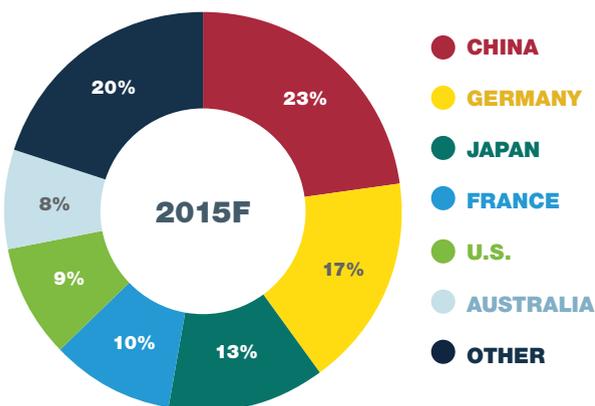
Capital markets

An expanding investor base, a rational balance between secured and unsecured funding, innovative financing structures, and a growing private placement market are helping to propel the growth of capital markets in aircraft finance. In 2015, the capital markets are expected to support nearly a third of new deliveries through both secured and unsecured funding. Capital markets will be the primary

source of leverage for lessors, who are a conduit to the public markets for many airlines. For new deliveries, global airlines will rely on both secured and unsecured issuances, with lessors primarily using unsecured structures. We expect refinancing activity to remain strong, with a variety of secured structures for both airlines and lessors.



Commercial bank debt



In 2015, commercial bank debt is expected to remain the second-largest source of financing for new deliveries. The rise of new participants, especially from the U.S. and Australia, along with the continued participation of existing lenders, should help maintain balance, diversity and strength in the bank markets for 2015. First-tier airlines and lessors should continue to be the primary beneficiaries of robust competition among banks.



Export credit

Commercial market strength and the higher fees and equity requirements resulting from the 2011 Aircraft Sector Understanding are expected to keep export credit usage at historically low levels in 2015. Export credit

usage will likely be limited to emerging market players, new lessor platforms, and a modest amount of funding needed for diversification by established carriers.

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P.O. Box 3707 MC 6Y3-16

Seattle, WA 98124-2207

www.boeingcapital.com/cafmo

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