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Financial intelligence for commercial aviation

A SPECIAL SUPPLEMENT

The Leasing Top 50 2013

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EDITORIAL

An expanding universe of lessors

Airfinance Journal editor, Dickon Harris, and *The Airline Analyst's* managing director, Michael Duff, introduce the latest supplement that examines the largest aircraft lessors in the market.

We are very proud to present the Leasing Top 50. A new supplement from the *Airfinance Journal* stable of publications, the Leasing Top 50 updates our existing leasing survey and presents a more detailed overview of the aircraft-leasing sector.

We would also like to take this opportunity to thank our partners, AeroTransport Data Bank (ATDB) and Avitas, for their help in offering and sourcing data on lessors' fleets.

The leasing industry is an incredibly fast-moving one. As the magazine that covers this sector, we are constantly impressed by the influx of new lessors being created and the increasing diversity of aircraft leasing models.

Competition in this sector has never been as intense, and airlines are spoilt for choice for a range of sophisticated fleet solutions. On a recent visit to Brazil for the Latin America Airfinance conference at least eight lessors stated they were keen to close sale/leasebacks in Latin America. What was fascinating was the variety of lessors willing to arrange deals in the region. Lessors from Russia, Japan and China are actively courting the world's airlines, and taking on many of the world's largest lessors to do so.

Lessors have benefited from the modest uptick in passenger demand and from the continued high cost of fuel. According to the June 2013 set of figures by the International Air Transport Association, global revenue passenger kilometres showed a year-on-year growth of 6%, and passenger load factors have increased to 81.7% over the same period. Airlines are ordering more aircraft, and lessors have been the obvious beneficiaries of this. In addition, the high cost of fuel has motivated airlines to engage with new-technology aircraft. This has been good news for lessors of new kit but challenging for lessors, and asset-backed securitisations (ABSs), of older aircraft. It has also helped leasing firms that specialise in late life aircraft and part-out specialists.

As many of the newer or smaller lessors have expanded in size, many of them are ordering directly from the manufacturers. Lessors made up 39% of the 923 orders announced at the 2013 Paris Air Show in June. Airlines looking to secure the best slots for these new aircraft types will increasingly be forced to use operating leases.

One aspect of this supplement that is perhaps different to similar publications is that we have taken the time to analyze the financials of the different lessors. Looking at the top 50 aircraft leasing companies makes you realize the lower volatility of profitability of the aircraft-leasing sector compared to airlines.

This success has been mirrored by how easily lessors can raise financing. Lessors rely on access to immediate capital in order to buy and trade aircraft quickly. A lessor that has difficulty raising capital is a business disaster waiting to happen.

Happily, from a pure financing perspective, leasing firms offer a fantastic spread of risk, with a diversified asset base spread across many geographies. As we hit the last stretch of 2013, lessors have continued to use their bilateral banking relationships, as well as prepare their more sophisticated capital market solutions. On that note it is a safe bet to expect to see more asset-based securities transactions before the end of the year.

A quick word on methodology. The fleet data used in the supplement has been obtained by consulting the lessors directly. Where we have failed to secure up-to-date fleet data, we have relied on ATDB's numbers. Using separate databases means that there are some unavoidable discrepancies, particularly between the size of fleets recorded in ATDB and by Avitas.

In addition, we should also stress that some lessors have offered their very latest fleet count, while others have used public data from within the past three months. Wherever possible we have used the latest figures.

The last thing we would like to add is a sincere thank you. Many of the leasing firms featured took the time to respond to our questions, and we appreciate their efforts.

We hope you enjoy the supplement.

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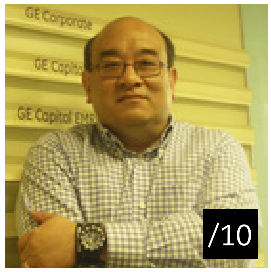

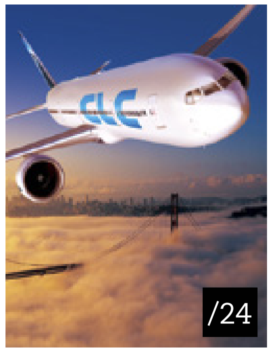

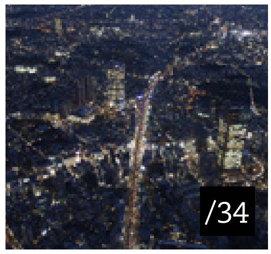

Top 50 lessors by number of aircraft

Fleet Count
Provided by Lessors and www.ATDB.aero

Rank	Lessor/Manager	Number of Aircraft	Rank	Lessor/Manager	Number of Aircraft
1	GECAS	1,675	26	Avmax Group	63
2	ILFC	980	27	Sky Holding/Pegasus	57
3	BBAM/Fly	429	28	DAE Capital	53
4	AerCap	325	29 =	AerGo Capital Leasing	51
5	CIT Aerospace	324	29 =	ALAFCO	51
6	SMBC Aviation Capital	296	29 =	VTB-Leasing	51
7	ACG	262	32	Apollo Aviation Group	50
8	AWAS	255	33	DVB/Deucalion	46
9	BOC Aviation	226	34	Banc Of America Leasing	45
10	Air Lease Corporation	182	35 =	Amentum Capital	42
11	Nordic Aviation Capital	173	35 =	Sberbank	42
12	Aircastle	158	37	Jetscape Aviation Group	39
13	ORIX Aviation	151	38	BoCom Financial Leasing	38
14	Macquarie Airfinance	142	39	Doric	37
15	CDB Leasing	109	40	Ilyushin Finance	33
16 =	Avolon	97	41	Volito Aviation	31
16 =	Skyworks Leasing	97	42	GOAL	27
18	Jackson Square Aviation/MUFJ	93	43	Automatic Leasing	21
19	ICBC Financial Leasing	87	44	Avation PLC	20
20	Cargo Aircraft Management	78	45 =	AerDragon Aviation Partners	18
21	Hong Kong Aviation Capital	78	45 =	Lease Corporation International	18
22	Falko	65	47 =	AviaAM Leasing	17
23	MC Aviation Partners	71	47 =	Novus Aviation	17
24	Guggenheim Aviation Partners	64	47 =	Waha Capital	17
25	Pembroke	64	50	Mitsui & Co	16

Source: Lessors and www.ATDB.aero

Note: list contains aircraft management companies; data can change without notice

Sorted by Fleet Count

Top 50 lessors by fleet value

Rank	Lessor/Manager	Number of Aircraft	Value ($m)	Rank	Lessor/Manager	Number of Aircraft	Value ($m)
		Market Value Provided by Avitas					
1	GECAS	1,675	38,624	26	Nordic Aviation Capital	171	1,537
2	ILFC	1030	29,698	27	BoCom Financial Leasing	32	1,429
3	BBAM/Fly	426	12,955	28	Investec	30	1,245
4	SMBC Aviation Capital	343	10,869	29	Bank Of America Leasing	45	1,244
5	BOC Aviation	228	10,049	30	DVB/Deucalion	36	981
6	AerCap	317	9,544	31	China Aircraft Leasing Company	24	974
7	AWAS	274	8,024	32	Lease Corporation International	12	918
8	CIT Aerospace	267	7,791	33	Jetscape Aviation Group	41	894
9	Air Lease Corporation	177	6,943	34	Novus Aviation	20	880
10	Aviation Capital Group	272	6,938	35	Skyworks Leasing	84	861
11	Avolon	103	4,950	36	Aircraft Leasing & Management	33	823
12	ICBC Financial Leasing	107	4,754	37	AerDragon Aviation Partners	19	642
13	CDB Leasing	109	4,751	38	Commonwealth Bank of Australia	27	622
14	Aircastle	158	4,300	39	GOAL	37	602
15	Doric	36	4,123	40	Apollo Aviation Group	57	598
16	MC Aviation Partners	109	4,099	41	VTB-Leasing	41	571
17	Jackson Square Aviation/MUFJ	88	4,073	42	Volito Aviation	38	557
18	Pembroke	92	3,684	43	KV Aviation	21	550
19	Macquarie Airfinance	146	3,471	44	Showa Leasing	24	539
20	DAE Capital	52	2,766	45	Cargo Aircraft Management	77	536
21	ORIX Aviation	111	2,690	46	Aldus	23	494
22	Hong Kong Aviation Capital	75	2,627	47	Aersale	59	474
23	Guggenheim Aviation Partners	66	2,519	48	Mitsui & Co	27	422
24	Amentum Capital	46	2,008	49	Avmax Group	111	398
25	ALAFCO	53	1,949	50	Sky Holding/Pegasus	55	391

Source: AerData's AtlasData, AVITAS Bluebook Values as of 1H 2013

Note: list contains aircraft management companies; data can change without notice

Sorted by Current Market Value; Please note number of aircraft may differ acc to Avitas' data.

ANALYIS

Lessors' Financials Compared

The Airline Analyst provides an analysis and comparison of the financials behind some of the best-performing aircraft financing companies of the day.

The Airline Analyst has turned its attention to the aircraft-leasing sector. Although more comprehensively covered by the ratings agencies than the airline sector, we have been consistently asked for a lessor comparison product. This study is a first step to what may become an ongoing product offering comparing the leasing companies on a consistent basis, and tracking their performance over time (including quarterly financials when available).

Lessor coverage

To make this report as comprehensive as possible we have reached beyond the publicly listed lessors to the public filings of lessors in Ireland, Denmark, Sweden, Singapore and the UK. While these financial statements may not in some cases represent the entirety of a lessor's global business, they can nevertheless provide some useful insights to its business.

In addition to the obvious major players, we include the recently listed AviaAM from Lithuania and Avation from the UK.

Figure 1 identifies the entities included in the study. In total we have been able to source the financials for 23 leasing companies. Financials are not available for the largest lessor, Gecas, but some headline numbers are available in the GE annual report.

The other significant absences from our coverage include Macquarie and Avolon, which do not file financial information publicly. SMBC Aviation Capital's financial statements for 2012/13 are not yet available, so we include the last full year of RBS Aerospace's existence, which will give some idea of the business's scale and profitability.

The preponderance of lessors in the study is incorporated in the US or Ireland.

It needs to be stressed that for some lessors the entities analyzed do not represent the entirety of their global leasing business, and may be impacted by internal funding arrangements and inter-company transactions. This applies particularly to Banc of America Leasing, CIT Aerospace International, MCAP and Orix, which have been heavily funded by shareholder loans, so please interpret their numbers accordingly.

Figure 1 - Lessors Included in the Study

Lessor	Country	FYE
AerCap	Netherlands	31-Dec-12
AerDragon	Ireland	31-Dec-12
Air Lease Corp	USA	31-Dec-12
Aircastle	USA	31-Dec-12
ALAFCO	Kuwait	30-Sep-12
Avation PLC	UK	30-Jun-13
AviaAM	Lithuania	31-Dec-12
Aviation Capital Group	USA	31-Dec-12
AWAS	Ireland	30-Nov-12
Banc of America Leasing Ireland	Ireland	31-Dec-12
BOC Aviation	Singapore	31-Dec-12
CIT Aerospace International	Ireland	31-Dec-11
FLY Leasing	Ireland	31-Dec-12
GECAS	USA	31-Dec-12
ILFC	USA	31-Dec-12
Lease Corporation International	Ireland	31-Dec-11
MCAP Europe Limited	Ireland	31-Mar-12
Nordic Aviation Capital	Denmark	30-Jun-12
ORIX Aviation Systems	Ireland	31-Mar-12
Pembroke Capital[1]	Ireland	31-Dec-12
RBS Aerospace	Ireland	31-Dec-11
Triangle (Falko)[2]	UK/Ireland	31-Dec-12
VGS (Volito)	Ireland	31-Dec-12

[1] Pro-forma aggregation of Pembroke Capital Group Limited and Pembroke Aircraft Leasing Holdings Limited
[2] Pro-forma aggregation of Triangle Aviation (UK) Holdings Limited and Triangle Aviation Ireland Limited"

Figure 2 -Adjustments to Enhance Comparability

Item	Treatment
Gain on sale of aircraft	Net gain included in Revenue
Recognition of "excess" maintenance reserves	Included in Lease Revenue but not seperately disclosed by every lessor
Maintenance and transition costs	Recognised under its own heading when disclosed, but not disclosed by every lessor
Staff cost, including stock-based compensation	Included in SG&A expenses
Interest income	Included in Other revenue

“A key driver of lessor profitability is the spread between lease yield and debt cost of funds.”

Figure 3 - Ranking by Revenue and Net Income

Rank by Revenue			Rank by Net Income		
Rank	Lessor	Revenue (US$m)	Rank	LESSOR	"Net Income (US$m)"
1	GECAS	5,294.0	1	GECAS	1,220.0
2	ILFC	4,504.2	2	ILFC	410.3
3	AWAS	998.0	3	BOC Aviation	225.3
4	AerCap	984.1	4	RBS Aerospace	165.7
5	BOC Aviation	730.8	5	AerCap	163.6
6	Aircastle	692.3	6	AWAS	161.8
7	Aviation Capital Group	684.0	7	Air Lease Corp	131.9
8	Air Lease Corp	655.7	8	Aviation Capital Group	119.2
9	RBS Aerospace	631.2	9	ALAFCO	92.1
10	CIT Aerospace International	601.1	10	Pembroke	72.9
11	FLY Leasing	395.8	11	Nordic Aviation Capital	56.9
12	Pembroke	384.7	12	CIT Aerospace Int	54.8
13	Nordic Aviation Capital	288.5	13	FLY Leasing	47.7
14	ALAFCO	201.5	14	ORIX Aviation Systems	33.9
15	MCAP Europe Limited	156.8	15	Aircastle	32.9
16	ORIX Aviation Systems	147.4	16	Banc of America Leasing	32.8
17	Banc of America Leasing	127.6	17	AviaAM	19.6
18	VGS (Volito)	98.1	18	MCAP Europe Limited	18.7
19	AerDragon	69.5	19	AerDragon	18.3
20	Lease Corp Int	60.0	20	Triangle (Falko)	12.4
21	Avation PLC	44.6	21	Avation PLC	12.0
22	AviaAM	40.1	22	Lease Corp Int	(4.8)
23	Triangle (Falko)	24.9	23	VGS (Volito)	(26.0)

Adjustments

In order to enhance comparability in treatment and presentation of the financial statements we have made some adjustments as described in Figure 2.

Revenues and profitability

Figure 3 shows the lessors ranked by revenue and net income. The revenue range of the lessors in the study is from $5.3 billion for Gecas to $25 million for Triangle (Falko). Net income ranged from $1.2 billion for Gecas to a loss of $26 million for Volito.

BOC Aviation and Alafco are ranked significantly higher by net income than by revenue. Alafco gets there by virtue of gains on cancellation of purchase contracts and BOC Aviation thanks to its very low funding costs. RBS Aerospace and Pembroke also did better on the net income ranking than the revenue ranking, indicating good margins.

A key driver of lessor profitability is the spread between lease yield and debt cost of funds. Although we do not have the data for Gecas, it would appear the lessor does well on these measures given its lead over ILFC, which is a distant second in terms of profitability.

BOC Aviation is a creditable third in the profitability ranking with a net income margin of 30.8%, the highest of any of the top 10 by revenue. Surprisingly, BOC Aviation comes close to the bottom of the lease yield ranking in Figure 4, but makes it up with the lowest debt finance cost of 1.9% (see Figure 5).

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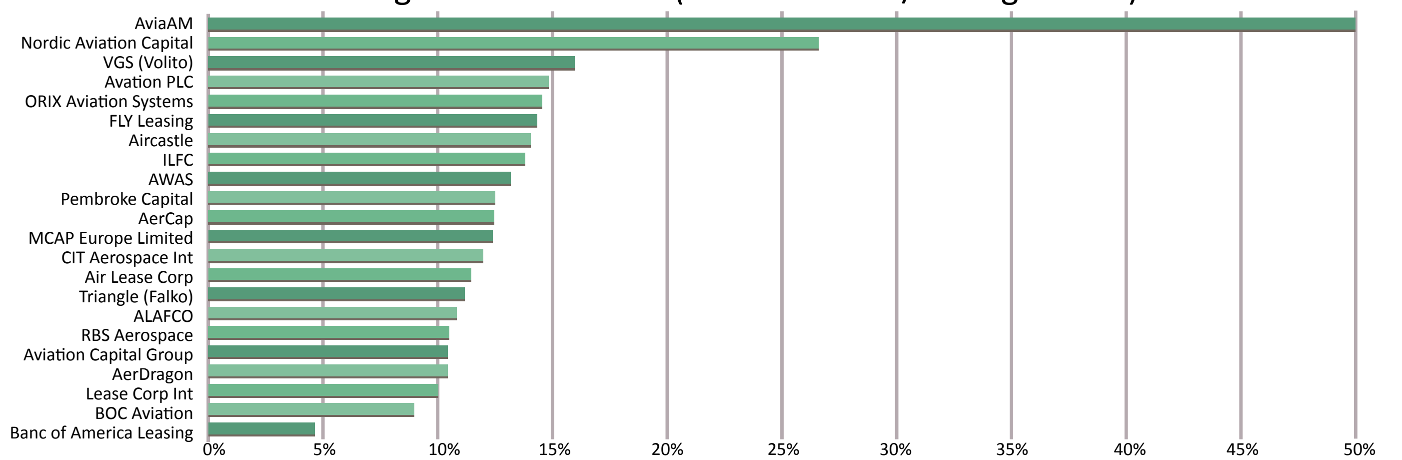
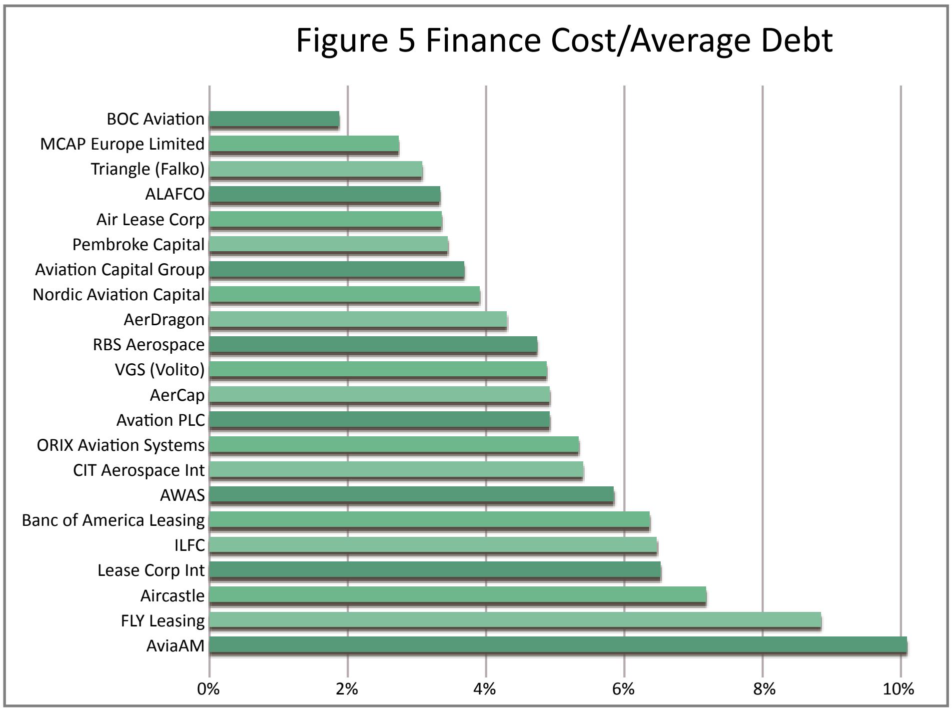
Figure 4 Lease Yield (Lease revenue/Average PP&E)



"Lessors of older and smaller aircraft to more challenging lessees secured the best lease yield."



ILFC's profitability has been under pressure because of impairment losses and uncertainty about its future, which has affected its funding cost, which is the fifth highest in the group at 6.5%. RBS was also a strong profit performer, but this was for 2011, so is not so comparable. We await the 2012/13 results for SMBC Aviation Capital.

The top spots in the lease yield rankings are dominated by lessors with the following characteristics: lessors of older and smaller aircraft to more challenging lessees and markets.

Finance costs range from BOC Aviation's low of 1.9% to AviaAM's 10.1% as shown in Figure 5. Others at the low end of the scale include MCAP Europe but all their debt was shareholder provided. AerDragon also fared well with its export credit agency-guaranteed debt. Lessors at the higher end also include Orix, CIT, Awas, ILFC, Aircastle and Fly.

Another measure of efficiency is selling, general and administrative (SG&A) expenses as a percentage of revenues as shown in Figure 6. AerDragon and Volito's leasing and administrative functions are performed by third parties or other members of the group. At the efficient

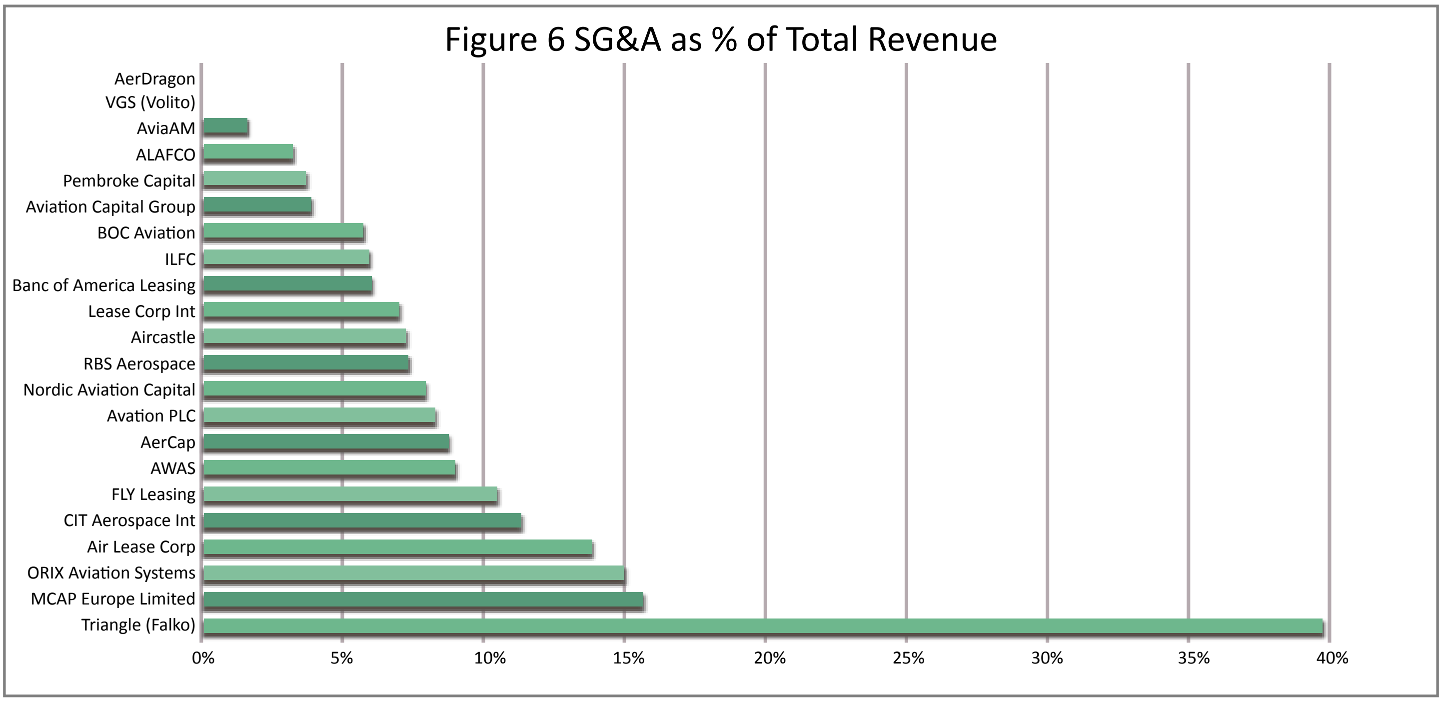
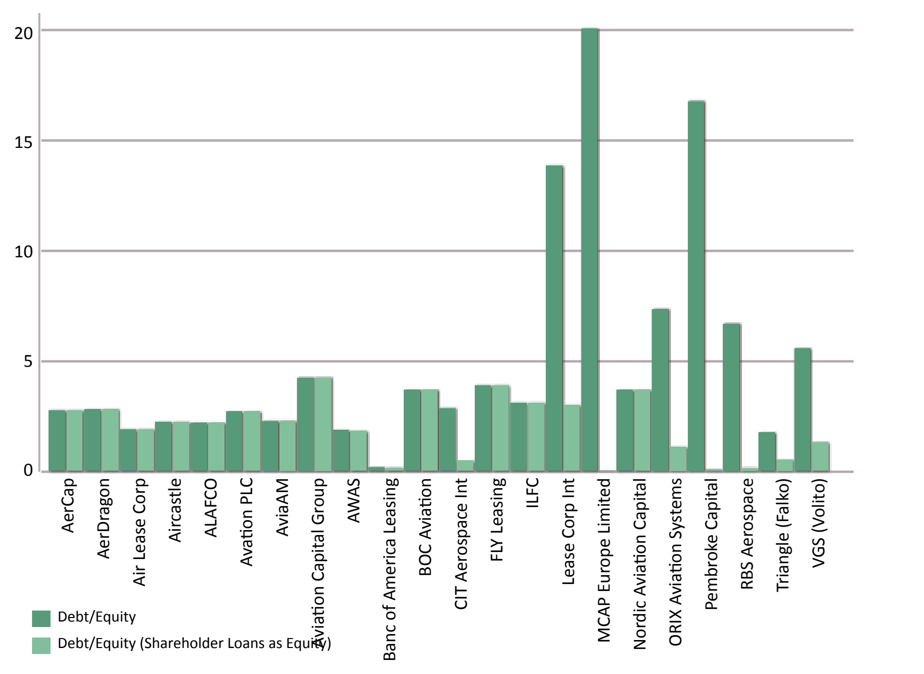


Figure 7 Debt/Equity



end of the scale is AviaAM, with the benefit of its Lithuanian cost base, Alafco, ACG, BOC Aviation and ILFC. At the higher end are Air Lease Corporation, Orix, MCAP Europe and Triangle (Falko).

Financial flexibility

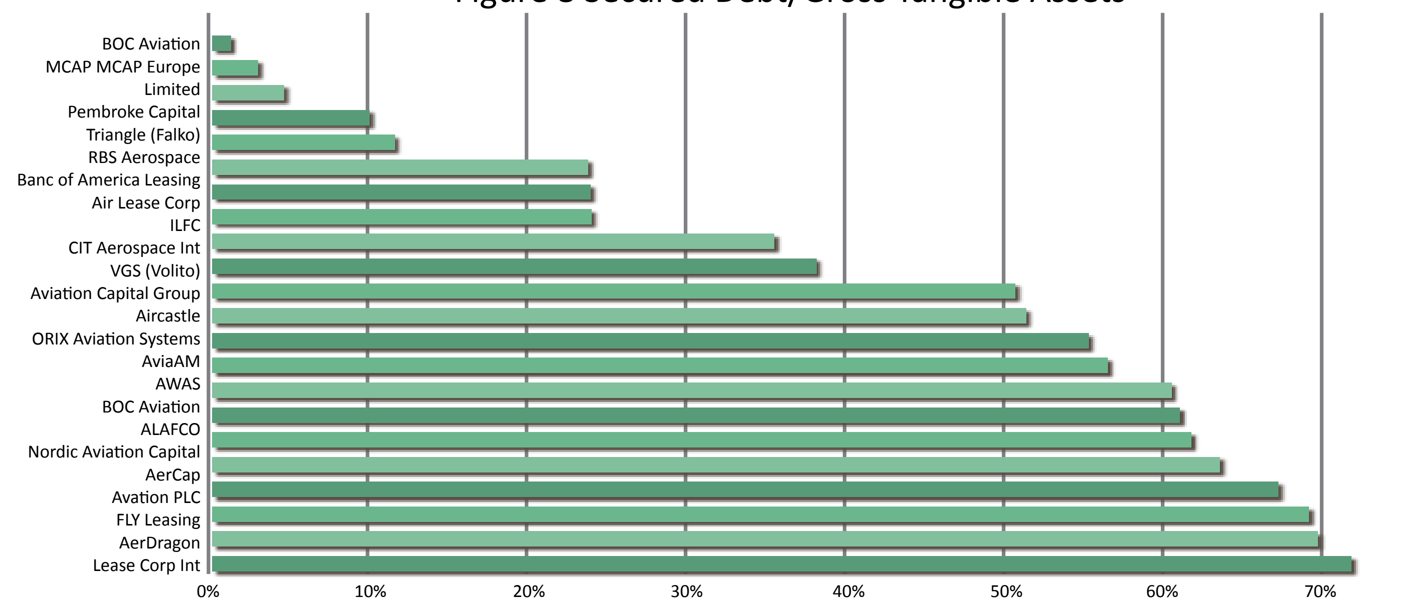
We assess three elements of financial flexibility – debt/equity, level of secured debt and interest coverage. Debt/equity is the simplest measure of capital structure and is universally understood. Figure 7 shows this ratio in two ways: counting shareholder loans as debt and as equity.

The chart shows the majority of lessors in a range of two times to four times on this measure, with Nordic Aviation Capital, Aviation Capital Group and Fly Leasing at the top end of the range. Some of the Irish subsidiaries have negligible external leverage.

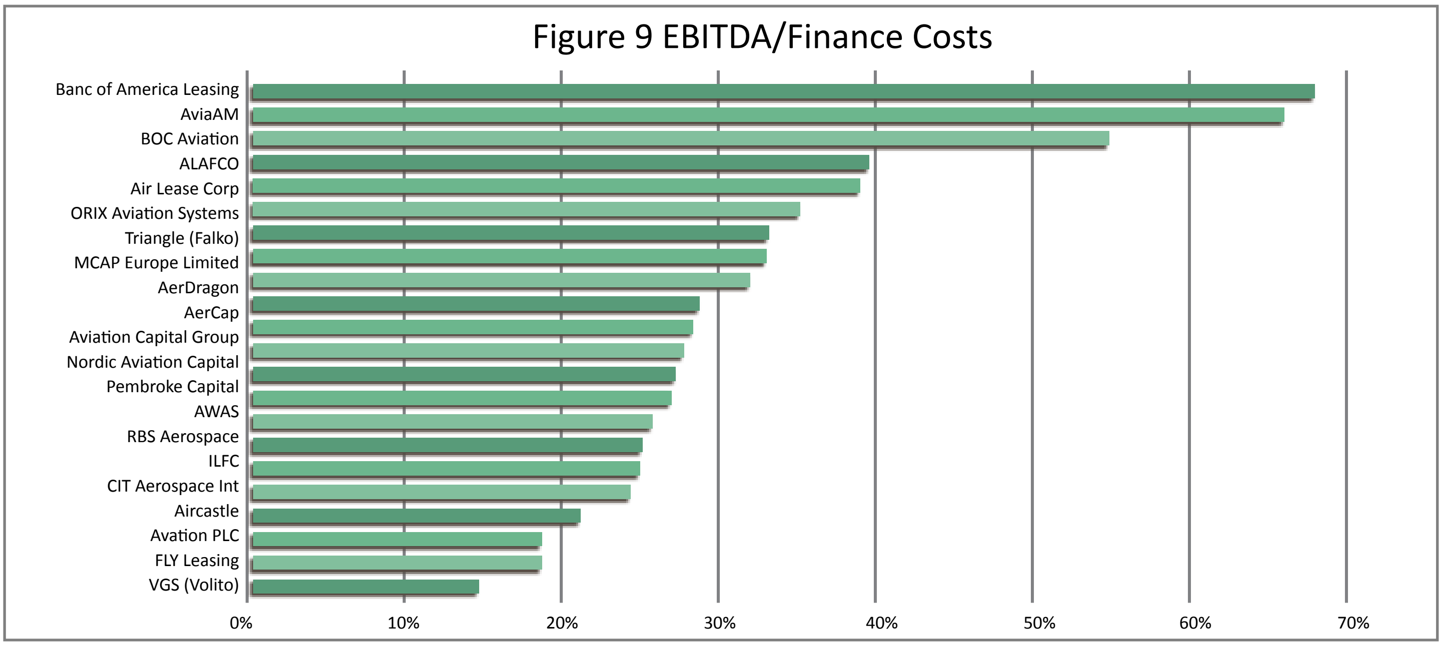
Level of Secured Debt

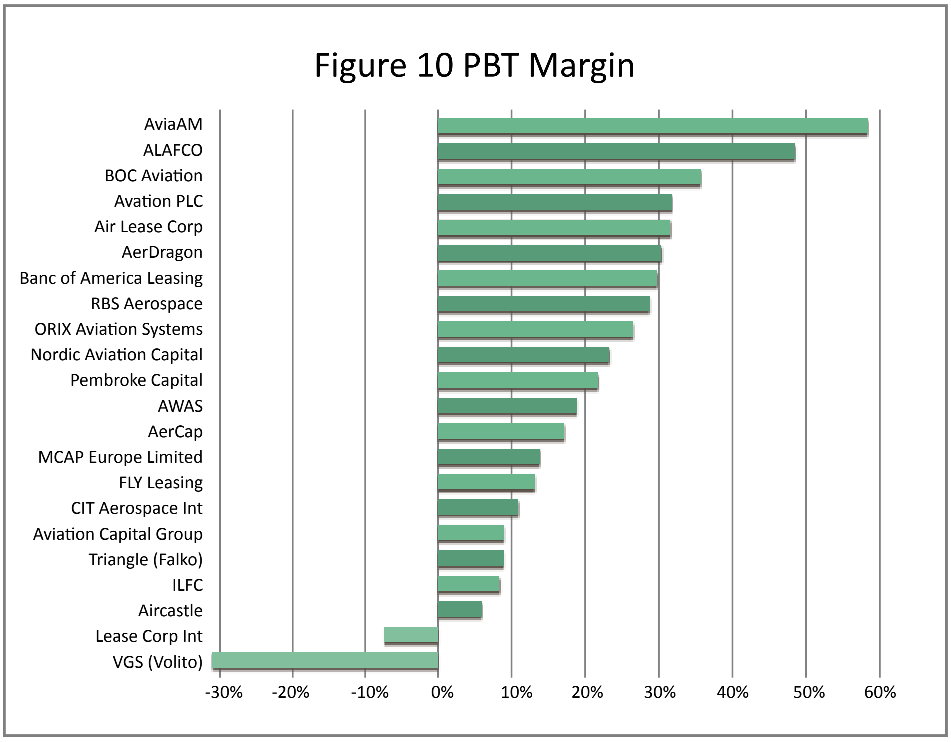
Borrowing on an unsecured basis has many attractions, being much more flexible and having lower transaction costs than borrowing on a secured basis. Most recently Air Lease Corporation obtained an investment-grade

Figure 8 Secured Debt/Gross Tangible Assets



“The data for the five best-ranked lessors reflects significant amounts of unsecured inter-company funding.”





rating from Standard & Poor’s, which cited its low level of secured debt as being a key consideration.

Figure 8 shows secured borrowing as a percentage of tangible assets, which indicates the level of protection available for unsecured creditors. The data for the five best-ranked lessors reflects significant amounts of unsecured inter-company funding. Next on the list are two of the Los Angeles-based lessors with figures of 25%.

Interest coverage

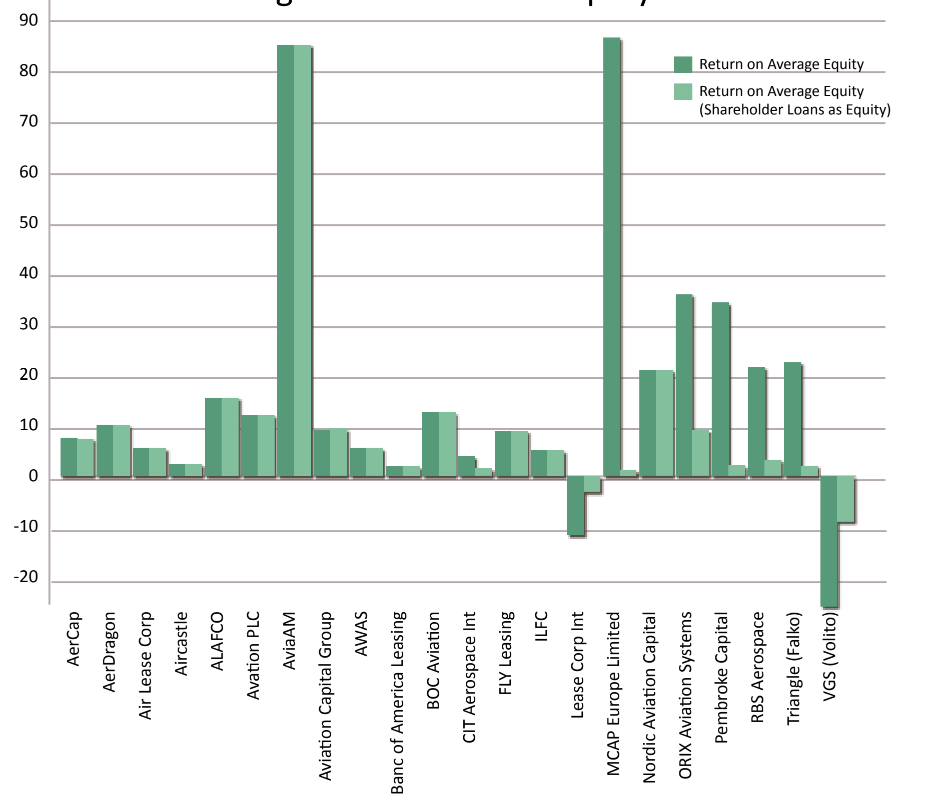
Interest coverage measured as earnings before interest, taxes, depreciation and amortization/finance costs is another key aspect of financial flexibility. From Figure 9 we see that the majority of lessors covered by the study have coverage of at least two times and many have much better coverage than that, particularly Banc of America Leasing, AviaAM, BOC Aviation and Air Lease Corporation. A sharp contrast can be seen with those further down the chart, such as ILFC, Aircastle, Volito, Fly and Lease Corporation.

Figure 11 Effective Tax Rate

Lessor	Effective tax rate[1]
Aviation Capital Group	-103.3%
ILFC	-10.6%
Lease Corp Int	-10.4%
ALAFCO	4.4%
AerCap	4.8%
Triangle (Falko)	6.6%
FLY Leasing	7.5%
RBS Aerospace	7.5%
Pembroke Capital	11.4%
ORIX Aviation Systems	11.9%
AerDragon	12.0%
VGS (Volito)	12.3%
BOC Aviation	12.4%
Banc of America Leasing	12.5%
MCAP Europe Limited	12.5%
AWAS	12.7%
Nordic Aviation Capital	14.2%
Avation PLC	14.4%
AviaAM	15.1%
CIT Aerospace Int	15.4%
Aircastle	19.3%
Air Lease Corp	35.3%

[1] Income tax expense/profit before tax

Figure 12 Return on Equity



Returns – PBT margin

As an overall measure of profitability of the business model we have assessed profit before tax as a percentage of total revenue as shown in Figure 10. This suggests that the lessors at the top of the chart have a favourable combination of lease yield, funding cost, SG&A costs and leverage.

Tax rate

One of the drivers of net profitability is the effective tax rate on profits. Figure 11 shows that, with one exception, effective tax rates are all below 20%. So it is not only Ireland and Singapore that would appear to offer attractive fiscal regimes for aircraft operating lease companies. The explanation for the high effective rate for 2012 for Air Lease Corporation is beyond the scope of this study.

Return on equity

Return on equity is shown in Figure 12 with equity excluding and including shareholder loans. Of note, despite some meaningful leverage, return on equity in excess of 10% was rarely achieved in the periods under study. Those that exceeded this threshold include Alafco, Avation, BOC Aviation and Nordic Aviation Capital. MCAP Europe, Orix Aviation Systems, Pembroke Capital, RBS Aerospace and Triangle also exceeded this level before adjusting shareholder loans to equity.

Conclusion

This study has covered much material in a relatively few pages and it may have raised as many questions as it answers. If that is the case then it has achieved its objectives. It has shown some of the key dynamics affecting aircraft lessors' business models, which are more varied than would appear at first inspection.

It has concluded with a telling one: few lessors generated return on equity substantially in excess of 10% a year during this period of low interest rates and weak market conditions for sale of older aircraft.

As noted in the introduction, this study is a first step to what may be an ongoing product offering in conjunction with The Airline Analyst that will provide insight to the developments with these companies over time.

Please direct any questions or comments to mduff@theairlineanalyst.com.

LESSOR PROFILE

Gecas

Since its merger with Guinness Peat Aviation (GPA) in the early 1990s Gecas has maintained its position as the world's largest lessor. It has spent the past 20 years steadily acquiring and growing related aviation businesses, including aircraft trading, engine leasing, secured lending and, most recently, airline and airport consultancy services.

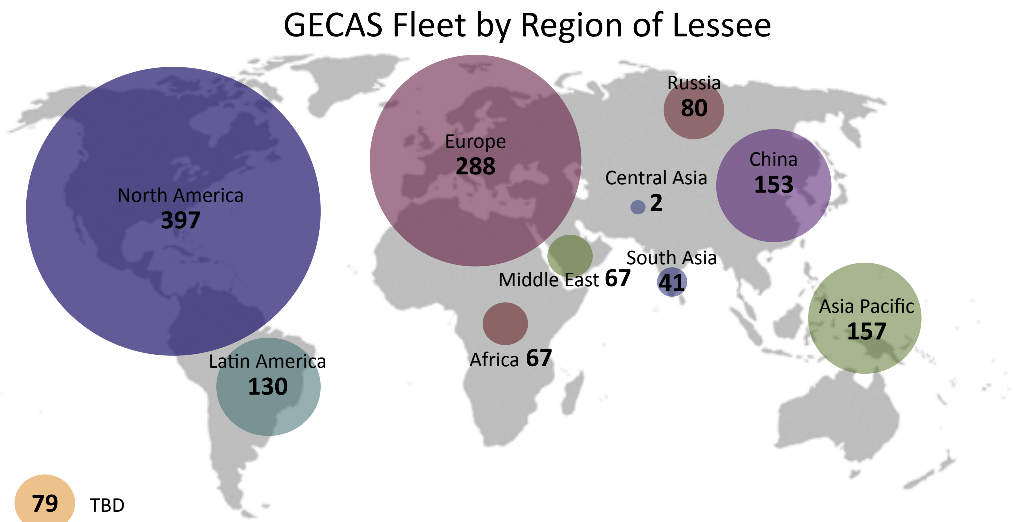
Gecas has several big advantages over its leasing rivals. The bulk of its financing is directly from its parent company, GE Capital, whose wholesale funding cost is comparable to a Wall Street bank. In addition, to access cheap capital the lessor has a vast distribution footprint, and its size creates economies of scale that helps keep its unit costs very low.

By any measure Gecas is the world's largest lessor. It has 480 employees worldwide and a global fleet of 1,675 owned and serviced aircraft. According to the lessor's website, the average age of its fleet is seven years old. With about $50 billion-worth of assets, Gecas is the world's largest trader of aircraft, selling about $3 billion-worth a year.

"We have to buy $6.5 billion every year just to stay flat, which is, multiple of what the other guys have to do," says Norm Liu, Gecas's chief executive officer.

As well as selling, Gecas is a large buyer of new-technology aircraft. As *Airfinance Journal* went to press Gecas confirmed its order for 10 787-10 Dreamliners announced during the 2013 Paris Air Show. The deliveries begin in 2019.

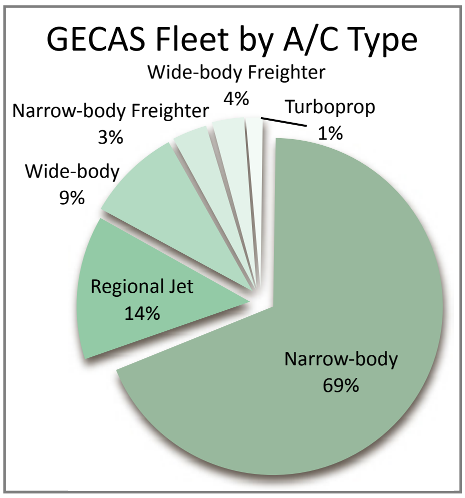
Liu says he anticipates additional growth among the various smaller Gecas units, particularly spare engines and lending through its PK AirFinance group.

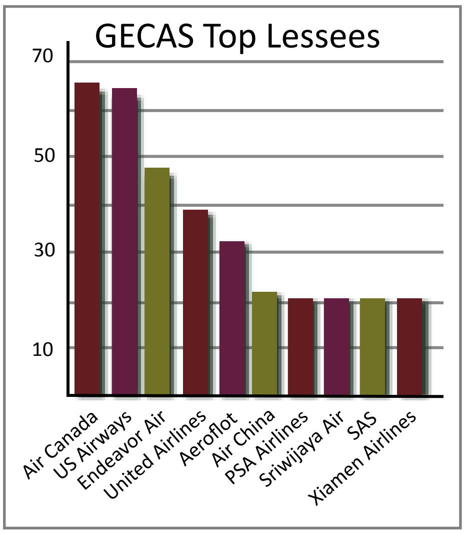


In a recent interview Liu highlighted that Gecas will expand its engine support and spare engine leasing business. It already owns a large pool of CFM engines, but Liu says he is also creating a pool for the GEnx for the 787s, as well as the GE90s.

Liu also says that PK AirFinance, the lessor's secured aircraft lending business, will aim to distribute its debt, rather than originate and hold.

He adds: "Right now if you can originate, you can syndicate. There is a lot of demand. It is not that hard to syndicate the paper. What you need to do is find the deal. You need to price it to syndicate but we still want to hold. However, we cannot make our number from pure fee business."





GECAS Key Facts

Country	US and Ireland
Founded	1993
Ownership	GE Company
Head Office	777 Long Ridge Rd, Stamford, CT
Number of Employees	500+
Size of Fleet	1,675
Average Age of Fleet (Weighted Average by Net Book Value)	7 years
Number of Lessees	Over 230
Unsecured Credit Ratings:	
Fitch	n/a
Moody's	Aa3
S&P	AA+
2012 Total Assets	$49.4B
2012 Net income	$1.2B

LESSOR PROFILE

International Lease Finance Corporation

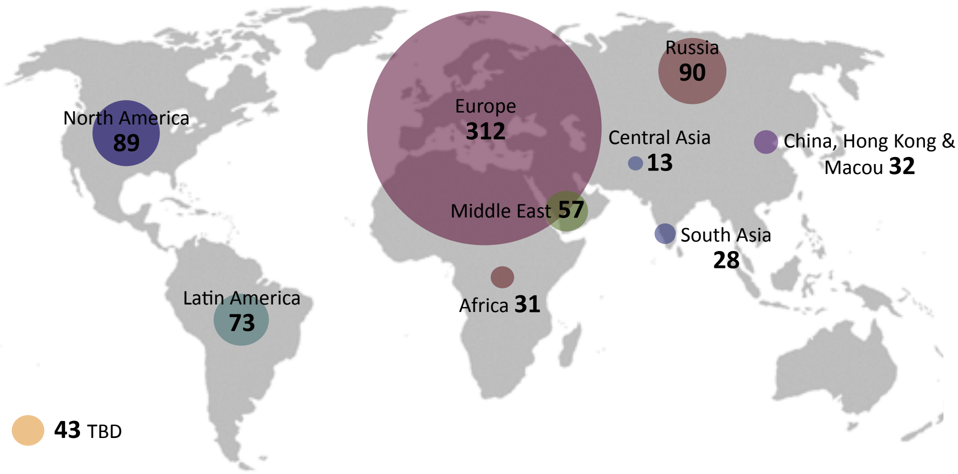
International Lease Finance Corporation (ILFC) made its first transaction in 1973. Forty years later it is one of the biggest lessors with an owned and managed fleet of almost 1,000 aircraft. ILFC has more than 330 new aircraft delivery commitments. During the 2013 Paris Air Show the lessor finalized an order with manufacturer Embraer for 50 E-Jet E2 aircraft, with 50 options. Deliveries of the E-Jets are expected to begin in 2018, and will be added to ILFC's existing portfolio of Boeing and Airbus aircraft.

Also at Le Bourget ILFC signed a firm order for 50 A320neo-family aircraft. It now has 150neos on order. ILFC is the largest 787 customer and the largest lessor customer of the Airbus A320neo-family aircraft.

The lessor operates with a global network of about 200 airlines – including major flag carriers – in more than 80 countries. Its customers include AeroMexico, Air Berlin, Air France, American Airlines, Cathay Pacific, China Southern Airlines, Emirates, KLM Royal Dutch Airlines, Vietnam Airlines and Virgin Atlantic Airways, all of which have been leasing aircraft from ILFC for more than a decade.

At the end of last year AIG, ILFC's parent company, announced plans to sell up to 90% of its stake in the lessor to a group of Chinese investors. The date of sale has been extended on a couple of occasions: first by a month in May and then IAG agreed a second extension until end of July.

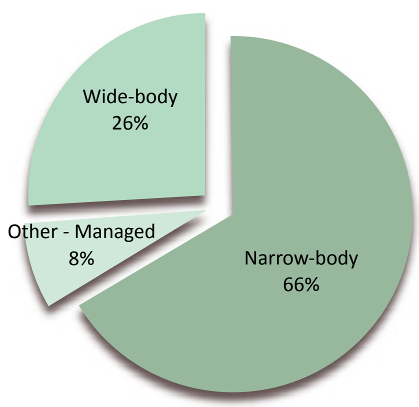
ILFC Fleet by Region of Lessee



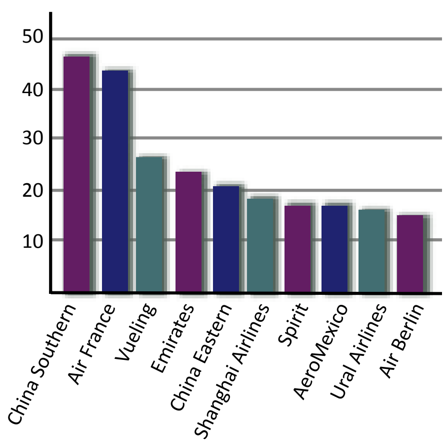
ILFC, which reported revenues of $4.5 billion for 2012, placed 125 aircraft in the first half of 2013. The lessor has been active in raising debt. In March it priced and entered into an agreement to issue and sell $750 million-worth of 3.875% senior notes due 2018 and $500 million of 4.625% senior notes due 2021.

According to a research note by a Wells Fargo senior analyst, ILFC could be worth $5 billion if it chooses to pursue an initial public offering.

ILFC Fleet by A/C Type



ILFC Top Lessees



ILFC Key Facts

Country	USA
Founded	1973
Ownership	AIG
Head Office	Los Angeles
Number of Employees	Approximately 578
Size of Fleet	Nearly 1,000 Owned
Average Age of Fleet	8.5 Years
Number of Lessees	Approximately 200
Order Book	Approximately 350
Delivery Commitments	$22.48 Billion
Unsecured Credit Ratings:	
Fitch	BB
Moody's	Ba3
S&P	BB-
2012 Total Assets	$39.8 Billion
2012 Net income	$410 Million (Per 12/31/12 ILFC 10-K)

LESSOR PROFILE

BBAM/Fly

Fly Leasing, formerly known as Babcock & Brown Air, is one of only a handful of listed lessors. The company changed its name to Fly Leasing in February 2010.

Fly's senior management completed a management buy out of Babcock & Brown's aircraft leasing business in April 2010, renaming it BBAM LP.

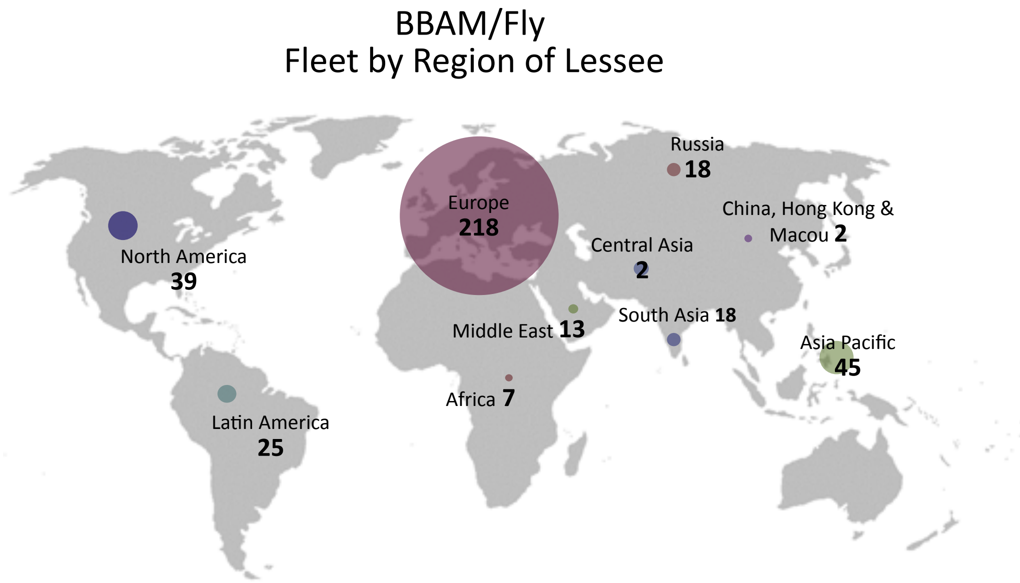
It is the largest independent aircraft manager with approximatly 430 aircraft under management, including 107 aircraft owned by Fly Leasing. Fly uses BBAM's worldwide network for all of its marketing, technical, legal, financial and administration needs.

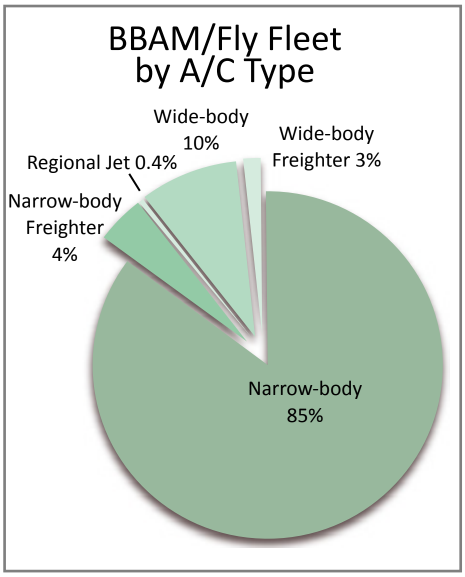
This year the lessor reported a $19.8 million drop in its net income compared with the same second quarter of last year. Fly attributed the decline to a decrease in operating lease revenue because of the off-lease aircraft and expenses from delivering aircraft to new lessees.

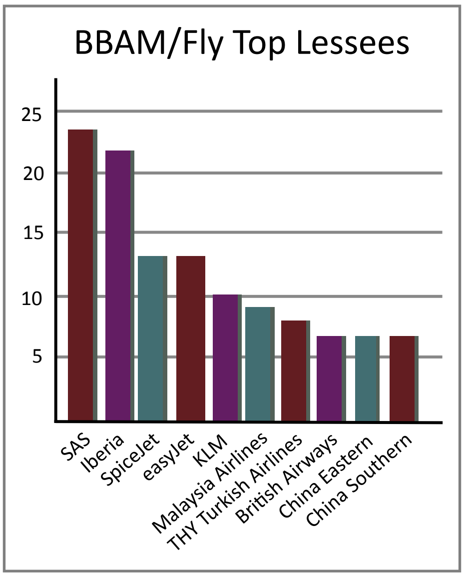
One analyst confirms in a research note that Fly's sharp decline in return on equity over the past year – from more than 10% to 5% – has been mostly utilization-driven. The company has reported 93% to 94% utilization over the past four quarters – down from its previous 97% to 99% track record.

So far this year Fly has acquired eight aircraft, including a 787 delivering at the end of September. Colm Barrington, Fly's chief executive officer, stated in the company's last announcement: "Fly is on a positive growth trajectory, having completed over $375 million of acquisitions this year. The funds raised from our equity offering, combined with our aircraft acquisition facility and cash generated from our portfolio, provide us with the resources to take advantage of attractive growth opportunities as we seek to maximize shareholder value by growing per share earnings and cash flow."

Fly also repriced its $380 million term loan during the second quarter of 2013, and stated it expects to save $4.7 million in annual interest savings.







BBAM/Fly Key Facts

Country	USA
Founded	1991
Ownership	BBAM is 50% owned by its senior management and 50% by Onex
Head Office (BBAM)	San Francisco
Head Office (Fly)	Dublin
Fleet Size	429

LESSOR PROFILE

AerCap

Dutch-based AerCap ranks seventh in this year's Leasing Top 50. The New York Stock Exchange-listed lessor boasts a fleet of 368 aircraft, with a healthy average age of 5.3 years.

As of June 30 its owned assets totalled $9 billion, but this figure jumps to $12.6 billion once forward orders for 47 jets are added.

The lessor's highest lease revenues as of the first half of 2013 come from Europe, which accounts for 38%; Asia brought in 33% of the lessor's lease rentals for the first six months of the year.

However, the lessor hardly makes any lease revenues from Africa and the Middle East, which together contributed only 4%.

North America provided 18% of lease rentals, with American Airlines contributing 11.1% of that figure. AerCap has a strong relationship with the bankrupt North American carrier.

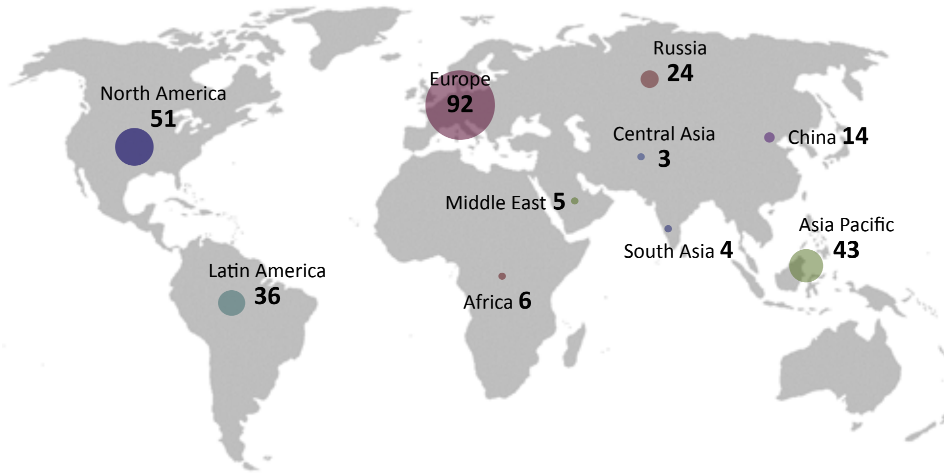
The lessor has completed some large deals recently. One of the most notable includes a sale/leaseback agreement with American Airlines for 35 Boeing 737-800s.

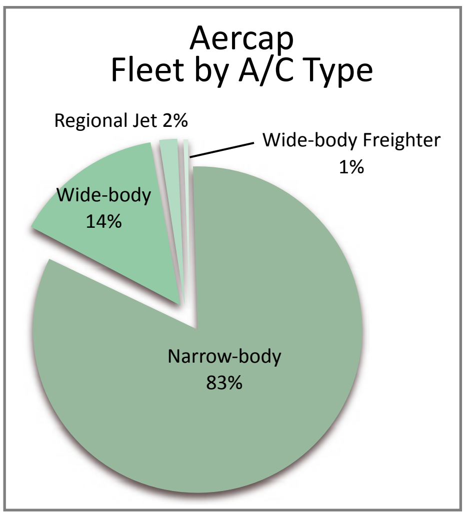
Since then AerCap has sold some jets on lease to American Airlines. In September it sold eight 737-800s to accounts managed by an affiliate of Guggenheim Partners. The aircraft are 2013-vintage, and are placed on 14-year leases to the US carrier.

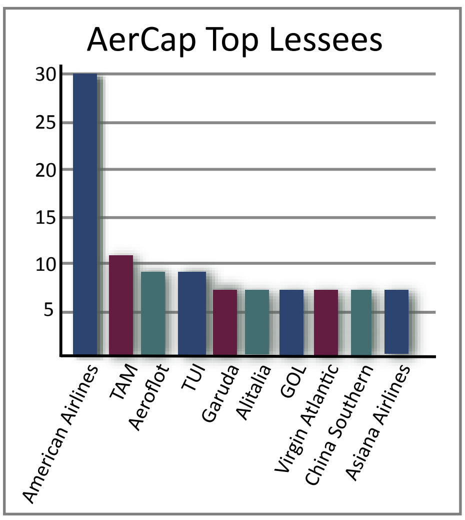
The lessor previously signalled a need to rectify the over-concentration of American Airlines leases in its portfolio, according to an analyst note from Wells Fargo Securities. Aircraft on lease to the carrier still make up more than 15% of the lessor's portfolio – higher than its stated 10% customer limit – so the lessor may seek to sell further American Airlines aircraft this year.

Recently AerCap signed a large sale/leaseback deal with Latam for 25 jets. Crédit Agricole Corporate & Investment Bank and Commonwealth Bank of Australia have already financed two of these aircraft. This might suggest that the lessor is looking to boost its lease rentals in the vibrant Latin American market. The region accounted for only 7% of AerCap's total lease rentals for the first half of 2013.

AerCap Fleet by Region of Lessee





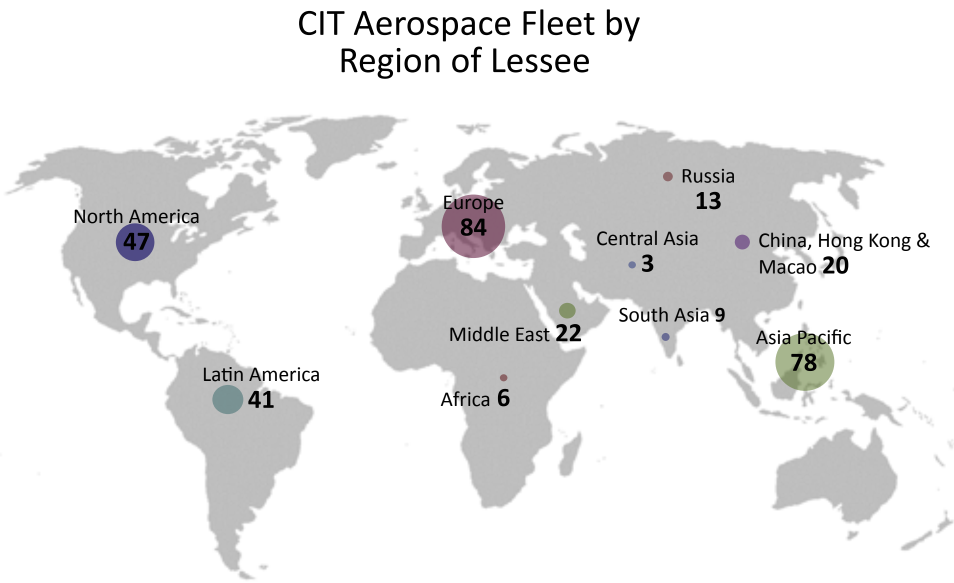


AerCap Key Facts

Country	Netherlands
Founded	1995
Ownership	Public
Head Office	Amsterdam
Fleet Size	325

LESSOR PROFILE

CIT Aerospace



US-based CIT owns or finances a fleet of about 350 commercial aircraft, including operating lease and financing agreements in place for 128 Boeing aircraft. The lessor serves more than 100 customers in over 50 countries worldwide.

CIT Aerospace works to maintain a diversified fleet. The lessor has on order A320s, A330s, 737s, E-Jets and 787s, and is one of the launch customers for the A320neo and A350. It also focuses on maintaining a young fleet, with an average age of less than six years.

The lessor tries to adapt to global trends when making its aircraft choices.

"We generally try to mirror the distribution of the world fleet and where we see future demand trends. Our focus has been the mainstream single-aisle and twin-aisle aircraft. We find that these aircraft have good onward lease prospects and resulting long economic lives," CIT Aerospace tells *Airfinance Journal*.

The leasing firm expects to see strong demand for customers for the next-generation aircraft models – in particular the A320neo, 737 Max, 737 and A350.

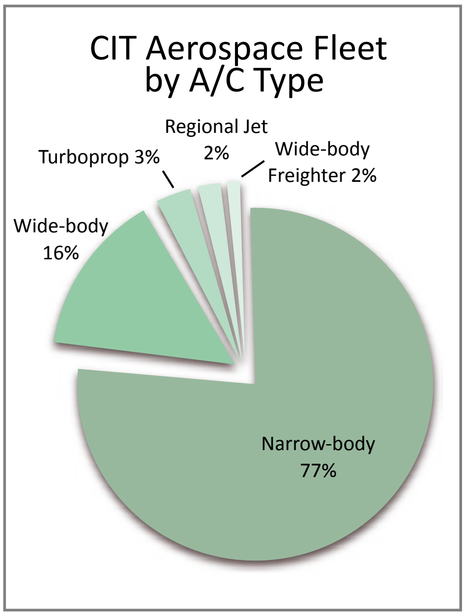
CIT Aerospace sees the oversupply of some types of narrowbody aircraft in the market as a key challenge. Market saturation means the lessor faces greater difficulties placing existing aircraft – although it sees a more favourable balance returning for some of the hardest hit models.

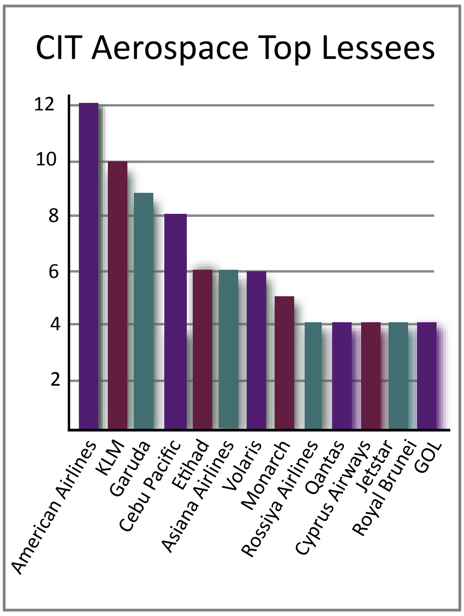
CIT Aerospace relies on a variety of funding sources, including internally from its parent company, CIT Bank, and externally secured export and bank credit, and attractively priced unsecured debt.

The lessor has refinanced or eliminated about $3.1 billion in debt over the past two-and-a-half years, including the repayment of $681 million of senior unsecured notes.

It has funded a number of aircraft debt transactions, and hopes to expand its banking capabilities with the expectation that it will eventually lease some aircraft out of the bank.

Over the next 12 months CIT plans to keep its existing fleet flying, place its new aircraft orders with lessees and continue to supplement its order book by opportunistically closing sale/leaseback transactions.





CIT Aerospace Key Facts

Country	USA
Founded	1908 (CIT)
Ownership	Public (CIT)
Head Office	New York (CIT)
Number of Employees	Unknown

CEO INTERVIEW: NORMAN LIU

Gecas tapers narrowbody acquisitions

Norm Liu, Gecas's chief executive officer, explains to Dickon Harris how the world's largest lessor plans to deal with new-technology aircraft,and how he intends expanding its secured lending and spare engines business.

Gecas has several big advantages over its leasing rivals. The world's largest lessor receives the bulk of its financing directly from its parent company, GE Capital, whose wholesale funding cost is comparable to a Wall Street bank. In addition, to access cheap capital the lessor has a vast distribution footprint, and its size creates economies of scale that helps keeps its unit costs very low.

Since its merger in the early 1990s with Guinness Peat Aviation (GPA) and Polaris, Gecas has kept its position as the biggest aircraft lessor. It has spent the past 20 years steadily acquiring and growing related aviation businesses, including aircraft trading, engine leasing, secured lending and, most recently, airline and airport consultancy services.However, Gecas's size also poses a problem. The lessor has struggled to create much additional growth among its core leasing business. Having the world's largest leasing fleet also means Gecas constantly has to sell about $3 billon-worth of aircraft to renew its fleet. However demand in China, a core marketplace for the lessor, looks set to slow over the next few years.

In addition, Gecas has to deal with the spectre of new-technology narrowbody aircraft. A lessor as large as Gecas cannot afford to be caught out by an aircraft technology shift. But it also cannot miss out on potential demand for the existing narrowbody jets.

The lessor's chief executive officer, Norman Liu, sits down with *Airfinance Journal* to discuss how it hopes to overcome these challenges.

Running to stay still

Last year Gecas reported revenues of $5.3 billion and contributed a $1.2 billion net profit to its parent, a sizeable sum even for a corporation as large as GE.

"Our role is to generate high margins and substantial net income. Last year we contributed over $1 billion in net income. If we can also enhance the whole GE aviation domain, that's great," says Liu.

Gecas is split among several different units. In addition to its main operating leasing business, it also offers structured lending through its PK AirFinance operation and an aircraft parts trading unit, formerly known as the Memphis group.

Gecas is also one of the world's largest spare engine lessors, and it offers airline and airport consultancy services through another subsidiary, AviaSolutions.

The benefit of having a range of complementary business units is that it allows Gecas to offer solutions at various parts of the life cycle of the aircraft. Liu summarizes the Gecas offering as a cradle-to-grave service – offering airlines everything from arranging, or financing, the first delivery to tearing down the aircraft and trading the engines.

However, one key question that analysts keep coming back to is how Gecas can expand. The lessor's underlying asset base has remained largely flat for the past seven years at between about $47 billion and $50 billion.

"We have been in that $50 billion range for a while. If you look at depreciation and amortization as about $3.5 billion or so, and Gecas sales of aircraft are around $3 billion per annum, we have to buy $6.5 billion every year just to stay flat, which is multiple of what the other guys have to do."

The sheer number of assets posts a challenge to the level of future growth for Gecas's core operating lease business. Last year the lessor reported 1% growth in revenues and a 6% growth in net earnings.

"We found historically there is a specific level of business that suits us without totally sacrificing our underwriting criteria. We focus a lot on margin and we focus a lot on return on equity," adds Liu.

The capital appreciation and exposure management from Gecas asset sales also helps to offset the level of impairments.

"If you look at the impairment history, we do have impairments… and they are large. We're talking hundreds of millions of dollars. But if you look at it as a basis point measure it is basically 50 basis points to 100 basis points, which is within our impairment forecast," says Liu.

He adds: "It is not just the book policy, but it is the economic purchase price. It's about the timing and getting the right rents. It is a whole bunch of factors."

Gecas is probably the most active leased aircraft seller in the market. Liu says that the lessor's aircraft sales are split roughly 50-50 between bulk pools and smaller deals.

"I like having both a retail and a wholesale pool angle. You don't want to be exposed if the wholesale execution doesn't happen. I like having two ways of getting to the number. I have learned that the hard way," he says.

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> "Right now if you can originate, you can syndicate. There is a lot of demand. It is not that hard to syndicate the paper. What you need to do is find the deal."

Challenges to growth

Gecas relies on selling aircraft to renew its portfolio, but also to make some of its return. One of Gecas's most active markets is China. Liu estimates that the lessor has sold $4 billion-worth of aircraft to the Chinese over the past three or four years, about 20% to 30% of all the jets now owned by Chinese lessors.

However, the Chinese market is becoming more mature, and the largest Chinese lessors have begun to order aircraft directly. This suggests that sales to China will decline over the next few years.

"We have been very active in China, and were the first lessor there. We have the product and they want to build fast, so you get quick execution from those players because they need product in their backyard. I think demand is now tapering off, because ICBC and CDB are now looking at orders themselves. In some ways they got their starter pack from us, and now they are doing their own orders," he says.

Liu is quick to point out that while China may decline in the future, the overall investor demand for leased jets has remained healthy.

"In general, today there is more demand for product than supply. So there are more new money folks who want to grow their books than there is supply of kit out there. We are also a major sale/leaseback player. It is harder as there are more bidders and there is less product especially in 2013. But maybe it gets easier as you move out to 2014-2015," he says.

Liu adds that these investors vary greatly. "It is a whole range: smaller lessors, Chinese banks, Japanese players. There are more people looking to buy leased aircraft as investments. The deal flow depends on an airline's need of sale/leasebacks. Most of them have done their 2013 allotments already. Sometimes you have to look at their 2014, sometimes 2015. We have the luxury of our balance sheet of forward committing, given the strength of our funding," he explains.

New technology

New technology is a challenge that all lessors face. Liu says the onset of new aircraft types delivery will change the number of current engine option narrowbodies the lessor will acquire.

"It is hard to suddenly decelerate. It depends on what opportunities are available. I think you have to taper. This is what we have learned from being in the business a long time. We kept on buying 737 Classics at very high levels up through 2002, and four years after the changeover, and it was the wrong thing to do. The way I see it you are better off tapering. We have already tapered our order stream," he says.

Liu suggest that Gecas will eventually half the number of 737NGs and A320s it buys over the next few years as it readies for the transition to the Neo and the Max. If Liu intends for Gecas to acquire fewer A320s and 737NGs does this mean that the lessor's total asset base will shrink?

"No," insists Liu. "We just have to look at the product mix. There are other assets like widebodies, regional jets and turboprops to fill the gap."

Meanwhile, Gecas has already acquired solid positions in new technology.

"We have already ordered 60 Neos and 75 Maxes. The Neos start in 2016; the Maxes in 2018. So there is a bridge period between 2016 and 2018 that we need to fill in a bit. We do have a few 777s coming in, but you can't wake up in 2015 and say, 'oh, we've got this gap'. We have got to start these investment programmes now."

Dialling for dollars

Liu says that the technology transition is likely to have a "modest" negative impact on core business growth, but he anticipates additional growth among the various smaller Gecas units, particularly spare engines and lending through its PK AirFinance group.

He is keen to expand the lessor's engine support and spare engine leasing business. Gecas already owns a large pool of CFM engines, but Liu says he is also creating a pool for the GEnx for the 787s, as well as the GE90s. "There are ways we can grow it that the others cannot do as easily," he says.

One subsidiary that Liu has highlighted is PK AirFinance, but the lessor chief says the secured aircraft lending business will increasingly distribute debt, which marks a significant departure for the lender.

He adds: "Right now if you can originate, you can syndicate. There is a lot of demand. It is not that hard to syndicate the paper. What you need to do is find the deal. You need to price it to syndicate but we still want to hold. However, we cannot make our number from pure fee business. Maybe you need to sell down the 30% for it to make sense. You have to play the game, otherwise your normal buy and hold will decline. Also, you have to supplement this shrink with a syndicated debt approach."

Liu says that the market has changed and the historical approach to distribution is no longer valid. In the past it was a club of European banks. Now there is a Gecas team in Singapore just focused on Asia, so it is a broader distribution network, than before. The key issue is that you need to get the product.

Liu expects growth from lending and engines.

"We are shifting from originate and hold to a mix of originate and hold, and originate and sell," he says.

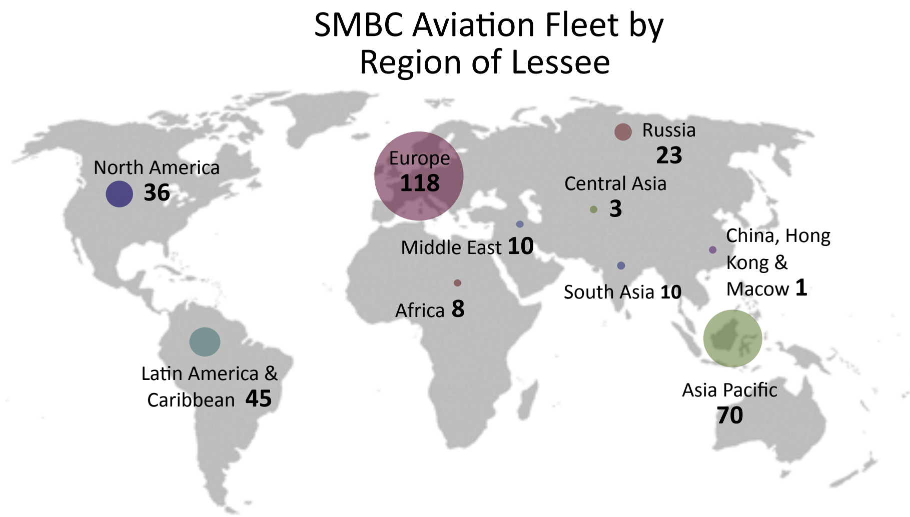
PK AirFinance's change in strategy is a reflection of the presence of new liquidity creeping into the market, which has driven down pricing. Liu says that margins for good names are still 200 basis points or under. Other airlines are 250 basis points, and emerging names are more like 300-plus basis points. PK AirFinance will typically hold deals above 300 basis points and try to syndicate deals priced below that.

Gecas has numerous advantages over its rivals, not least its access to cheap financing and its vast distribution network. Liu says that the days of double-digit growth in its leasing business are over, but that he still intends to see healthy returns for the company. New technology means that the lessor is unlikely to embark on a substantial aircraft-spending spree, especially for current technology narrowbodies.

The intermediate future for Gecas appears to lie with its subsidiaries, especially its spare engine and lending arms. Liu is buoyant about the success of these Gecas units.

LESSOR PROFILE

SMBC Aviation Capital



In early 2012 an SMBC-led consortium acquired leasing firm RBS Aviation Capital for a record $7.3 billion. Since then the lessor has been busy merging with its new parent – Japanese conglomerate Sumitomo.

This year the lessor completed the acquisition of Sumisho Aircraft Asset Management and Sumitomo Mitsui Aviation Capital (SMAC).

"The merger has added about 90 to 100 aircraft to our portfolio and about 12 people," says Peter Barrett, chief executive officer, SMBC Aviation Capital.

The merger also means that the lessor now has under its wing the likes of Sumitomo Financial Leasing – one of the biggest Japanese operating lease with call option underwriters – which will most likely expand the range of services the lessor can offer customers.

The lessor's strategy is to focus on certain aircraft types, specifically "the most-efficient aircraft for operators" and "the most desirable aircraft types for investors and financiers", according to the lessor's website.

Almost 100% of the lessor's fleet is comprised of Airbus A320 and Boeing 737 Next Generation-family aircraft with an average age of only 4.5 years.

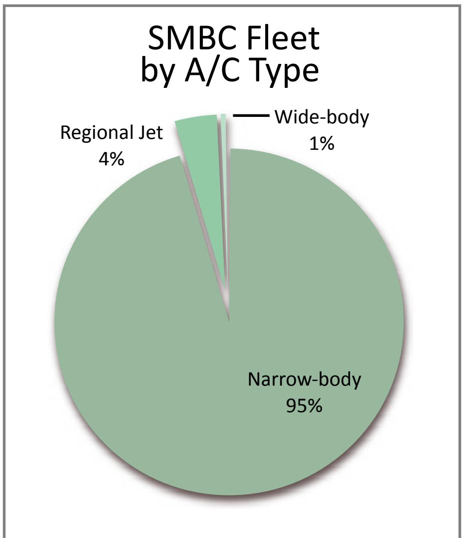
However, lease rates have been soft on narrowbodies over the past couple of years – particularly A320s. Barrett, however, sees this situation as improving.

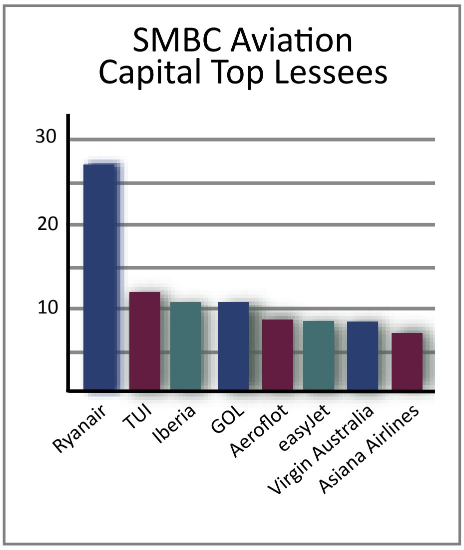
"I see lease rates have stabilized generally, especially on the A320 aircraft. The rise in interest rates will also play a part as the cost of debt increases," he says.

The lessor has not joined its rivals in posting any orders for either of Airbus and Boeing's new narrowbody offerings, or their new widebodies. At some point, however, it will join its fellow companies in looking to have these assets on its books.

"In 2015 our current order stream ends, and of course I see the Neo, Max, 787 and 350 as part of our future. How and when we will acquire these aircraft will depend on market conditions," says Barrett.

Recent deals have seen the lessor leasing out a number of Boeing narrowbodies: one 737 has been leased to Virgin Australia and two 737s have gone to Malaysian Airlines on operating leases. The lessor has also agreed a deal with Garuda and its subsidiary, Citilink. SMBC will lease two 737s and two A320s to the Indonesian airline by the end of 2013.





SMBC Key Facts

Country	Ireland
Founded	2001
Ownership	Consortium consisting of Sumitomo Corporation, Sumitomo Mitsui Finance and Leasing and Sumitomo Mitsui Banking Corporation.
Head Office	Dublin
Number of Employees	98
Fleet Size	296

LESSOR PROFILE

ACG

A subsidiary of Pacific Life Insurance Company, Aviation Capital Group (ACG) is one of the oldest lessors in the business. The US-based lessor has been running its leasing platform for 24 years.

Last year the lessor changed its senior leadership when ACG co-founder, Stephen Hannahs, its chief executive officer, retired.

Speaking to *Airfinance Journal*, Denis Kalscheur, Hannahs' replacement, says the lessor's focus is to continue providing airlines with fleet strategy solutions.

"This goes beyond leasing a plane from our order book to deeper involvement with airlines in planning for and delivering a range of fleet solutions," explains Kalscheur. "This would include advisory-type services in fleet planning, sale/leasebacks and transitioning to new-technology aircraft from ACG's Airbus and Boeing order books. We are also planning to selectively add widebody aircraft."

As more lessors have entered the market, leasing firms have adapted their strategy to deal with more fierce competition. Kalscheur says ACG's strengths lie partly with its strong pipeline of orders and its relatively easy access to capital.

"Since we purchase aircraft directly from manufacturers, we have new-technology aircraft available for airlines. With a significant order book, we also have very solid positioning with manufacturers that we can incorporate in our airline dealings. With a funding strategy formulated to broaden our access to global capital markets and liquidity and the ownership stability of Pacific Life, we also are positioned to work from airline order books in sale/leaseback transactions."

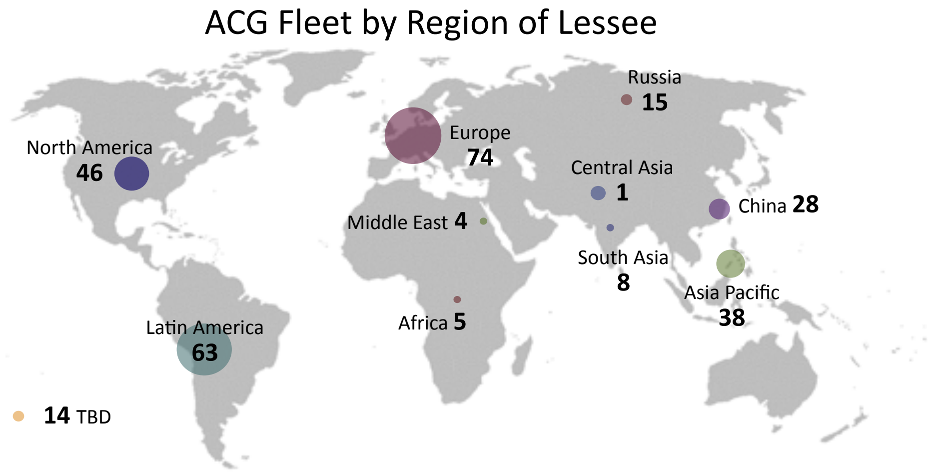
Kalscheur adds that the lessor has plans to expand its asset management capabilities, citing its own experiences of being owned by Pacific Life, itself a highly recognized asset manager, as an advantage.

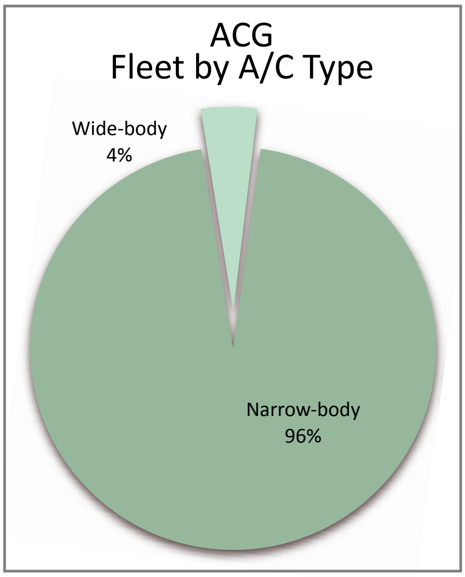
"An increased area of focus for us will be working with institutional investors to provide them with well-managed access to aircraft as an investment class," he says.

Something that has troubled many lessors has been the historically low lease rates in today's competitive market. ACG has dealt with this issue by reducing its manufacturer order books for current-technology aircraft.

"We have moved ahead to new-technology aircraft orders, and believe our early positioning on Max and Neo will serve us well, enhancing both our fleet strategy solutions position and our long-term financial performance," says Kalscheur.

He adds: "This gives us optionality in capital spending to pursue only deals that meet our return criteria such as selective sale/leasebacks or other structured transactions.





ACG Top Lessees

China Eastern
Oceanair
COPA Airlines
Garuda
Virgin America
Frontier Airlines
Skymark
Southwest

ACG Key Facts

Country	USA
Founded	1989
Ownership	Pacific Life (100%)
Head Office	Newport Beach, California (U.S.A.)
Number of Employees	93
Size of Fleet	262 aircraft
Average Age of Fleet	5.9 years
Number of Lessees	Approximately 90
Order Book: Units/$m	149
Unsecured Credit Rating	BBB-
Total Assets: FYE/$m	$7,956M (Dec. 31, 2012)
Net income: FYE/$m	$119M (Dec. 31, 2012)

LESSOR PROFILE

AWAS

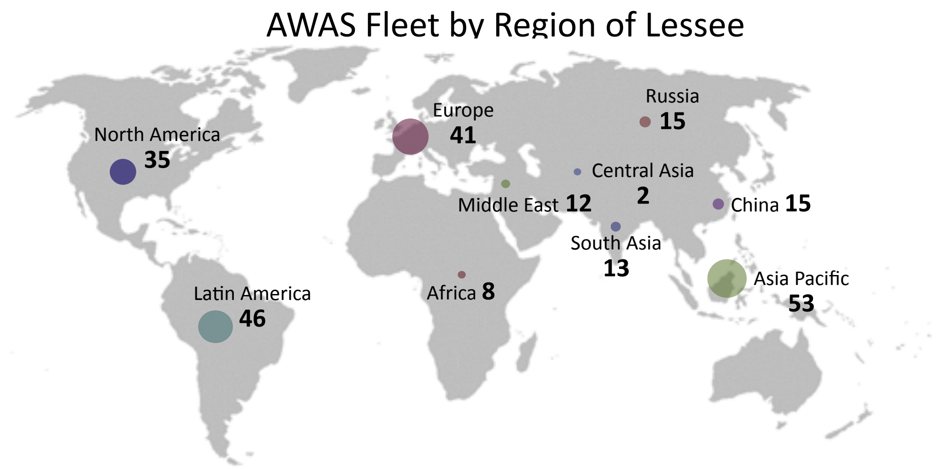
The Irish-based lessor has been in operation for more than 28 years. In an increasingly stratified leasing space Awas has identified the used jet aircraft as offering better returns.

As the lessor explains to *Airfinance Journal*: "We have purposely differentiated our strategy to move away from over-competed segments where profitability can be driven down, and focused on our platform's ability to drive strong returns from a wider array of jurisdictions, aircraft fleet options and customer business models – from well-established flag carriers, to newer start-ups, successful charter operators and low-cost carriers."

The lessor has a "significant" pipeline of new aircraft set to deliver through to 2015 from Boeing and Airbus but has stated it has been aggressively chasing sale/leasebacks for the past two years. It has also acquired bespoke portfolios of aircraft from other financiers.

Commenting on which aircraft appears attractive, the lessor states: "We believe both the Boeing Max and Airbus A320neo family will be excellent aircraft. While we haven't committed yet to a speculative pipeline order, we are actively looking at the PLB [purchase and leaseback] channel to review potential opportunities in this market, and plan to add many of these new-generation aircraft into the Awas fleet."

It adds: "On the widebody side, Awas is very positive on the 777-300ER, 777F, A330-300, 787s and A350. Awas does have a small order for the A350 XWB, and we will continue to review the PLB market to assess potential opportunities to expand our overall widebody position through this market."

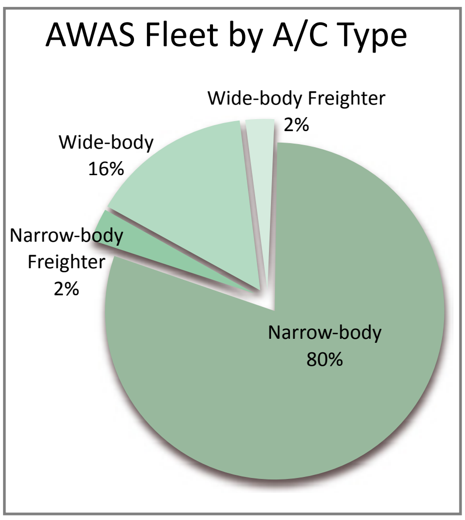


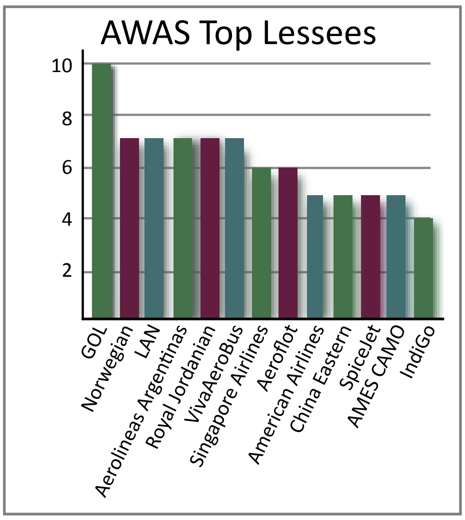
In an email to *Airfinance Journal*, Awas highlighted that funding flexibility and diversification are key. The lessor has used a range of sources, including bilateral arrangements, capital markets, export credit-related, warehouse or conduit facilities.

In addition to specific bespoke financing, Awas relies on facilities, such as its blind pool non-recourse warehouse facility, to take advantage of opportunistic aircraft acquisitions that may arise and where speed of execution is critical.

The lessor states it has seen a modest recovery and firming lease rates for current-generation passenger aircraft, but states growth rates remain "anaemic" for the freighter market, which still has surplus capacity.

"As global economic recovery gathers pace, and with strong demand for new-generation aircraft and capacity growth, we would expect to see further recovery in lease rates," states the lessor. "We also expect rises in interest rates associated with an improving economic environment, coupled with increased capital requirements associated with Basel III, would feed through in due course to a rise in financing rates and hence to lease rates, although the timing of this is still uncertain."





AWAS Key Facts

Country	Ireland
Founded	1985
Ownership	Terra Firma and Canada Pension Plan Investment Board
Head Office	Dublin
Fleet Size	255

LESSOR PROFILE

BOC Aviation

Boc Aviation was bought by Bank of China in late 2006, and has been going from strength to strength since.

The lessor reported a $163 million unaudited net profit after tax for the first six months of 2013 – a rise of 57% compared with the same period last year.

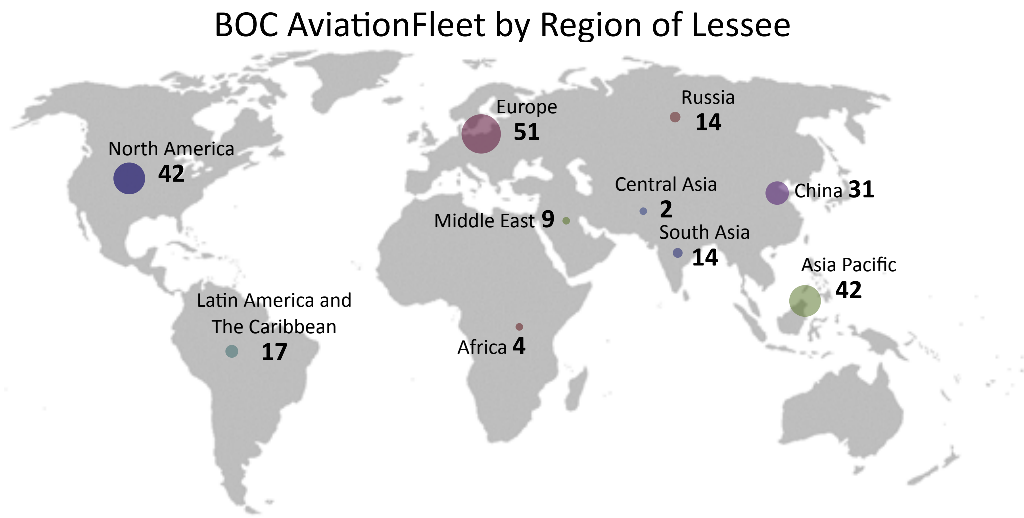
The Singapore-based lessor increased its total assets to $9.9 billion after paying a dividend of $113 million to Bank of China. Its cash revenues are $680 million.

Boc Aviation has recorded a profit every year since its launch in 1993 – a remarkable record. It intends maintaining this track record by focusing on quality, not quantity.

"While we are now a $10 billion company by assets, size is not as important as quality. We need to stay focused, disciplined, risk-aware and diligent to maintain our perfect record of profitability, deliver a high return on equity and build up a portfolio of in-demand aircraft," says Robert Martin, chief executive officer, Boc Aviation, speaking to *Airfinance Journal*.

Maintaining that quality of asset means the lessor focuses on what its customers' desire.

"We focus on narrowbody aircraft in demand from our customers – they account for two-thirds of our fleet of more than 225 aircraft," says Martin. "The fleet is primarily based on the popular Airbus A320 family and Boeing next-generation 737 series. It also includes select widebody types, such as the Airbus A330 and Boeing 777. We will continue to focus on young, fuel-efficient plane types in demand by customers."

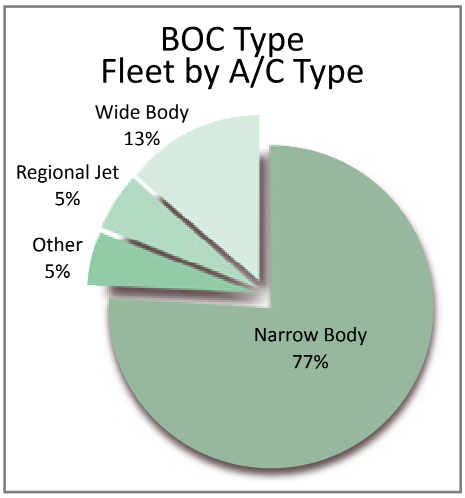


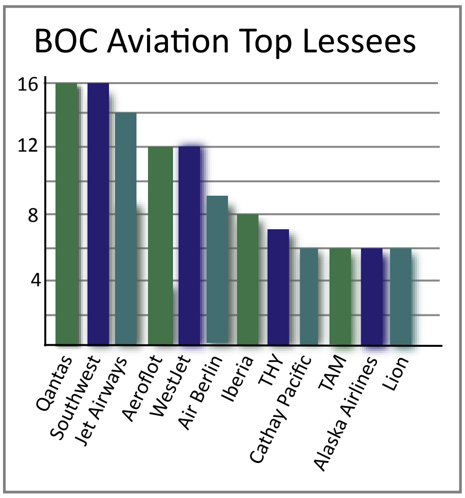
The lessor is unlikely to go back to the market to place orders anytime soon.

"We have a strong pipeline, including 50 A320 aircraft to be delivered from the second half of 2014 to the end of 2019. We will review plans at an appropriate time," says Martin.

One factor that may have worried lessors – including Boc – is the low lease rates of the past few years. However, Martin expects to see them rise over the coming year.

He says: "Lease rates are tied to US dollar interest rates, which are near historical lows. We expect lease rates to track gradually upwards in the next 18 months as world economic growth picks up and liquidity tightens with governments such as the US cutting back on quantitative easing."





BOC Aviation Key Facts

Country	Singapore
Founded	1993
Ownership	Bank of China
Head Office	Singapore
Number of Employees	n/a
Fleet Size	226

LESSOR PROFILE

ALC

Air Lease Corporation (ALC) has been one of the quickest growth stories in the aircraft-leasing sector. Founded in 2010, the lessor owns about 182 aircraft.

The lessor has reported a 31% increase in revenues of $208 million for the second quarter of 2013 and a pre-tax margin of 31.9%. The lessor has a diversified leasing portfolio of 78 customers across 44 countries, with no single airline customer representing more than 10% of ALC's annual revenues. The lessor's average fleet age remains very low at 3.5 years, with an average of 7.1 years remaining on its leases.

The lessor has several large orders for new-technology aircraft – most notably it ordered 30 787-10s at the Paris Air Show in June.

The lessor has raised $9 billion in total capital since its launch, which is split between $2.3 billion-worth of equity, $4.4 billion of unsecured debt and $2.3 billion of secured debt.

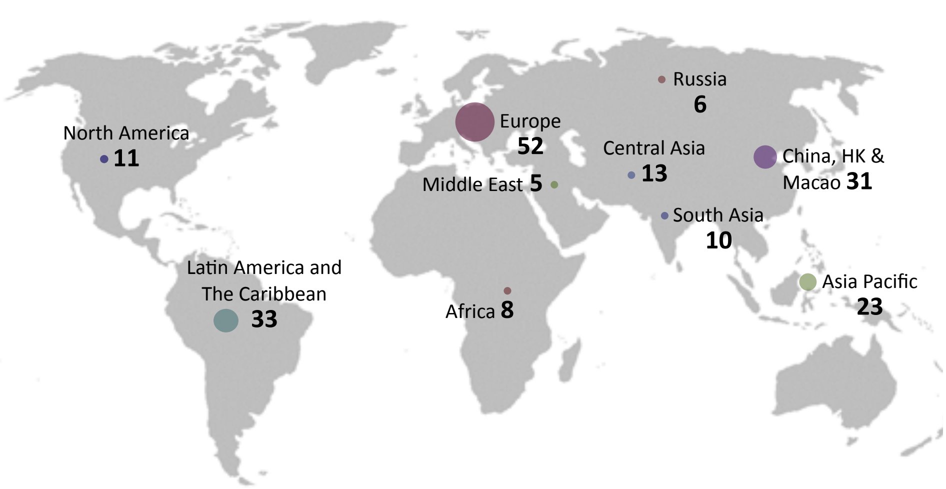
The lessor has stated it is progressing towards a 70-30 ratio of fixed- to floating-rate debt.

Speaking on an earnings call in June, Greg Willis, ALC's senior vice-president and chief financial officer, confirmed that the lessor is aiming to issue longer-dated fixed-rate notes. This summer it secured an investment-grade corporate credit rating of BBB- from Standard & Poor's, which will substantially lower the cost of future bond issuances.

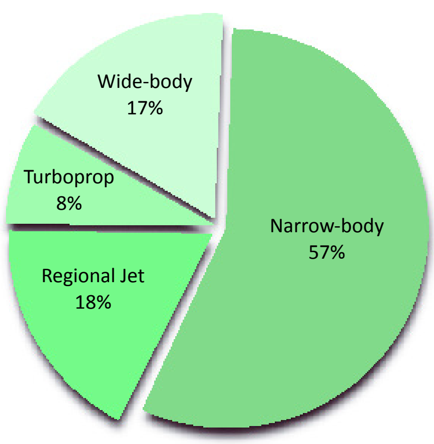
Airfinance Journal also understands that the lessor is in the process of repricing down another 25 basis points (bps) to 40bps on its secured aircraft loans with several European banks. ALC has a $1.8 billion four-year revolving unsecured bank credit facility with a margin of 1.25% over one-month Libor. It has also raised an additional $500 million in bank unsecured term loans and bilateral revolvers.

ALC uses 41 different commercial banks, 37 of which provide the lessor with unsecured credit facilities.

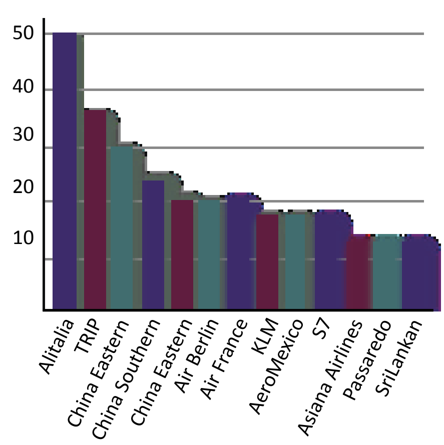
ALC Fleet by Region of Lessee



ALC
Fleet by A/C Type



ALC Top Lessees



ALC Key Facts

Country	United States
Founded	2010
Ownership	Public
Head Office	Los Angeles
Number of Employees	59
Size of Fleet	182
Average Age of Fleet	3.5 years
Number of Lessees	78
Order Book: Units/$	346/$28.42 billion
Unsecured Credit Rating	BBB-/A-
Q2 Total Assets	$8.44 billion
Net income: FYE/$m	$43 million

Financial Data as of June 30, 2013

**Fleet Size as of September 30, 2013*

SPONSORED EDITORIAL

Chinese lessors: let's get professional

Chinese lessors will have to adopt their business practices from top to bottom to match their western rivals, says CDB Leasing.

China's aviation leasing industry has already made some giant leaps forward since CDB Leasing became the first Chinese lessor in 2001. Chiefly characterized by rapidly increasing fleet size and enhanced competitiveness, Chinese lessors have a growing importance to the industry.

However, Chinese lessors will have to emulate their western rivals if this success is to continue. This process is still in its early days. A wide gap in working practices and organizational structures remains between Chinese leasing companies and their foreign counterparts, posing long-term constraints on the Chinese leasing companies' ability to sustain their considerable progress.

More professional and more competitive

Aircraft leasing originated in the 1970s after more than 40 years of development. There are almost 180 global leasing companies with a total number of aircraft in excess of 8,200. Of these, foreign aircraft leasing companies dominate more than 90% of market share. The top two aircraft leasing companies, Gecas and ILFC, own 2,561 aircraft – nearly one-third of the global leasing fleet.

Foreign leasing companies dominate even in the Chinese market. Gecas and ILFC's market share in China is 43%, while China's domestic leasing companies do not yet have a 10% market share.

Relatively inadequate Chinese legal and taxation policies, combined with limited sources of financing and a lack of infrastructure, have hindered the development of China's aviation leasing industry to some extent.

But the real reason for the disparity in market share is that Chinese lessors are still lagging behind their foreign rivals in a number of key areas. Foreign leasing companies have a longer history and a higher degree of professionalization, adhere to an industry-leading business philosophy and business model, have a truly global network and customer resources, and boast more professional and specialized teams. These factors have all enabled them to accumulate a wealth of experience and resources in financing, asset and risk management that Chinese lessors do not yet possess.

How Chinese lessors can improve

China's aviation leasing business has a relatively short history. Its real development has been only in the past five or six years, meaning its professionalization is lagging behind established lessors because of a shortage of talented professionals, a lack of experience and more attention being given to fleet expansion.

In terms of organizational structure, compared with the independently operating business model employed by leading international leasing companies, China's leasing companies are still using a mixed operation model influenced by their unique historical background.

Operating efficiency will always be limited under this model, and the company cannot achieve the same incentives that independent business models realized through independent operations and independent accounting.

The overseas business and relative management of China's aviation leasing business is still weak. As no real Chinese overseas platform policy has been implemented in the country, China's leasing companies struggle to establish their overseas platform, and are unable to take full advantage of them to assist in marketing, financing, or asset management.

One dilemma for the development of

"China's aviation leasing industry must understand – and match – its foreign counterparts."

“After years of rapid development, China’s aviation leasing industry is in a critical period of growing from quantitative change to qualitative change.”

China’s aviation leasing business is the shortage of talent. A large portion of personnel working in the Chinese aviation leasing business lack experience, resulting in significant weaknesses in core areas such as marketing, financing, planning, technology, risk management and asset management. While China’s aviation leasing business has grown rapidly, lessors have found it difficult to recruit staff to keep up with the pace of development.

The existing staff has difficulty coping with customer relationships, asset management, technical support and contract negotiations. Thanks to the boom in the aviation leasing market in recent years, especially in the Asia-Pacific region, a substantial number of emerging aviation leasing companies have joined the aviation sector, leading to a fierce competition for talent.

China’s aviation leasing business also struggles when it comes to ordering aircraft directly.

Historically, Chinese lessors’ strategy has depended on sale/leasebacks, as well as portfolio purchases. Recently though some domestic leasing companies have experimented with direct order procurement. However, these lessors have not always succeeded in negotiating lower prices.

Asset management is also one particularly weak link in China’s aviation leasing business. Asset management awareness, capacity and means all need to be significantly improved.

Need for professionalization

Professionalization is a necessary requirement for Chinese lessors facing the challenge posed by their more experienced western counterparts. Compared with other types of leasing businesses, aviation leasing is a considerably complex business, and requires a high degree of professionalism to succeed.

Essentially, the aircraft leasing business is a special aviation service integrated with procurement, technology, marketing, financing, asset management, law, tax and general business aspects.

Based on these core elements, the aviation leasing business is involved in a range of fields, including macroeconomics, government diplomacy, aircraft development and manufacturing technology, capital market investment and financing, foreign exchange control, tax systems, laws and regulations, and business negotiations. All of these fields are separate disciplines, yet they also overlap to form a complex structure.

The latest developments in the industry also require greater professionalization. Having experienced several global economic crises, the traditional aviation leasing market structure is changing, and the reliance of the aviation industry on the capital markets has gradually increased. Leasing companies play a significant role in the transaction processes of sale/leasebacks, asset transactions, operational leasing and direct order procurement. This has, in turn, triggered competition within the industry to become increasingly fierce – well-qualified airlines and good value products are highly sought after by all competitors.

In this complex environment the aircraft leasing industry has seen significant structural adjustments. Traditional business concepts and business models have been unable to adapt to the development. In this tough market key success factors include the ability to grasp industry situations accurately and investment opportunities, effectively expand sources of funding and reduce costs, quickly improve asset management capabilities and market development capabilities, provide customers with rational and diversified services, and rely on their comprehensive strength to attract international aircraft manufacturers, airlines and financial institutions to cooperate. At the same time, requirements in terms of teamwork, management capabilities, decision-making efficiency and other aspects of these leasing companies have all been raised significantly.

Steps to professionalization

China’s aviation leasing industry must understand – and match – its foreign counterparts. To do this it must accelerate its growth in the aviation leasing

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"Chinese lessors need to create global business platforms in places such as Ireland or Hong Kong."

business through the following steps: first, to ensure the long-term development of Chinese lessors, greater attention must be paid to studying foreign leasing companies, and implement their successful policies. To enhance the aviation leasing business further, research and analysis needs to be applied to fleet planning, team platforms, financing channels and other core subjects.

Chinese lessors will also need to adopt an independently operated model of specialized subsidiaries, building efficient business processes that cover marketing, preliminary negotiations, initial condition analyses, submission of letters of intent, commercial negotiations, board approval, project financing and other aspects of aircraft leasing transactions – areas that all require a wide range of professional skills. Independent subsidiaries can set up several core functional departments, including marketing, investor market analysis, technology asset management, credit risk, business analysis, business negotiation and transaction management, in order to provide support for overall communication and integration. All transactions must be reviewed and managed by a cross-functional transaction team, and a dedicated team must be established for each transaction. Team members will be composed of staff from different functional departments who can fully utilize their respective expertise in order to optimize transactions throughout the whole life cycle.

"Outsourcing a portion of asset management, technology management and aircraft handling work to professional third-party organizations according to actual needs will effectively raise the overall quality level of the fleet."

Acceleration in the improvement of the business development model, and employing more flexible direct order procurement methods, sale/leasebacks, portfolio purchase and other models is also necessary.

When expanding the business, the strengthening of asset management is a top priority.

In the operation and development process, an emphasis and focus on mutual support between business and management is vital. After years of rapid development, China's aviation leasing industry has completed its initial pre-scale accumulation and is in a critical period of growing from quantitative change to qualitative change.

Gradually strengthening overall business management, considering the various problems highlighted in China's current management mechanisms from a perspective of steady development, and taking effective measures to strengthen them, will help lay a solid foundation for the future. Using information technology asset management and risk control measures, aircraft value and lessee creditworthiness and risk can be assessed, enabling an analysis of which assets should be sold at what time.

Maintaining a high-quality fleet mix with strong liquidity, fleet structure diversification and risk diversification will also be welcomed by investors, as will access to qualified lessees and a global marketing network. Measures also must be taken to alleviate asset growth and manage work requirements, in order to enhance the demand for professionals. Further strengthening the introduction of aviation professionals while outsourcing a portion of asset management, technology management and aircraft handling work to professional third-party organizations according to actual needs can also accelerate aircraft asset running speed and effectively raise the overall quality level of the fleet.

Global business platforms also need to be established in places such as Ireland or Hong Kong, which offer tax advantages, or at the aircraft manufacturers' headquarters in Seattle or Toulouse, as well as at global financial centres such as New York, Singapore, or Tokyo, in order to take advantage of market developments, aircraft financing and asset management.

This will establish a platform to cover a network of global customers, financial institutions, investors and original equipment manufacturers.

In order to build a professional team further and meet the growing fleet's strong demand for new talent, companies should further increase their efforts in gaining more aviation leasing professionals. A gradual relaxation on policy restrictions should encourage the introduction of new employee policies in accordance with international and market-oriented remuneration standards. Participating in industry conferences, strengthening communication with financial institutions, aircraft leasing companies, airlines and aircraft manufacturers, and building up a company's understanding of the latest trends in the financial and leasing market, will assist in this process.

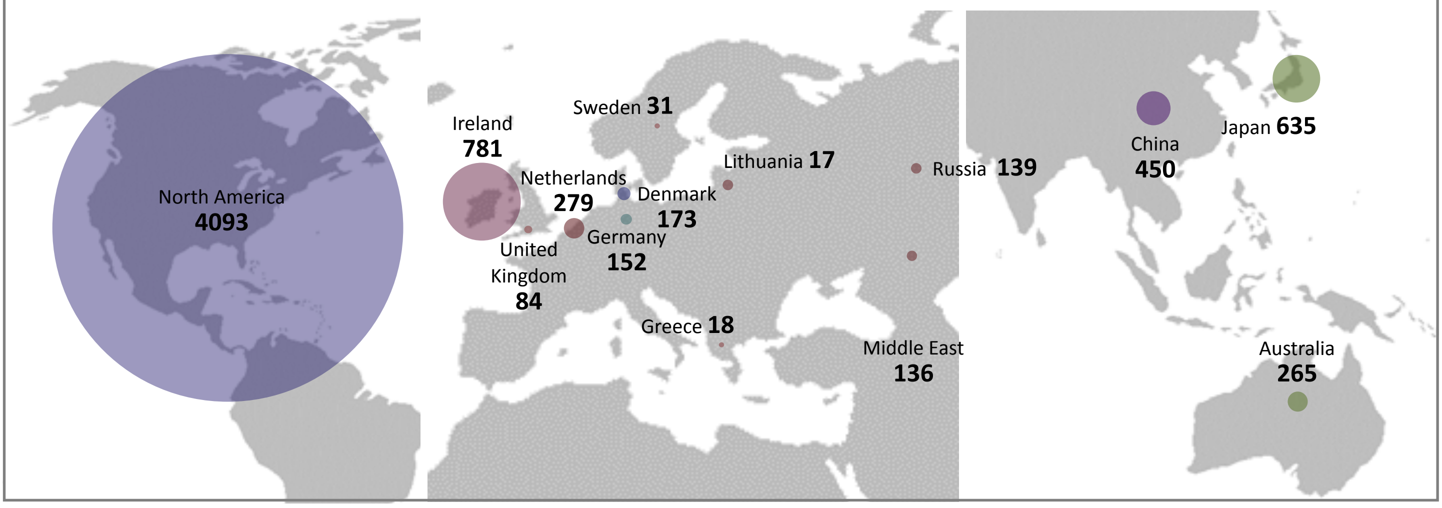
Into the future

Throughout the histories of foreign aircraft leasing companies and China's aviation leasing business professionalization has always meant core competitiveness, been a weapon for organizational optimization, internal decision-making efficiency enhancement, business development promotion and strengthened asset management and risk control.

If Chinese lessors do professionalize, there is no reason why they cannot break on to the global scene.

Analysis of the world's leased fleet

Figure 1 Fleet Ownership by Nationality of Lessor/Lessor Parent

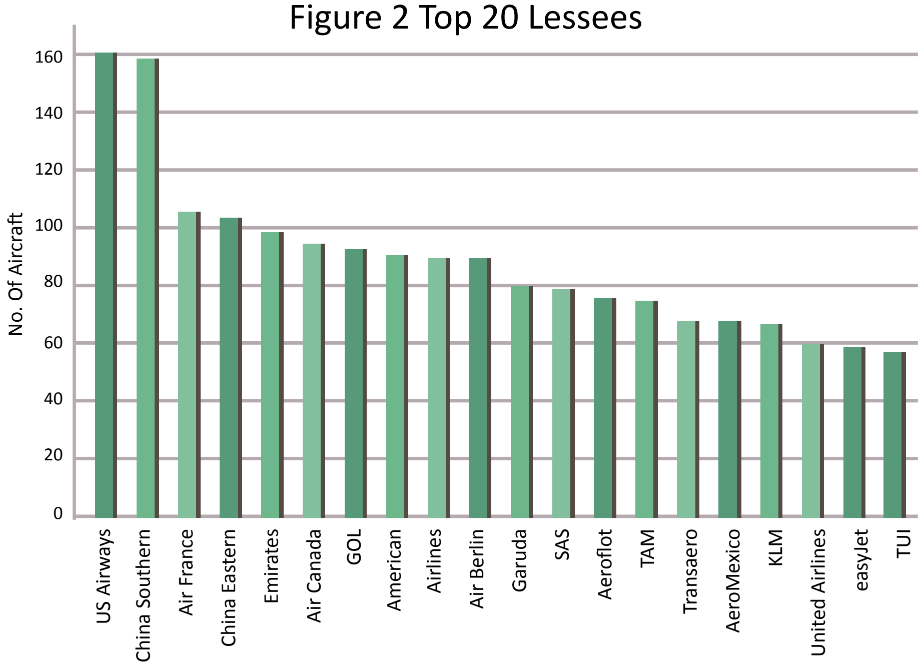


Analysis of the global leased fleet
Our database includes just more than 7,000 aircraft, leased to 623 airlines in 152 countries by 60 lessors. However, as we know, the industry is heavily concentrated. The top 10 and top 20 lessors accounted for 65% and 82% of the total fleet count, respectively, and a far higher percentage of fleet value. Nevertheless, the smaller lessors provide value to the marketplace in dealing with older or more specialized aircraft. They also may be prepared to do business with some of the more difficult parts of the world.

In addition, there are examples where a new market entrant such as Doric has achieved a dominant position with the most expensive aircraft in the world – the A380. Other smaller lessors also have leading positions in their niche markets, such as BBAM, Skyworks, Triangle (Falko) and Nordic Aviation Capital.

We have analysed the fleet in two broad categories – geography and hardware.

Figure 2 Top 20 Lessees



Nationality of ownership of leased aircraft
Figure 1 shows the ownership of the world's leased fleet by nationality of the lessor or the lessor's ultimate parent company. While this cannot reveal the nationality of the ultimate individual or corporate shareholders of the leasing companies, it does reveal the capital markets that have supported the growth of the industry over recent years. It shows beyond question that US companies dominate the ownership of the world's fleet.

Coming a distant second is Ireland but much of that capital it originates from offshore capital markets. The next big markets are Japan with a number of significant participants and the Netherlands, represented by AerCap. The growing ranks of

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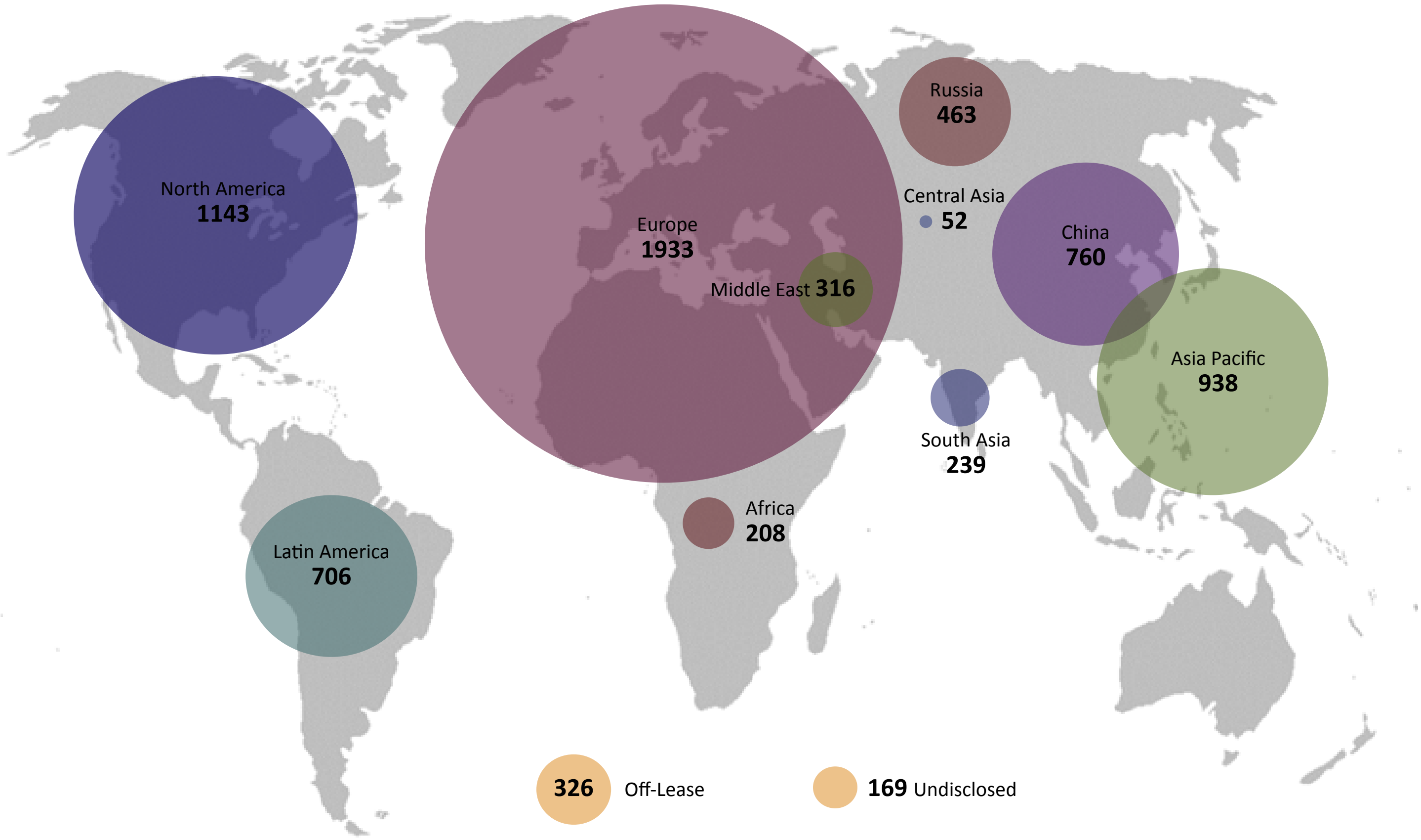
"Each lessor has its own regional strengths."

Figure 3 Lessee Regional Distribution by Number of Aircraft



Chinese-owned operating lessors (BOC Aviation, Hong Kong Aviation Capital, CDB, CALC, ICBC and Minsheng) are next in the ranking, followed by Australia, represented by Macquarie and Commonwealth Bank. Closure of the Chinese acquisition of 90% of ILFC would, of course, require a redrawing of the map.

Airlines with the most leased aircraft

Figure 2 shows the top 20 lessees by number of aircraft. Just as the leasing industry is heavily concentrated in a relatively small number of players, the airlines they are leasing to are also forming increasingly concentrated groups. Such concentration could be argued to reduce the ability of the lessors to diversify their portfolio risks. Not all of the top 20 can be considered undoubted credits: while they may be at low risk of financial failure, restructurings could lead to reductions in fleet size for some of the carriers and this can cause some lessor pain, such as the recent downsizing at Gol.

Geographic distribution of leased aircraft

The geographic distribution of leased aircraft is shown in Figure 3. While the chart shows Europe in the lead, this is because we decided to show China and South Asia as separate regions given the particular dynamics of these countries. Hong Kong and Macao are included in the China segment. Because of the rapid growth of Russia, we also decided to show it as a separate segment.

The different lessors have their own regional strengths, weaknesses and preferences. Figure 4 shows the relative market position of each of the top 10 in the regional groupings as shown.

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"This profile will change as lessors' receive the CSeries, the Irkut MC-21 andthe Comac C919."

Figure 4 Top 10 Lessors by Region

Rank	Africa	Asia Pacific	Central Asia	China	Europe
1	GECAS	GECAS	ILFC	ILFC	ILFC
2	ILFC	ILFC	NAC	GECAS	GECAS
3	Macquarie	CIT Aerospace	AviaAM Leasing	CDB	BBAM/Fly
4	Air Lease Corporation	AWAS	Sky Holding	BBAM/Fly	SMBC Aviation Capital
5	AWAS	SMBC Aviation Capital	CIT Aerospace	ICBC Financial Leasing	AerCap
6	SMBC Aviation Capital	BBAM/Fly	AerCap	BoCom	Nordic Aviation Capital
7	Avmax Group	AerCap	Macquarie	BOC Aviation	CIT Aerospace
8	BBAM/Fly	BOC Aviation	Air Lease Corporation	Air Lease Corporation	ACG
9	AerCap	ACG	GECAS	ACG	Air Lease Corporation
10	CIT Aerospace	HKAC	AWAS	SMBC Aviation Capital	ORIX

Rank	Latam	Middle East	North America	Russia	South Asia
1	GECAS	GECAS	GECAS	ILFC	GECAS
2	ILFC	ILFC	Skyworks Leasing	GECAS	ILFC
3	ACG	CIT Aerospace	ILFC	VTB-Leasing	BBAM/Fly
4	AWAS	Doric	AerCap	Sberbank	BOC Aviation
5	CIT Aerospace	DAE Capital	Cargo Aircraft Management	Ilyushin Finance	AWAS
6	SMBC Aviation Capital	ALAFCO	CIT Aerospace	AerCap	HKAC
7	AerCap	BBAM/Fly	ACG	BBAM/Fly	Avolon
8	Air Lease Corporation	AWAS	BOC Aviation	SMBC Aviation Capital	Aircastle
9	NAC	BOC Aviation	BBAM/Fly	ACG	SMBC Aviation Capital
10	BBAM/Fly	SMBC Aviation Capital	AWAS	AWAS	Air Lease Corporation

Breakdown by manufacturer
Figure 5 shows the predictable near tie between Airbus and Boeing, followed distantly by Bombardier, Embraer and ATR. In a few years' time this profile will look different with the lessors' orders for the Bombardier CSeries, the Irkut MC-21 and the Comac C919.

Breakdown by aircraft category
A full 70% of the leased fleet is in the narrowbody category split mostly between the A320 and 737 families as shown in Figure 6. Only 14% is widebody, though in value terms their share would be much more significant, especially with the A380 and 787 joining the lessors' portfolios.

Regional jets
The regional jet segment is fast growing and has seen some of the major lessors enter in recent years, most notably Gecas and Air Lease Corporation. The segment has also attracted capital into the secondary market, with Triangle (Falko) acquiring BAE Systems' fleet of leased RJ/Avroliners.

Turboprops
Turboprops are a significant niche market, dominated by one lessor ¬– Nordic Aviation Capital. However, other lessors have a presence, as shown in Figure 8.

Freighters
Our total freighter count is understated because some lessors did not distinguish between passenger and freighter aircraft in their data submissions but the proportional view of the lessor participants in this segment remains valid. Figure 9 shows Gecas and Cargo Aircraft Management taking up

“Lessors have a huge diversity of portfolios of aircraft and lessees.”

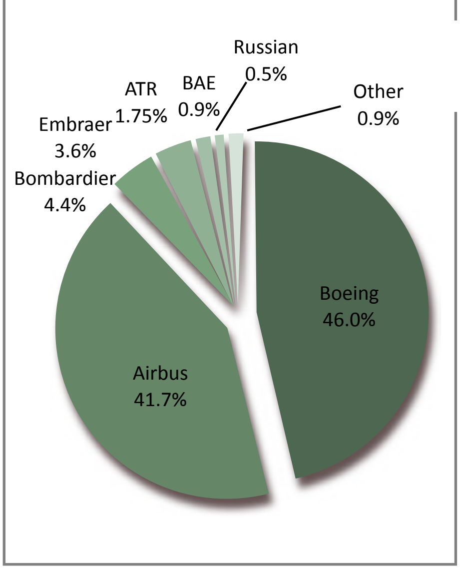


Figure 5 Leased Fleet Breakdown by Manufacturer

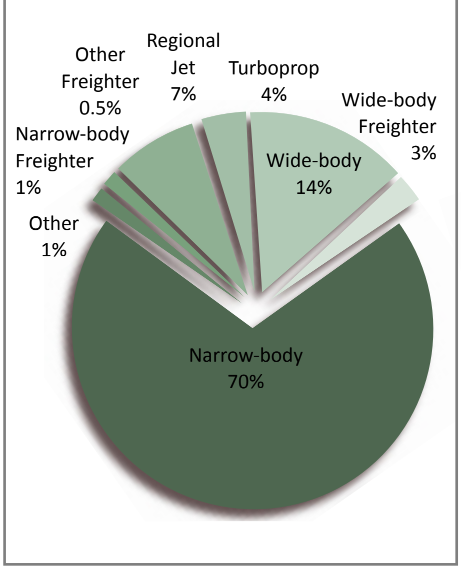


Figure 6 Fleet Breakdown by Aircraft Category

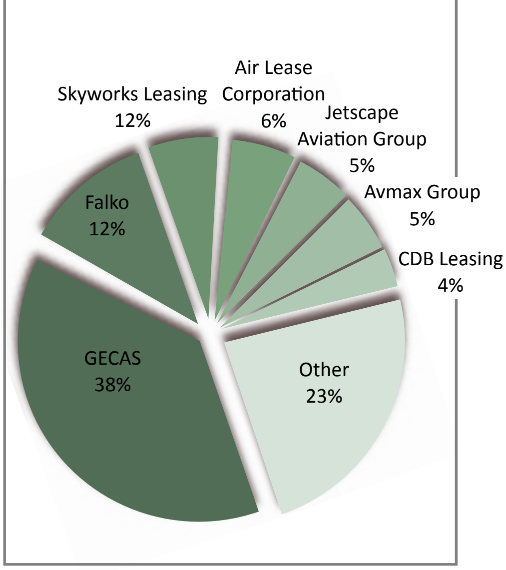


Figure 7 Top Lessors of Regional Jets

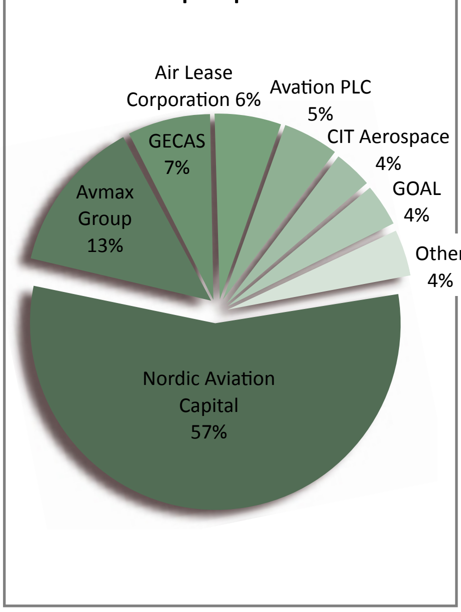


Figure 8 Top Turboprop Lessors

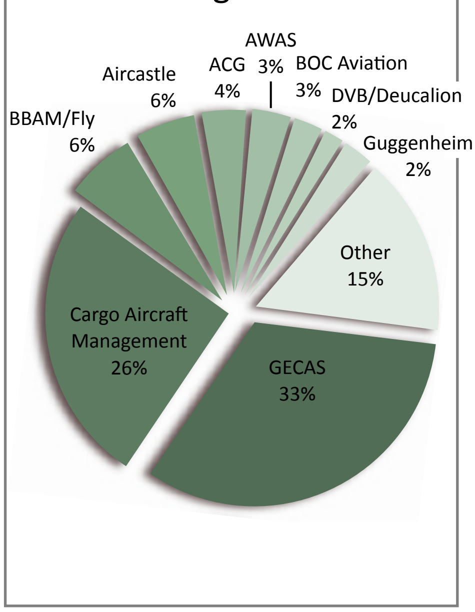


Figure 9 Top Lessors of Freighters

more than half the segment but joined by other notable major players.

Conclusion

Analysis of the global leased fleet reveals a huge diversity of portfolios of aircraft and lessees, and explains why the industry has attracted and will continue to attract new market entrants that believe they can deliver value and generate acceptable returns on capital with their chosen fleet strategies and business models.

The top 20 lessors have a dominant position in the market, with great strengths in access to capital, availability of aircraft and ability to offer customers overall fleet solutions rather than just single aircraft. The next few years will prove very interesting as they compete with the Chinese, Japanese and Russian lessors, which are becoming more aggressive in the marketplace.

SPONSORED EDITORIAL

The Birth of Doric Lease Corp

Doric shareholders this year launched a new operating arm, Doric Lease Corp. Joanna Vickers speaks to Mark Lapidus, its chief executive officer, about the new firm's strategy.

Doric Lease Corp (DLC) was launched by Doric's shareholders in 2013. The new operating lessor has already launched a $630 million enhanced equipment trust certificate (EETC), and placed an order for 20 A380s. As an independent operating lessor company "Doric Lease Corp is a continuation of the existing aviation business", explains its chief executive officer, Mark Lapidus.

As an operating lessor, DLC will have the ability to own its assets, rather than acting solely as an asset manager.

Doric was first established in 2005 as an asset management firm for institutional and private investors from Asia, Europe and North America, with a specific focus on aviation assets. It has a fleet of 35 aircraft under management, which are leased to nine airlines, including 18 A380s acquired through sale/leaseback agreements with Emirates and Singapore Airlines.

The asset management firm has been at the forefront of innovation in the aviation finance sector. Last July Emirates and Doric worked together to close the first non-US EETC transaction in almost a decade. The $587.5 million deal was also the first EETC relying on the A380 as collateral, and the first EETC to rely on Cape Town Agreement mortgages rather than Section 1110.

Launching Doric Lease Corp

"Doric itself, as a regulated financial institution in Germany, is constrained from entering into something like a speculative aircraft order. So to move forward, the shareholders set up a new company that would be able to do that, and would be able to invest for its own account, as well as continue with DNA-type of transactions we have been doing for Emirates aircraft as part of aircraft investment companies listed on the UK stock exchange," explains Lapidus.

He adds: "We are in the process of setting up a base in Ireland, but part of the team will stay in London. The asset management technical team and some of the senior board members will be located in Dublin."

DLC has already launched a $630 million EETC secured against four A380s that will be leased to Emirates. The first aircraft delivered on August 29, with the remaining three A380s scheduled for delivery in the third and fourth quarters of 2013. The equity capital for the financing of the four aircraft is provided by Doric Nimrod Air Three, which listed on the London Stock Exchange on July 2.

Doric and DLC's innovation has already worked to encourage the re-emergence of the international EETC market, with British Airways and Air Canada both launching EETCs this year. Turkish Airlines and Norwegian Air Shuttle are both reportedly planning issuances.

Despite acting in an asset management capacity for its first deal with Emirates, DLC plans to focus on acting in a principal investment capacity as an operating lessor in the future.

DLC signed a memorandum of understanding for 20 A380s, worth about $8 billion at list prices, at the Paris Air Show this year. "We are very busy discussing placement of these aircraft with quite a large number of potential lessees – mostly new customers to the A380 aircraft type," says Lapidus.

Securing financing for the hefty order of the world's largest aircraft will prove a challenge for even the most successful lessor.

"We are planning on utilizing multiple sources of funding for our A380 order. We have access to the US capital markets with our EETC structure, which we developed for financing our Emirates A380 deliveries. Commercial debt has always been a viable and available source of financing for us as well. We are also in discussions with the export credit agencies," says Lapidus.

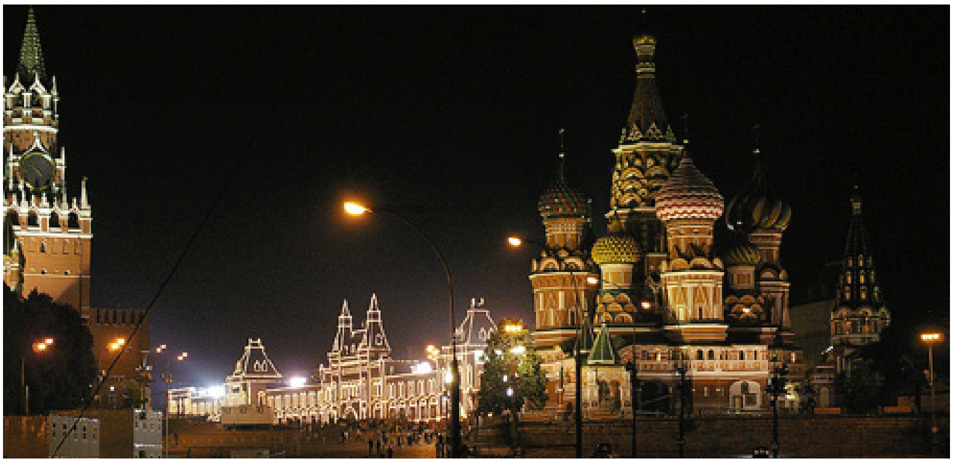
The lessor will also focus on the UK institutional investor market to source the necessary equity capital. "The investor demand is sustainable and growing, providing a long-term access to a deep and diversified pool of equity investors," adds Lapidus.

In the long run the lessor plans to consider aircraft purchases of other latest technology widebody aircraft in order to further broaden the DLC platform.

REGIONAL PROFILE

Russia

Russian lessors are embracing operating leases. Yana Palagacheva examines the changing leasing landscape within Russia.



Russian lessors are finally starting to move away from finance leases. Despite the fact that over 70% of the Russian operating lease market is controlled by their western rivals, Russian lessors are taking the first steps necessary to change this. Major Russian names have already signed their first operating leases.

Sberbank and Sukhoi have signed a memorandum of understanding to form a partnership aimed at building up operating lease opportunities for SSJ100 aircraft for Russian and international markets. Earlier this year Sberbank also secured its first operating lease for 12 new 737-800NG aircraft to be operated by Transaero.

Ilyushin Finance recently announced a number of orders, including for Bombardier Q400 and CSeries aircraft. Many of them are set for operating leases with airlines both in Russia and abroad.

Rostec's Avia Capital Services also announced big orders of new aircraft, most of which will be leased to Aeroflot. The carrier has orders for 50 Boeing 737-800s, 35 737 Max aircraft and 50 MC-21s.

Even though they are still learning about operating leases, Russian lessors are positive they have the capabilities to gain a competitive edge.

Taking the high ground

Most of the biggest domestic lessors are leasing arms of Russian banks that have historically only done finance leases, meaning there is a knowledge gap between them and their western rivals.

However, Russian lessors have advantages that may see them close the gap. Domestic lessors know the local market better. They already have the experience of dealing with and have built strong relationships with Russia's main carriers. Russian lessors are also more willing to assume higher risks, which can also help them win more deals and increase their market share. Local lessors already have agreements in place to provide 24% of the predicted fleet replacements for Russian carriers, according to VTB Leasing.

Western lessors active in the country still do not view Russian leasing companies as competitors. However, many of them are keen to sell aircraft with a lease attached to Russian banks and then manage that lease with them to reduce their risk exposure.

Pavel Piskun, director, Sberbank Leasing, says: "More than 70% of the leasing market is owned by western lessors. We plan to develop into a well-established market participant, and we hope that this share will be changed in favour of Russian lessors. But it will take some time, because it really needs a lot of work and a lot of investment in infrastructure, personnel, systems and everything which is the core competences in operating leasing."

Russian lessors are set to increase their local market share from 19% to 39% by 2020, forecasts VTB Leasing. If domestic lessors do embrace operating leases as enthusiastically as they are now, those numbers will change in their favour.

LESSOR PROFILE

Ilyushin Finance

Ilyushin Fleet by Region of Lessee

Ilyushin Finance was incorporated in 1999 and has historically owned Russian-built aircraft. This trend is changing, and the lessor's order book now includes Bombardier Q400 and CSeries aircraft.

With a growing number of orders and lease commitments, Ilyushin is rapidly becoming one of the most active Russian lessors.

Russian lessors have historically offered only finance leases, but the demand for operating leases in the country is growing, and Ilyushin Finance is determined to become an important player in the field.

The lessor has up to 42 CS300 aircraft on order, and has already signed operating lease agreements for 10 of them – with VIM Avia and UTair Ukraine.

Ilyushin Finance also signed a letter of intent for 50 Q400 NextGen turboprops during the 2013 Moscow Air Show, and received its first order for this aircraft type from Red Wings.

A supporter of Russian-built aircraft, Ilyushin has 50 MC-21 aircraft on order. The lessor has already signed operating lease agreements for MC-21 aircraft with Transaero and Red Wings. It also firmed up an order for 20 Sukhoi Superjets at the 2013 Moscow Air Show.

Alexei Roubtsov, Ilyushin Finance's chief executive officer, says: "The situation is changing. Operating lease is coming into the marketplace, and we believe Ilyushin Finance is very well positioned to start this business."

He points out that the lessor already has the experience and technical knowledge important for the operating lease business, such as repossession or technical management of aircraft.

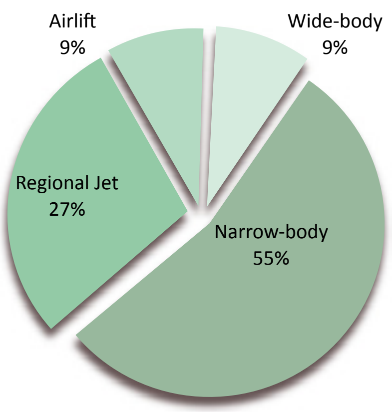
During this financial year the lessor plans to concentrate on CSeries projects. It is also scheduled to deliver An-148/158 and several SSJ aircraft to international and Russian clients. In terms of financing, most of Ilyushin's deliveries in 2013 are funded through export loans guaranteed by the Russian government.

The lessor explains its diverse aircraft choices mirror the different types of clients it is targeting. According to the lessor, the Bombardier Q400 is the best option for the Russian regional market, while SSJ100 aircraft have good potential for export. Ilyushin considers Bombardier and MC-21 "game-changing aircraft", and sees Antonov 148/158 as the best option for severe Russian weather.

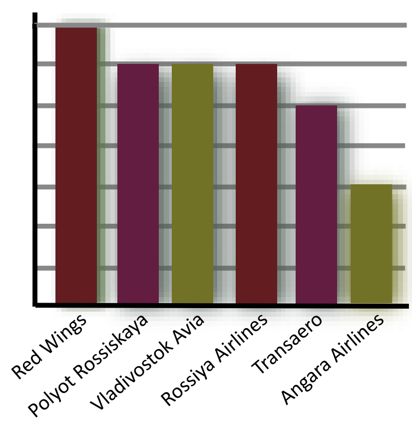
With big aircraft orders and a significant number of operating leases secured already, Ilyushin seems to be well equipped to become a true operating lessor.

Roubtsov says: "Operating lease in Russia is currently 100% owned by western lessors. In 10 years' from now we will expect a minimum 40% of the market to be financed by Russian lessors. We see the market is changing, and that's why we are approaching most of our deals as operating lease deals."

Ilyushin Finance Fleet by A/C Type



Ilyushin Finance Top Lessees



Ilyushin Key Facts

Country	Russia
Founded	1999
Ownership	United Aircraft Corporation (UAC)
Head Office	Moscow
Fleet Size	33

REGIONAL PROFILE

China

Yana Palagacheva reviews how competition is heating up between rival Chinese lessors.

With the exceptions of BOC Aviation and Hong-Kong Aviation Capital, Chinese lessors traditionally have only been domestic players. That has started to change, with a few of the leasing companies now conducting business outside of China.

In June Bocomm Leasing closed its first deal with a non-Chinese airline – a finance lease for one new Korean Airlines 737-900ER. Minsheng Commercial Aviation Limited, which started up earlier this year, signed its first deal, with Germany's Air Berlin.

The two biggest domesticChinese lessors – ICBC Financial Leasing and CDB Leasing – are also eyeing more international deals. ICBC Leasing has 39 customers in 20 countries and 66% of its lessees are already international. While keeping its eyes on the biggest Chinese airlines, CDB Leasing too says its strategy involves targeting low-cost carriers.

Low-cost carriers also are increasingly seeking finance opportunities in China. Wizz Air of Hungary, for example, recently secured financing for eight new Airbus A320 aircraft from ICBC Leasing.

Paul Jebely, Clyde & Co's head of aviation finance for Asia and Africa, says: "We have many more Chinese lessors actively marketing internationally, which is something we have not seen much of before. They are starting to do their own deals, not just in other parts of Asia, but also in the US, Africa and Europe."

Competition behind the wall

One reason Chinese lessors are diversifying their target airlines is the growing competition in the domestic market. There are more than 20 domestic lessors in China. This has made competition tougher, which has led to lower lease rates being agreed in order to beat competitors.

Some players say the market saturation is likely to lead to consolidation and they expect that big players will eventually begin acquiring their smaller rivals.

Others in the industry do not agree consolidation is needed. The growth in the region and huge demand for capital in the Chinese leasing market leaves enough space for a larger number of aircraft lessors, they claim.

Whether or not there will be consolidation in the market, the number of both domestic and international aircraft lessors in the region is growing. This has opened the door for more operating lease transactions.

Chinese lessors continue to acquire aircraft portfolios.

About one-third of the aircraft operated by Chinese airlines are on operating lease. A big percentage of them are leased from international lessors but an increasing number of Chinese lessors are beginning to look closer to home for finance leases.

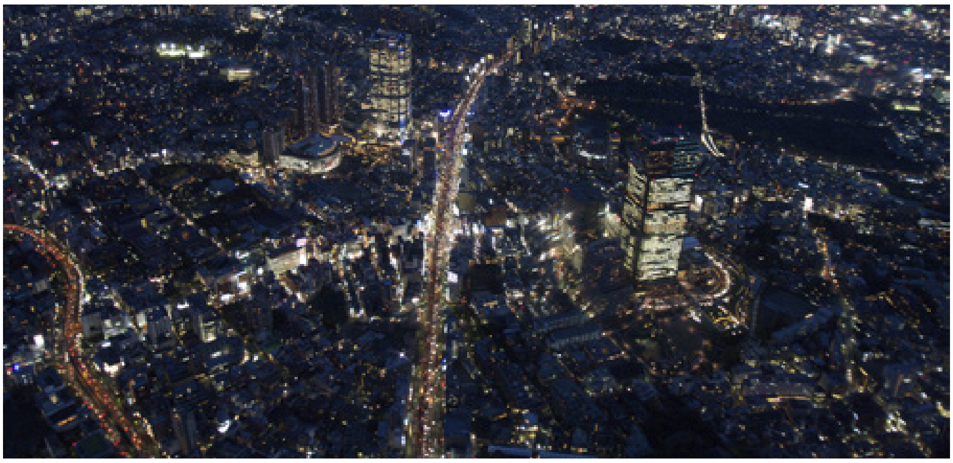
Bank loans and finance leases remain the most popular form of financing in China because of favourable conditions that local or Chinese banks offer.

The Chinese aircraft market is steadily growing, with Boeing recently forecasting that China's fleet will triple in the next 20 years. With such a strong demand the general expectation is that more Chinese lessors will accelerate their efforts to match the expertise of their western rivals by concluding more operating leases domestically, and by continuing to look for opportunities abroad.

REGIONAL PROFILE

Japan

Japanese institutions have been active in aircraft financing and leasing. Jamie Bullen reviews domestic leasing activity in the country.



Japanese banks are happy to invest in leasing firms.

Japan asserted itself as a real player in the leasing space last year when two of its banks made high-profile leasing purchases.

The sales of RBS Aviation to SMBC, and Jackson Square to Mitsubishi UFJ Lease, for about a combined $8.6 billion underline the region's new focus on aviation after its mid-1990s partial exit from air finance.

The $7.3 billion acquisition of RBS is the standout deal of the two, and immediately meant that a large and established lessor was under Japanese control. SMBC is now looking to set itself up as a one-stop shop for air finance with lessor and lending capabilities.

For a region that just more than a decade ago was largely absent from the market, it is something of a volte-face.

Previously – with the exception of Orix – Japanese set ups had been small and specialized niche players, such as Itochu, compared with the big beasts such as ILFC, Gecas or Awas. This is because when it came to transportation, it was shipping – not aviation – that was a core Japanese financial house business.

Japanese banks have started investing into lessors because they are seen as a safe home after the shipping sector became distressed. For notoriously conservative institutions this is a real benefit, and is part of a wider view on playing the air finance market. Bank of Tokyo Mitsubishi is now focusing its aircraft financing strategy towards lessors, rather than airlines.

Past the headlines it is not just the more immediately recognizable Japanese names that are entering leasing:

IBJ Leasing is set to conclude more operating leases this year, having started operating leases in 2012. The company owns a few aircraft via sale/leaseback transactions.

Japanese operating lease with call option (Jolco) underwriting has been the company's core aviation activity over the past 30 years, with 55 jets financed under Japanese operating leases or Jolcos.

Other Japanese lessors, such as Century Tokyo Leasing, are also coming on to the scene in greater numbers.

The reason is that Japanese investors are looking for high yields, while their cost of capital remains low. With aviation being a US dollar business – and leasing offering a relatively safe, long-term investment – it is no surprise that cautious Japanese capital is being attracted to this sector.

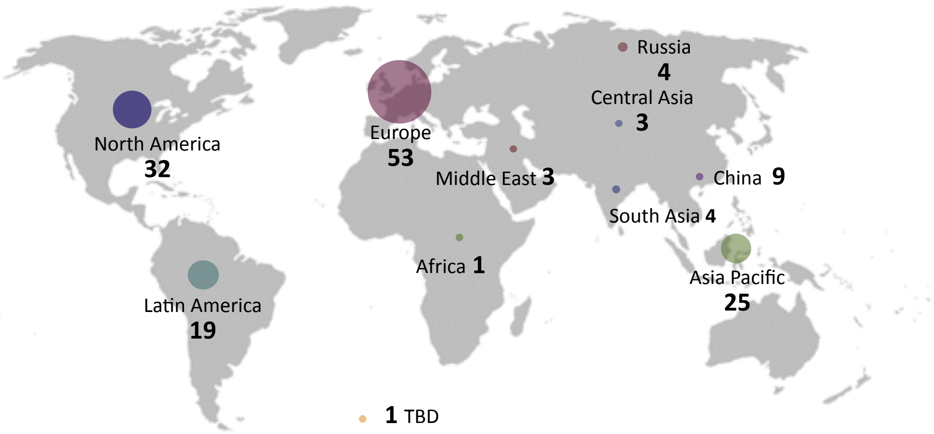
Both SMBC and Mitsubishi UFJ's low cost of capital have meant they have been able substantially to outbid rivals when acquiring their respective leasing platforms. *Airfinance Journal* understands that Chinese-owned Hong Kong Aviation Capital (HKAC) was outbid by a wide margin for Jackson Square because of the lessor's higher capital cost.

With two major leasing platforms now owned by the Japanese, its importance to the leasing sector looks like it will only continue to grow. Japan has become much more to air finance than just a provider of the ubiquitous Jolco.

LESSOR PROFILE

Orix

Orix Fleet by Region of Lessee



Though based in Ireland, Orix Aviation is owned by Japanese conglomerate Orix Group. The lessor's customer base spans six continents, more than 35 countries and more than 65 lessees.

Established in 1991, Orix has completed more than $12 billion in transactions over the past 22 years.

The Irish lessor sold six aircraft in the first quarter of 2013: two used 737-800s with leases attached to undisclosed buyers and four early 1990s-vintage 737 Classics, comprising two -500 series and two -300 series aircraft.

David Power, chief executive officer, Orix Aviation, picks out mid-life aircraft as a solid investment for lessors in what has been a low lease rate environment.

"Lease rates are certainly trending higher with greater demand in all sectors – other than old classics – particularly eight- to 10-year-old aircraft. This process will accelerate even more with no units available in most market segments."

The assets Orix likes best are Boeing jets because of their overall all-round attractiveness in terms of being able to acquire, place and sell.

"787s and 737-800s, given their strong order backlog, airline customer appeal, investor and lender attractiveness and forecasted residual value, offer stability," says Power.

However, while boasting a large portfolio of more than 150 commercial jets, the lessor does not plan to add any more jets through orders for the time being.

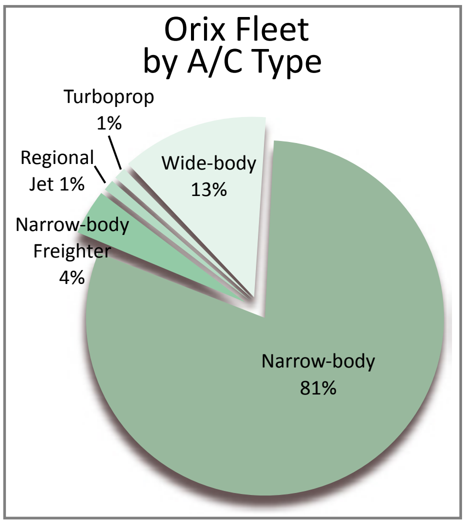
"Absent a good opportunity, lead times are too severe. That said, we keep an open dialogue with suppliers," says Power.

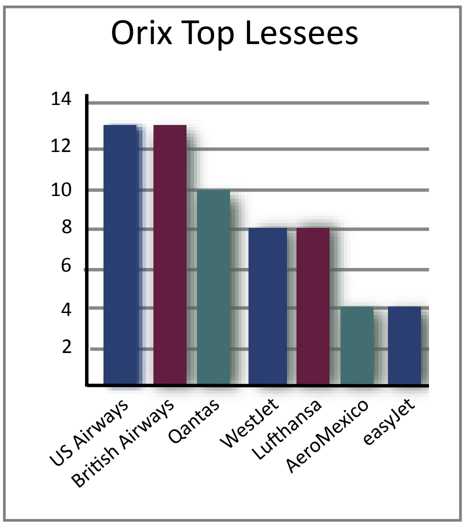
He is also cautious about raising long-term funding because of the uncertain global economic environment. "Care needs to be exercised in long-term funding as the interest rate environment moves from stable low rates to increasing funding costs," he says.

Orix Aviation plans to tap loans from its parent company to fund its deliveries over the next couple of years, as well as sourcing non-recourse debt on a deal-by-deal basis.

The lessor looks set to continue its successful strategy of acquiring new and mid-life jets, all while trading them when there is a deal possible.

Power says: "We will continue each of our core activities, sale and leaseback of aircraft, originating Japanese operating leases and both own fleet and co-investment fleet growth more particularly in the mid-life aircraft space."





Orix Key Facts

Country	Ireland
Founded	1991
Ownership	ORIX Corp.
Head Office	Dublin
Number of Employees	50
Size of Fleet	151
Average Age of Fleet	12.52
Number of Lessees	64
Order Book: Units/$m	n/a
Unsecured Credit Rating	n/a
Total Assets (FYE) $m	$4.4bn
Net income (FYE) $m	Undisclosed