Overview of the Aircraft Leasing Industry

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VP Portfolio Strategy & Acquisitions
CIT Aerospace

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George Mason University
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Contents

CIT Overview

Operating Lessor Business Model

Fleet Planning

Market Trends & Outlook
CIT Overview

Bank Holding Company With Over 100 Years Commercial Lending Experience

Focused on Small Business and Middle Market Companies

Reorganized Capital Structure Provides Flexibility to Refine Business Model

$53 Billion in Assets and $8.7 Billion Market Capitalization
## Financial Solutions for Small Business and Middle Market Companies

<table>
<thead>
<tr>
<th>Corporate Finance</th>
<th>Lending, leasing, advisory and other financial services to small and middle market companies</th>
<th>Portfolio Assets $10B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Finance</td>
<td>Factoring, lending, receivables management and trade finance to companies in retail supply chain</td>
<td>Portfolio Assets $3B</td>
</tr>
<tr>
<td>Transportation Finance</td>
<td>Lending, leasing and advisory services to the transportation industry, principally aerospace and rail</td>
<td>Portfolio Assets $12B</td>
</tr>
<tr>
<td>Vendor Finance</td>
<td>Financing and leasing solutions to manufacturers and distributors around the globe</td>
<td>Portfolio Assets $6B</td>
</tr>
</tbody>
</table>

Portfolio assets include loans, operating leases and assets held for sale; data as of 9/30/2010
Excludes liquidating Consumer Segment with portfolio assets of $9B
Excludes other assets and cash totaling $13B
### CIT Transportation Finance Structure

**CIT Transportation Finance**

$12.5 B Managed Assets

#### CIT Aerospace

<table>
<thead>
<tr>
<th>Financial Institutions Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Third Party Transactions</td>
</tr>
<tr>
<td>• Debt</td>
</tr>
<tr>
<td>• Sale Leaseback</td>
</tr>
<tr>
<td>• EETC</td>
</tr>
<tr>
<td>• Aircraft Sales</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Aircraft</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $665MM Portfolio</td>
</tr>
<tr>
<td>• 273 Transactions</td>
</tr>
<tr>
<td>• 202 Customers</td>
</tr>
<tr>
<td>• 13 Countries</td>
</tr>
<tr>
<td>• Products:</td>
</tr>
<tr>
<td>• Loans</td>
</tr>
<tr>
<td>• Leases</td>
</tr>
<tr>
<td>• Fractional Share Financing</td>
</tr>
<tr>
<td>• Customer base primarily corporate users</td>
</tr>
<tr>
<td>• Expanding scope internationally</td>
</tr>
<tr>
<td>• Strong manufacturer relationships</td>
</tr>
</tbody>
</table>

#### CIT Transportation Leveraged Finance

<table>
<thead>
<tr>
<th>CIT Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $3.8BN Managed Assets</td>
</tr>
<tr>
<td>• 112,880 Railcars</td>
</tr>
<tr>
<td>• 531 Locomotives</td>
</tr>
<tr>
<td>• ~500 Customers</td>
</tr>
<tr>
<td>• Located in Chicago, IL</td>
</tr>
<tr>
<td>• Lessees in US, Canada and Mexico</td>
</tr>
<tr>
<td>• Customers include railroads as well as shippers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CIT Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Third Party Transactions</td>
</tr>
<tr>
<td>• Debt</td>
</tr>
<tr>
<td>• Sale Leaseback</td>
</tr>
<tr>
<td>• EETC</td>
</tr>
<tr>
<td>• Aircraft Sales</td>
</tr>
</tbody>
</table>

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Note: All dollar values are preliminary at 9/30/2010 based on post FSA basis
CIT Aerospace Portfolio

2010 Portfolio Activity
- 25 aircraft sold
- 22 new aircraft added
- 68 existing aircraft re-marketed

2011 Portfolio Activity
- 20 new aircraft delivering
- 3 sale-leaseback E190s
- 33 existing aircraft placed
- 38 new Boeing aircraft order
- Discussions with manufacturers for additional orders
Commercial Air Market Position

Publicly Traded Aircraft Lessors’ Fleet Age*

- CIT has the youngest fleet amongst the publicly traded Lessors.
- 90% of the value of the CIT owned fleet is <10 years old compared to 74% of the world fleet value.

<table>
<thead>
<tr>
<th>Lessor</th>
<th>Fleet</th>
<th>Value ($MM)</th>
<th>Age</th>
<th>On Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>GECAS</td>
<td>1,807</td>
<td>$35,873</td>
<td>9.5</td>
<td>245</td>
</tr>
<tr>
<td>ILFC</td>
<td>1,078</td>
<td>$30,764</td>
<td>8.5</td>
<td>117</td>
</tr>
<tr>
<td>CIT</td>
<td>316</td>
<td>$7,784</td>
<td>5.9</td>
<td>73</td>
</tr>
<tr>
<td>AerCap</td>
<td>270</td>
<td>$6,450</td>
<td>9.2</td>
<td>24</td>
</tr>
<tr>
<td>FLY</td>
<td>303</td>
<td>$6,263</td>
<td>10.2</td>
<td>20</td>
</tr>
<tr>
<td>Aircastle</td>
<td>137</td>
<td>$3,101</td>
<td>13.1</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Ascend Online as of 12/14/10 and CIT forecasted NI as of 12/31/10.
CIT Aerospace Customers and Portfolio Distribution

- 120 Customers in 58 Countries
- Added 15 customers and 8 countries in 2010
- Offices in New York, Ft. Lauderdale, Dublin and Singapore

US & Canada 13%

Europe 31%

Latin America 14%

Middle East/Africa 10%

Asia/Pacific 32%
CIT Aerospace Track Record

Proven Success
- Over 40 years of aircraft finance experience
- A recognized leader in aircraft leasing and finance

Reliable Partner to Manufacturers
- Despite recent turmoil, CIT Aerospace continued operating normally
- Took delivery of all our aircraft commitments

Diverse Operator Base
- Ability and desire to do business with less-than-stellar airlines and jurisdictions
- Continue to add customers and countries

In-House Expertise
- Marketing and technical experts with backgrounds that include:
  - Airlines
  - Manufacturers
  - MROs
Operating Lessor Business Model
Operating Lessor Business Model (1/4)

Value Proposition

- Financial participant with high industry knowledge & ability to leverage credit spread arbitrage opportunities
- Additional airframer distribution channel

Main Product

- Operating lease of commercial airplanes – buy, hold-and-lease, sell
  - Dry lease
    - Excludes insurance, crew, grounds staff, supporting equipment, maintenance
    - Aircraft on airline operating certificate
      - Configured with airline paint scheme, interior, avionics
  - Transfers to lessee the right to use the property (without ownership risk)
  - Treated as operating expense in Income Statement & does not affect Balance Sheet
    - Revealed in footnotes of financial statements under US GAAP
- Vs. capital lease
  - For which lessee assumes ownership benefits & risks
  - Considered both an asset & liability on BS
  - Lessee claims depreciation & deduct interest expense
  - Recognizes expenses sooner than with equivalent operating lease
Operating Lessor Business Model (2/4)

Activities

- Business strategy
  - Portfolio planning
  - Risk management
  - Financial planning

- Asset acquisitions
  - Speculative purchases
  - Secondary market purchases
    - Airlines – sale lease-back
    - Financial institutions – w/w.o. lease

- Marketing / re-marketing & lease negotiation
  - MOU, lease, board approval
  - Commercial, legal, technical terms

- Aircraft delivery / redelivery
  - Engine selection
  - Configuration management
  - Inspections (& maintenance) for re-delivery

- Asset management
  - Maintenance reserve claims
  - Record management
  - Quiet enjoyment clause

- Asset sale
  - Airlines
  - Financial institutions
  - Others
Customers & Transaction Partners
- Airlines
  - Top-tier
  - Middle credits
  - New entrants
- Flag carriers
- Financial institutions
  - Banks
  - Lessors
  - Export credit agencies

Resources: in-house vs. outsourced
- Business strategy
- Marketing
- New aircraft programs
- Technical & asset management
- Trading & financing
- Risk management
- Other: pricing, legal, accounting, insurance, tax, HR

Business Metrics
- Volume
- ROE
- Asset utilization
- Defaults
- Revenue sources
  - Rents
  - Asset sales
- Costs
  - Asset purchases
  - Cost of funds
  - Maintenance & transitions
  - Employees
Operating Lessor Business Model (4/4)

Market Segmentation

- Two large players
  - GECAS (GE)
- Second-tier lessors
  - CIT
  - AerCap
- Others
  - Smaller lessors
- ILFC (AIG)
- ACG
- AWAS
- RBS
- BOC
- AirCastle
- FLY
- Non-traditional lessors
- New entrants

Competitive Strategies

- Fleet composition
  - Fleet size
  - Aircraft models
  - Delivery/re-delivery slots
- Commercial terms
  - Rents
  - Lease duration
- Risk management strategies
  - Exposure per operator
- Complementary (financial) products
  - Aircraft age
  - Passenger vs. cargo configuration
  - Maintenance reserves
  - Jurisdictions
  - Jurisdictions
### Value Proposition for Trade Partners

<table>
<thead>
<tr>
<th>Airlines</th>
<th>Aircraft Manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td><strong>Cons</strong></td>
</tr>
<tr>
<td>1. Mitigation of customer resistance to new aircraft</td>
<td>1. Usually more expensive</td>
</tr>
<tr>
<td>2. No PDPs, which are hard to finance</td>
<td>2. Less maintenance flexibility</td>
</tr>
<tr>
<td>3. No equity, minimizing cash outlay &amp; preserving borrowing capacity or liquidity</td>
<td></td>
</tr>
<tr>
<td>4. Reasonable cash flow (25 vs. 12 years)</td>
<td></td>
</tr>
<tr>
<td>5. Enhanced flexibility to enter/exit from changes in technology &amp; capacity needs (e.g., “put” option). Access to newer technology earlier</td>
<td>1. Possible lease vs. sale competition</td>
</tr>
<tr>
<td>6. Elimination of asset value risk: residual &amp; obsolescence</td>
<td>- if skyline is not sold-out</td>
</tr>
<tr>
<td>7. For weaker credits, access to fleeting</td>
<td>- depending on sale reward structure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Aircraft Manufacturers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Additional distribution platform</td>
</tr>
<tr>
<td>2. Market seeding for new sales via lease of used aircraft</td>
</tr>
<tr>
<td>3. Credit risk mitigation</td>
</tr>
<tr>
<td>4. Slot offering when skyline is sold out</td>
</tr>
<tr>
<td>5. Enhanced stability through biz cycle</td>
</tr>
</tbody>
</table>

**Cons**

1. Usually more expensive
2. Less maintenance flexibility

---

**Source:** Ascend Online, as of 11/1/09
Fleet Planning
Desirable Airplane Features (Airlines)

Revenue
- Matched to the mission – schedule & routes
  - Seat count, configuration & MTOW vs. range
  - Utilization: reliability & turn-around times
- Marketable
  - Attractive “product”: classes, seats, IFE, galleys, lavatories
  - Newer aircraft
- Favorable to ancillary revenue generation

Cost
- Fuel burn
- Cost per trip vs. cost per mile
- Ownership / financing
- Maintenance
Desirable Asset Features (Investors)

Good Financials
- Risk-Adjusted Rents
- Residual Values
- ROE

Lifecycle Costs
- Low purchase price
- Low customization
- Little surprise (Ad, sB and stC)
- Economic vs. operational life (& obsolescence)

“Re-marketable”
- Fungible
- # airplanes vs. # operators
- Customization vs. appeal
  - Seats, Galleys, IFE, Paint
  - Engines, Avionics
  - Everything Else

Liquidity
- Business cycle vs. depreciation
- Vintages vs. airplane retirements

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Business Strategy & Aircraft Purchasing

Corporate Objectives
- Financial & Strategic Goals
- Risk Management
- Resource Allocation

Fleet Planning
- Buy
- Hold & Lease
- Sell

Risk Management

Asset Acquisitions

Market Analysis
- Trends
- World Fleet Supply-Demand
- Business Cycle

Competitive Analysis
- Competitive Advantages
- Market Segmentation
- Supply & Price Pressures

Portfolio Strategy
- Acquisitions in 1y & 2y markets
- Returns vs. credit trade-offs
- Lease rates & terms
- Divestitures
Asset Acquisitions

Deal Pipeline Development

- Develop pipeline of target aircraft, opportunities & portfolios
- Seek proposals & quotes from airframers & engine suppliers

Analysis & Internal Sale

- Develop lifecycle valuation & financial modeling
- Develop & sell business case to management & executive teams

Due Diligence

- Assert market demand
- Assess configuration options, pricing & marketability impact
- Ascertain sale & product support
- Address relevant risks – obsolescence, residual values, programmatic, product performance

Negotiation

- Negotiate pricing, delivery slots, guarantees, warranties, etc. etc. etc. & close deal

Post-Acquisition Activities

- Delivery, placements, contractual follow-ups
Risk Management

Market Acceptance
- Mission – seat count/usable payload vs. range
- Manufacturer’s offerings and history – Airbus/Boeing vs. Bombardier/Embraer vs. COMAC, etc.
- Total market volume – a/p sold, operator count, geographical distribution
- Addressable market – a/p-engine types, in-service count, creditworthiness, PMAe’d parts
- Airplane operating economics

Financial Return
- Risk-adjusted ROE
- Achievable ROE vs. credit score (PD) trade-offs

Competitive Landscape
- Supply-demand in a/c & seats
- Substitute financial products
- Manufacturers? (slot availability)
- New financial players

Residual Value
- Technical obsolescence & vintage effect (e.g., narrowbody replacement)
- Economic vs. operational life
- Impact of environmental and other regulations
- Price elasticity of demand considering business cycle effects

Portfolio Management
- Buy
- Hold & Lease
- Sell

Event
- Mx (shop visit costs, ABCs)
- Contract violations
- Defaults – mx reserves

Geographical Diversity
- Jurisdiction prohibitions, taxes
- Captive/niche markets
Fleet Lifecycle by Model

Fleet vs. Model Age

- Production
- Maturity
- Retirement

Fleet Count

- 737 (NG) 1998
- A320 Family 1989
- A320 1989
- 737 (CFMI) 1985
- E-Jet 2005
- A319 1997
- MD-80 1981
- CRJ Regional Jet 1993
- 777 1996
- 757 1983
- 767 1983
- A330 1994
- A340 1994
- A321 1995
- A310 1984
- A318 2004
Balancing Creditworthiness & Returns – Operator count counts!

<table>
<thead>
<tr>
<th># Airplanes (# Operators)</th>
<th>World Fleet 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>2500 (100)</td>
</tr>
<tr>
<td>D</td>
<td>3500 (180)</td>
</tr>
</tbody>
</table>

Creditworthiness options tied to number of operators

Source: Airclaims June 07  
Aircraft: In-service for airline use

% Probability of Default

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In-Service Fleet History vs. Aircraft Gauge

Max Seat Count

146
727
737 (NG)
737 (CFM)
737 (JT8D)
A320
717
MD-80
100
170
175
190
328JET
70
747
195
767
777
787
A300
A310
A330
A340
CRJ Regional Jet
CRJ700 Regional Jet
Caravelle
A319
DC-10
614
Concorde
DC-9
F.28
757
A321
707
DC-8
L-1011 Tristar
MD-11
Mercure
880
990
Market Trends & Outlook
Air Traffic & Aircraft Demand

- Traffic demand returning to 2008 levels as global economy recovers
- Airline profitability higher on controlled capacity growth and stable fuel prices
- Air traffic forecast to continue historic trend at 3-5% annually
- Requirement seen for over 37,000 aircraft worth over $3 T over the next 20 years.
- Developing markets (e.g., China, India) exhibiting strongest growth
- High fuel prices accelerating replacement demand for advanced technology aircraft

The World Commercial Aircraft Fleet Will More Than Double Over the Next 20 Years

- Standard narrow-body aircraft such as 737 & A320 in highest demand as low-cost carriers & route fragmentation proliferate in developing countries
- Longer-range, intermediate body aircraft (A330, 787, A350) showing strong demand as growth in intercontinental travel demand strengthens on growing global trade
- RJs & VLAs (e.g. A380) continue specialized roles
- Operating leasing has grown from 3% of world fleet in 1980 to 35% today; expected to rise to 50% in next decade
Forbes/CIT survey (Jan 2011) confirms importance of Operating Leasing for airlines

Benefits to airlines include capital flexibility, fleet flexibility, and risk mitigation

Over the past 30 years the world’s airlines have leased, rather than purchased, a growing share of their fleets

Leasing represents 38% of the world fleet vs. just 3% in 1980

Leased aircraft fleet is expected to rise above 50% by 2015

World Fleet Ownership

1980

Owned Share 97%

Lessor Share of World Fleet

3%↓

50%

2015

Owned Share 50%*

Source: Ascend
* Estimated
Market Trends - Leasing by Regions

Aircraft leasing is a global business

- **24%** North America: 7208 aircraft
- **44%** Europe: 5214 aircraft
- **32%** Middle East: 943 aircraft
- **37%** Asia ex China: 2594 aircraft
- **47%** Latin America and Caribbean: 1326 aircraft
- **27%** Africa: 866 aircraft
- **38%** Australasia: 440 aircraft
- **38%** China: 1459 aircraft

Source: Ascend Online

www.ascendworldwide.com
Market Trends – Leasing by Operators

Top 25 airlines by fleet count: % aircraft leased

Source: Ascend Online

www.ascendworldwide.com
Leasing – a Growing & Fragmented Market

- Over the past 20 years, the number of Lessors has doubled.
- The Industry is led by a handful of large Lessors, with ILFC and GECAS standing apart at the top.
- The top 5 Lessors have historically controlled ~50% of the leased fleet.
Market Trends – Growing Lessor Fleet

Lessor fleets have been growing...

Western Built Jets: Split by Manager Category Aircraft Count

Source: Ascend Online

www.ascendworldwide.com
Market Trends – Growing Lessor Fleet Share

And lessor fleet share has increased

Western Built Jets: Split by Manager Category % Share

Source: Ascend Online
Supply & Demand Modeling (Nov 2010 Update)
Downside risk of oversupply except if very strong traffic growth prevails.

Equilibrium level for values
Business Cycle Modeling
GDP Growth, Airline Profitability, Aircraft Orders?

World gross domestic product year on year growth rate, 1960s onwards, according to IMF and OECD
Business Cycle Modeling as Rent Factors
(1st Year of New Airplane Deliveries)

Rent Factors (%) vs. Airplane Delivery Year

- A321-200
- A320
- A319
- 737-700

Airplane Delivery Year

- Bull Market
- Contraction
- Bear Market
- Expansion

Transition

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Rent Factors vs. Year over Year GDP Growth

World gross domestic product year on year growth rate, 1960s onwards, according to IMF and OECD

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Managing Lease Terms through the Business Cycle

Rent Factor

Time

Bull Market
Contraction
Bear Market
Expansion

Transition
2011 CIT/Forbes Global Aerospace Outlook

Scope:
Survey of 136 airline executives around the world in November and December, 2010

Key Findings:
2008 - 09 recession forced many airlines to make tough decisions
- Grounded planes, pared fleets, consolidated routes, cut staff
- Airlines leaner, more efficient and feel competitively stronger

Fuel costs remain the biggest challenge
- Hedging fuel to mitigate fuel price fluctuations
- View fuel efficient aircraft as a hedge

Fleet executives want more fuel efficient aircraft
- But waiting to see what manufacturers offer and how they perform

Airline industry consolidation will continue
- 80% of executives expect an increase in M&A activity over the next five years

Emerging markets promise greatest opportunity for growth
- U.S. and European carriers dealing with recession
- Other regions (e.g. Asia/Pacific, Middle East) added planes, routes and seats

Business travelers and ancillary charges are key components of future airline profitability

Operating leasing is fundamental to fleet financing for many airlines
- Over half the respondents lease more than 50% of their fleets
Industry Trends to Watch For

Airframer Momentum & Strategy

- Airbus NEO pulling Boeing strategic customers
- Boeing’s play in re-engining vs. clean sheet design launch
- Embraer’s play

New Aircraft Technology

- Composite material maintainability
- New engine technology – CMC, Open Rotor

Markets

- Shortening airplane lifecycles
- Historically duopolistic industry accepting more players - China

Financing

- Export credit agency financing levels
- Cost of financing across products

Leasing

- Success level of new entrants, publicly traded lessors
- Consolidation
Thank You!

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