SMBC Aviation Capital Limited

Full Rating Report

Ratings

SMBC Aviation Capital Limited

Long-Term IDR	A–

SMBC Aviation Capital Finance DAC

Long-Term IDR	A–
Senior Unsecured Notes	A–

Outlook

Stable

Financial Data

SMBC Aviation Capital Limited

(USD Mil.)	3/31/18	3/31/17
Total Assets	10,702	10,637
Total Debt	7,233	7,254
Total Equity	2,075	1,786
Debt/Tangible Common Equity (x)	3.5	4.1
Revenue	1,033	1,089
EBITDA	925	987
Total Comprehensive Income	289	315
Rental Revenues/ Aircraft Assets	9.6	9.3

Related Research

Fitch Completes Aircraft Lessor Peer Review (July 2018)

Fitch 2018 Outlook: Finance and Leasing Companies (November 2017)

Aircraft Leasing Industry Overview (September 2017)

Fitch 2018 Outlook: Global Aerospace and Defense (December 2017)

Large Equipment Leasing: Rating Attribute Analysis (September 2014)

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Key Rating Drivers

Strong Majority Owner Linkage: SMBC Aviation Capital Limited's (SMBC AC) ratings primarily reflect the institutional support linkage between SMBC AC and Sumitomo Mitsui Financial Group, Inc. (SMFG; Long-Term Issuer Default Rating [IDR] of 'A'/Stable). SMFG has an effective controlling stake, with a 66% beneficial ownership of SMBC AC, and Sumitomo Corporation (Sumitomo) holds the remaining 34% ownership interest.

Strategically Important Subsidiary: Fitch Ratings considers SMBC AC to be a strategically important subsidiary of SMFG as defined under our *"Non-Bank Financial Institutions Rating Criteria".* This results in a rating one notch lower than SMFG's rating. SMBC AC has a proven track record of profitability as an aircraft lessor under SMFG's ownership and funding from its shareholders represented 50.8% of total debt at March 31, 2018. SMBC AC also exhibits parent company representation on its board of directors and an integrated strategy with SMFG.

Capital Commitment: In March 2018, SMBC AC received confirmation that its shareholders agreed to provide it with up to USD1 billion in additional capital by March 31, 2019, in support of the company's growth plans. This commitment consists of USD700 million of equity capital from Sumitomo Mitsui Banking Corporation (SMBC), the banking subsidiary of SMFG, and Sumitomo Mitsui Finance and Leasing Company, Ltd. (SMFL), the primary leasing vehicle between SMFG and Sumitomo, as well as a USD300 million subordinated loan from SMBC.

Established Track Record: From a standalone credit profile perspective, SMBC AC (and its predecessor organization) has a well-established franchise and scale. The company has an experienced management team, an institutional structure capable of supporting a large aircraft fleet, and a customer base well diversified by both operator type and geography.

High Quality Aircraft Fleet: Fitch believes the quality of SMBC AC's aircraft fleet is a significant strength, as it is largely unencumbered and predominantly comprised of young, in-demand and fuel-efficient narrowbody Boeing and Airbus aircraft. At March 31, 2018, the firm had 675 owned, managed and committed aircraft, and the weighted average age of the fleet was 4.5 years, which is low when compared to the Fitch-rated aircraft lessor peer group.

Concentrated Funding, Reduced Leverage: SMBC AC's funding profile, which exhibits concentration with parent funding sources, counterbalances its standalone strengths. Third-party funding represented 49.2% of SMBC AC's total debt funding as of March 31, 2018. Leverage (debt to tangible equity) of 3.5x at March 31, 2018 has trended down in recent years via capital retention but remains high compared to the peer average.

Rating Sensitivities

SMFG Ratings: SMBC AC's ratings are primarily sensitive to changes in SMFG's ratings, given the one-notch differential between the IDRs of the two companies.

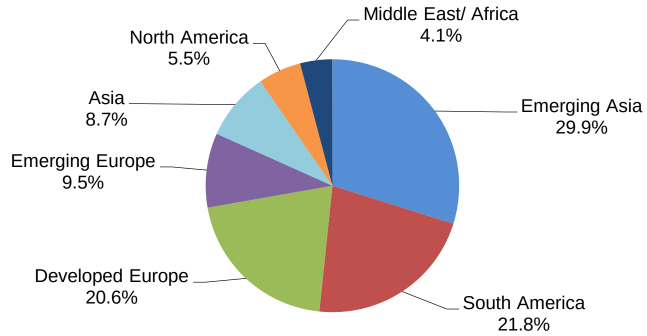
Support from SMFG: Although not expected by Fitch, SMBC AC's ratings could be adversely affected should SMFG seek to dispose of, or meaningfully reduce, its investment in SMBC AC, resulting in significant influence by minority shareholders, or should there be any other developments within SMFG that are perceived by Fitch to alter SMFG's willingness or ability to provide support to SMBC AC.

Operating Environment

Sovereign Rating

SMBC AC is based in the Republic of Ireland ('A–'/Stable); however, as is the case with all aircraft lessors, its global customer base has sovereign exposure to a wide variety of countries and regions. Many of these areas have developing economies subject to elevated market volatility.

Regional Distribution of Lessees as % of Net Book Value
(At March 31, 2018)



Source: SMBC Aviation Capital Limited.

SMBC AC's owners are domiciled in Japan. Japan's Long-Term Foreign and Local Currency IDRs were affirmed at 'A' on April 25, 2018 with a Stable Rating Outlook.

Economic and Business Environment

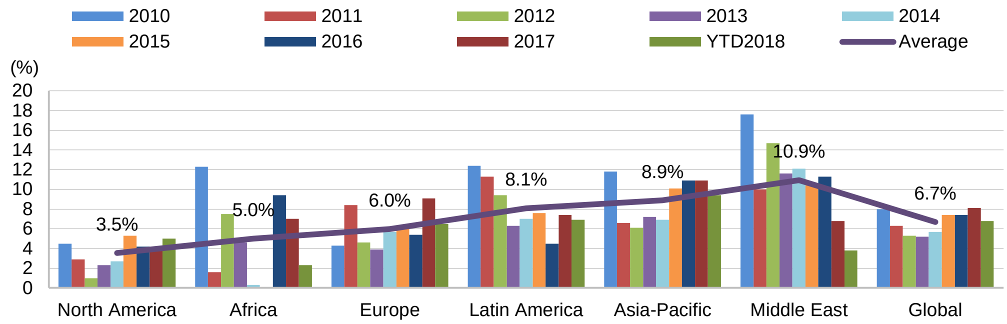
According to Fitch's June 2018 Global Economic Outlook, global growth prospects remain robust despite rising trade tensions and political risks. Fitch's global growth forecast is 3.3% in 2018 and 2.9% in 2019. Revenue passenger kilometers (RPK) grew 6.8% year-to-date through May 2018 according to The International Air Transport Association; this was below the 8.1% growth rate achieved in 2017 but above the long-run average of 5.5%. Falling travel costs have attracted new passengers, load factors remain high, and the introduction of unique city-pair networks have all served to expand RPKs.

Consistent with recent years, RPK growth has been strongest in the Asia-Pacific region (9.4%) and lower in Africa (2.3%) and the Middle East (3.8%). China (sovereign Long-Term IDR A+/Stable), continues to be a meaningful driver of growth in the Asia-Pacific region for most aircraft lessors. The Chinese airline sector is likely to continue to grow over the long term, supported by rising household incomes, infrastructure investment and market-oriented reforms that are driving improvements in airline efficiency, and aircraft lessors continue to support this growth. Approximately 50% of aircraft lessors' airline customers were domiciled in the Asia Pacific region as of March 31, 2018, essentially unchanged from the previous year.

Related Criteria

Non-Bank Financial Institutions Rating Criteria (June 2018)

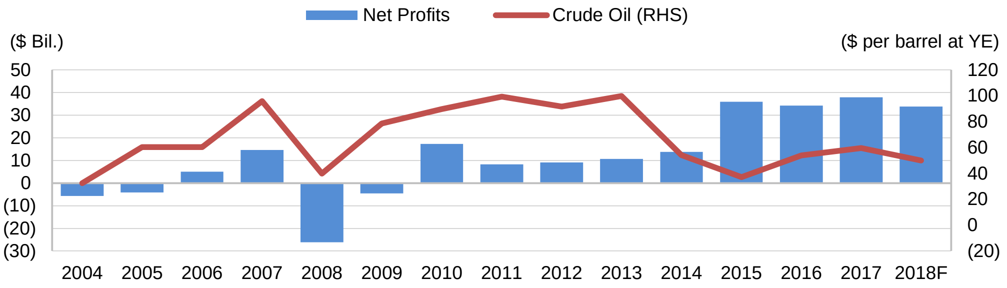
Passenger Traffic by Region
(% YoY Change in RPK)



Note: 2018F reflects IATA forecast as of June 2, 2018. YTD2018 – 2018 year-through-date May 31, 2018. Average excludes 2018F. YoY – Year-over-year. RPK – Revenue passenger kilometers.
Sources: IATA and Fitch.

The recent increase in jet fuel prices could lead airlines to increase their appetite for more fuel-efficient next generation aircraft and/or reduce their appetite for older planes, which should benefit players with long-dated order books and potentially lead to more impairments for lessors focused on the midlife or older segments.

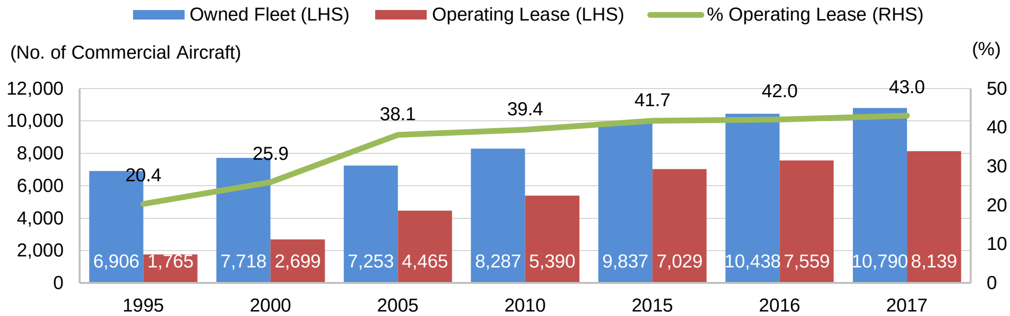
Worldwide Airline Profitability Trends



2018F – 2018 IATA forecast.
Source: IATA, Fitch.

Airlines have increasingly utilized leasing of aircraft rather than ownership over the past few decades, due to capital constraints. According to Ascend, the percentage of the global aircraft fleet under an operating lease increased to 43% in 2017.

Proportion of Global Fleet on Operating Lease



Source: Ascend Fleets Database, Airbus, Boeing, Lockheed, McDonnell-Douglas.

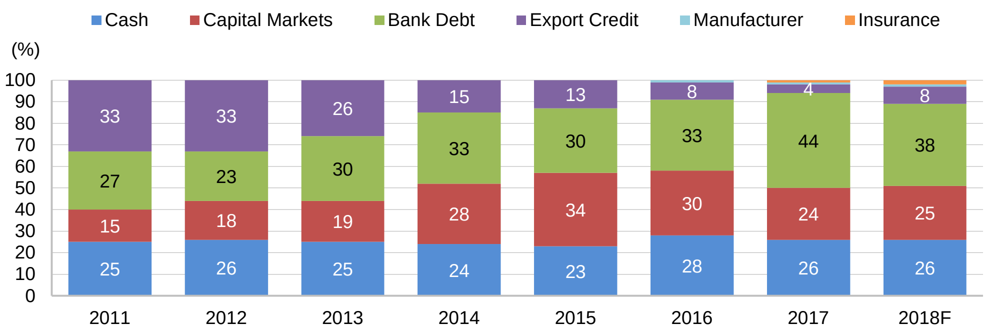
Financial Market Development

Aircraft lessors' assets are leased to operators around the world, including a significant number to airlines in emerging markets. The size and development of financial markets within these emerging markets varies significantly, but generally tends to be less robust than developed nations. All of the rated aircraft lessors have access to the U.S. capital markets. The U.S. has the broadest, deepest, and most liquid capital market in the world. The U.S. also has a well-defined legal framework.

The unsecured bond, commercial bank and private placement markets continue to be the primary sources of debt funding for aircraft lessors, although the ABS market has been readily accessible as well. The aircraft leasing sector completed USD14.4 billion in unsecured note offerings in 2017 and USD6.6 billion during 1H18, driven by the need to fund capital expenditures and refinance debt maturities. Still, aircraft lessor corporate bond spreads have widened 23 bps on a weighted average basis during 1H18, to trade at 171 bps over benchmark rates.

According to Boeing Capital Corporation (BCC), commercial bank debt is expected to fund 38% of industry delivery financing in 2018, down from 44% in 2017. Commercial bank debt financing in China reached 31% of total volume in 2017, although this is expected to down come down to 28% in 2018, according to BCC.

Sources of Industry Delivery Financing



Source: Boeing Capital Corp. "Current Aircraft Finance Market Outlook 2018".

Regulatory Framework

Aircraft lessors are lightly regulated relative to the broader universe of financial institutions, but SMBC AC is owned by a global systemically important financial institution, which is therefore subject to robust regulation.

Lessors such as SMBC AC are regulated by governmental entities concerning operational safety, while lessees are also responsible for compliance with all applicable laws, and regulations with respect to the aircraft. SMBC AC's regulatory compliance framework relates to the policies of SMFG, the laws and regulations of Ireland, contractual obligations and international laws and regulations.

Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant airframe is registered and where the aircraft is operated. For example, jurisdictions throughout the world have adopted regulations that require all aircraft to comply with noise level standards. In addition to more stringent noise restrictions, the U.S., European Union (EU) and other jurisdictions are beginning to impose more stringent limits on the emission of nitrogen oxide, carbon monoxide and carbon dioxide from engines.

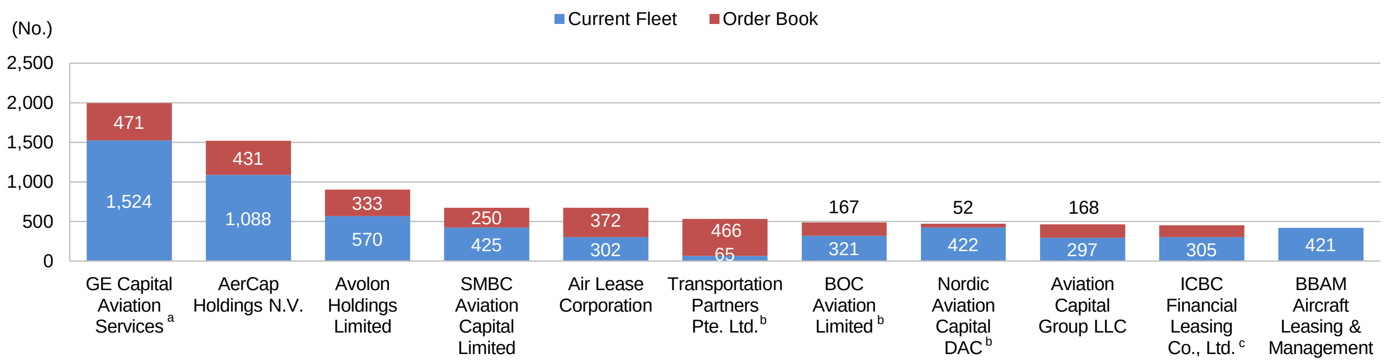
The Cape Town Convention (CTC), which went into effect on March 1, 2006, established an international legal framework to facilitate financing of mobile equipment, including aircraft, and established an international registry for international interests in aircraft. The treaty has been ratified by more than 50 states, including the U.S., China, India, Russia and the EU. The CTC has had a positive effect on the aircraft finance industry, with export credit agencies granting a fee discount to borrowers in countries that have ratified the treaty and made certain declarations.

Company Profile

Franchise

Since its formation under the Royal Bank of Scotland (RBS) in 2001, SMBC AC has developed a leading platform with a global reach. At March 31, 2018, the firm had 675 owned, managed and committed aircraft, making it the world's fourth largest aircraft lessor. In addition to the diversification benefits that come with size, Fitch believes that increased scale provides certain strategic benefits to SMBC AC, such as a larger presence in the growing Asia-Pacific market, increased purchasing/negotiating power, a platform through which it can grow managed aircraft with institutional partners and more available channels to re-lease planes when needed.

Top Ten Lessors by Owned and Managed Fleet Count and Order Book



[a]GECAS orderbook is based on June 30, 2017 data, total fleet includes 1,685 fixed wing and 310 rotary wing aircraft as of April 20, 2018. [b]Total fleet as of December 31, 2016. [c]Total fleet as December 31, 2017 [d]Total fleet as of March 31, 2017.
Source: Company reports and presentations, Fitch.

In 2012, a deal was reached with SMBC, SMFL and Sumitomo to acquire the company for USD7.3 billion. In March 2013, SMBC AC was merged with other shareholder leasing divisions. The SMBC AC marketing team, in conjunction with specialist teams from SMFG and Sumitomo Corporation, now offer a broad suite of financing options to their customer base. Fitch views this structure as an enhancement of SMBC AC's strategic importance to SMFG.

SMBC AC has a shareholder structure that allows it to channel the debt financing capabilities of SMBC and provide access to the Japanese investor market and Japanese operating lease with call option (JOLCO) financing product though SMFL. For example, SMBC provided $5.6bn of debt financing to airline customers in the last two fiscal years. Additionally, during the year ended March 31, 2018, SMBC AC entered into contracts for 43 sale leaseback transactions, of which 34 included a pre-delivery payment (PDP) solution to the airline customer and these PDPs were sourced from both SMBC and SMBC AC.

Below is a timeline of notable events for the company.

SMBC Aviation Capital Timeline

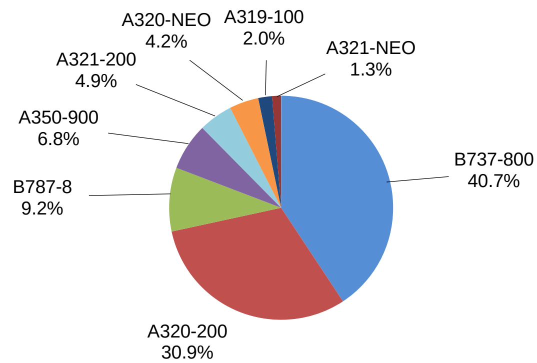
2001	RBS Group creates Lombard Aviation Capital. Offices opened in Dublin, New York and Hong Kong.
2003	Re-branded as RBS Aviation Capital. Company commits to purchase its 100th aircraft.
2005	Company places first direct order with Airbus and Boeing for 50 aircraft for delivery from 2006–2009.
2006	Company takes delivery of 200th aircraft. New offices opened in Toulouse and Seattle.
2007	Closes first capital markets transaction in a 36-aircraft securitization. Tokyo office opened.
2008	Order placed with Airbus and Boeing for 95 additional aircraft for delivery from 2010–2015.
2010	Company places 43 aircraft, secures nine sale leasebacks and sells 16 aircraft.
2012	Business acquired by consortium of SMBC, SMFL and SC. Business rebranded as SMBC Aviation Capital.
2013	Business merged with other Sumitomo leasing divisions SAAM/SMAC.
2014	Order placed with Airbus for 110 A320neo and five A320ceo for delivery between 2017 and 2022. Order placed with Boeing for 80 B737 Max 8 aircraft for delivery between 2018 and 2022.
2015	USD600 million revolving credit facility established.
2016	Issuance of USD500 million unsecured inaugural bond.
2017	Company to receive up to USD1 billion in capital from its shareholders by March 31, 2019 to support fleet growth.

Source: SMBC AC.

Business Model

SMBC AC's leasing model centers on the ownership of young, in-demand and fuel-efficient narrowbody Boeing and Airbus aircraft, which are leased to airlines globally. At March 31, 2018, top models were B737-800 (40.7% of net book value), Airbus A320-200 (30.9%), B787-8 (9.2%), A350-900 (6.8%) and A321-200 (4.9%). At March 31, 2018, the weighted average age of the fleet was 4.5 years, which is low when compared with that of the rated aircraft lessor peer group.

SMBC AC Portfolio by Aircraft Type
(% of NBV at March 31, 2018)



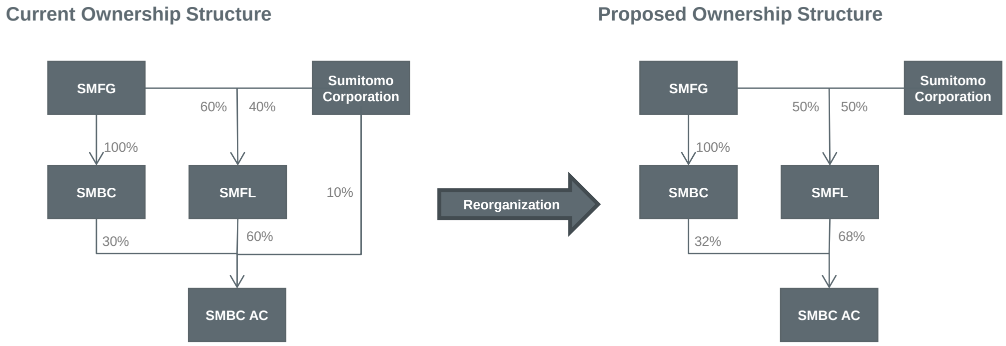
Source: Company reports.

Although it is focused on popular narrowbody models, the company has acquired certain widebody models it views as attractive through sale leaseback transactions, including Airbus A350 and Boeing 787-9 aircraft. The fuel efficiency characteristics of these aircraft types are aligned with SMBC AC's criteria in regard to the liquidity of its assets.

SMBC AC also engages in aircraft trading. Its trading platform allows it to maintain the young age of its fleet, validate the book values of its aircraft and generate incremental profit gains in most years. Fitch believes SMBC AC's willingness to sell aircraft throughout the cycle shows discipline and adherence to maintaining a target fleet age and quality, and the company has sold aircraft assets at gains since the inception of the current ownership.

Organizational Structure

Currently, SMBC AC is directly owned 30% by SMBC, 60% by SMFL and 10% by Sumitomo. In November 2017, SMFG and Sumitomo agreed that the primary leasing vehicle between both companies, SMFL, will become a 50%–50% joint venture as opposed to the 60%–40% ownership structure currently. The change will result in the deconsolidation of SMFL, and SMFG accounting for the SMFL investment as an equity method affiliate under Japanese GAAP. Under the proposed structure, SMBC AC will be directly owned 32% by SMBC and 68% by SMFL. SMFL will remain the primary entity through which SMFG's transportation financing and leasing activities are conducted, and SMFG's beneficial ownership of SMBC AC will remain unchanged at 66%.



	Total Beneficial Shareholding
SMFG	66%
Sumitomo Corporation	34%
Total	**100%**

	Total Beneficial Shareholding
SMFG	66%
Sumitomo Corporation	34%
Total	**100%**

Source: Company filings, Fitch.
SMFG - Sumitomo Mitsui Financial Group, Inc. SMBC - Sumitomo Mitsui Banking Corporation. SMFL - Sumitomo Mitsui Finance and Leasing Co. Ltd. SMBC AC – SMBC Aviation Capital Limited.

Sumitomo Mitsui Financial Group, Inc. (Long-Term IDR of 'A'/Stable)

SMFG was created in 2002 as a holding company for SMBC and is one of the largest financial services institutions in the world, with assets of approximately JPY199,049 trillion at March 31, 2018. SMFG is listed on the Tokyo, New York and Nagoya stock exchanges. The companies of SMFG offer a diverse range of financial services, centering on banking operations, and include credit card services, leasing, information services and securities.

Sumitomo Mitsui Banking Corporation (Long-Term IDR of 'A'/Stable)

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. SMBC has more than 400 years' history and today is one of the largest banks in Japan. In March 2003, SMBC merged with the Wakashio Bank, Ltd. SMBC's competitive advantages include a strong customer base and an extensive lineup of financial products and services that leverage the expertise of strategic group companies in specialized areas.

Sumitomo Mitsui Finance and Leasing Co. Ltd.

SMFL was created in 2007 through the merger of two leasing companies owned by SMFG and SC to provide equipment finance and operating lease products. SMFL is the primary company through which SMFG and Sumitomo hold their shareholding in SMBC AC.

Sumitomo Corporation

Sumitomo is one of the largest trading companies in the world, with total assets of JPY7.8 trillion at March 31, 2018. The company can trace its roots back to the 17th century and today operates in a variety of business fields, with investments in 800 companies globally. Sumitomo has engaged in the aircraft leasing business since the 1990s.

Management and Strategy

Management Quality

SMBC AC has an experienced management team, which has worked together for over 15 years and has successfully withstood the cyclical industry downturns during this period. Peter Barrett, SMBC AC's current CEO, has held this position since 2004 and joined SMBC AC's predecessor organization in 2001 as its chief operating officer. He has over 28 years of industry experience. Barry Flannery, the company's chief financial officer, has over 21 years of industry experience and co-founded the company that became SMBC AC. His former responsibilities included airline marketing in Asia, risk management and aircraft trading.

Strategic Objectives

In September 2016, SMFG publicly stated that aircraft leasing and financing (that is, SMBC AC) are high-profit assets that meet the needs of their investors, and Fitch believes that SMBC AC remains an important part of SMFG's product origination and distribution business strategy.

SMBC AC's key strategic objectives are maintaining a liquid and diversified fleet, generating a return on assets (ROA) exceeding 2%, maintaining a leverage ratio (debt to equity) of less than 3.0x, and supporting SMFG's objective of expanding its international airline client base. Fitch believes that the aforementioned strategic objectives are well articulated, reasonably achievable and in line with other bank-owned lessors.

Execution

SMBC AC has had a proven track record of profitability under SMFG's ownership for approximately six years. Furthermore, the company has built a well-established aircraft leasing franchise over the past 17 years, with profitability in every year of operation, excluding the effect of one-off breakage costs in relation to acquisition refinancing in the year ended March 31, 2013.

SMBC AC has exhibited incremental growth over the years, a high utilization rate above 99% and a limited number of repossessions. A high proportion of SMBC AC's fleet has been traded annually since 2006. Over the past three years, SMBC AC has acquired 78 aircraft valued at USD4.5 billion and, SMBC AC has also disposed of 105 aircraft with a value of USD3 billion and an average age of 8.6 years. This evidences execution against the company's objectives with respect to fleet composition and age.

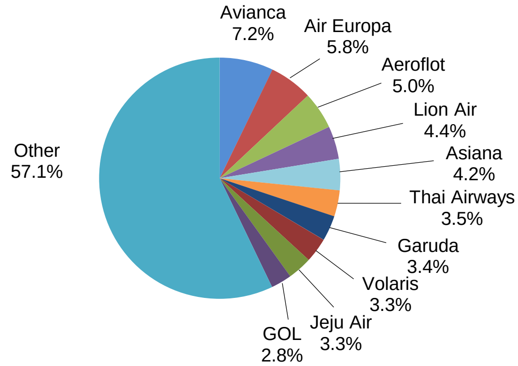
At March 31, 2018 pro forma for the capital commitment from SMBC and SMFL, leverage is expected to be reduced below the 3.0x target to 2.3x (see the Capitalization and Leverage section for additional information).

Risk Appetite

Underwriting Standards

Fitch regards SMBC AC's underwriting standards as sound, as evidenced by the quality of its lessee base and its low repossession history. SMBC AC primarily focuses on three key aspects when underwriting a lease: asset analysis; lessee counterparty analysis; and transaction analysis and structuring (that is, risk-adjusted return, lease conditions). All leases are evaluated by various company groups, including credit and risk management, technical and legal teams. SMBC AC's lessee base is well diversified by both airline and by country, which Fitch views favorably. SMBC AC's top lessee by net book value as of March 31, 2018 was Avianca. Other top lessees were Air Europa, Public Joint Stock Company Aeroflot — Russian Airlines (Aeroflot) and Lion Air.

Top Lessees by Net Book Value
(As of March 31, 2018)



Source: Company reports.

Risk Controls

SMBC AC's board of directors, which has 11 directors, has overall responsibility for the establishment and oversight of the company's risk management framework. In April 2018, four of the company's directors were replaced in accordance with Japanese director rotation procedures.

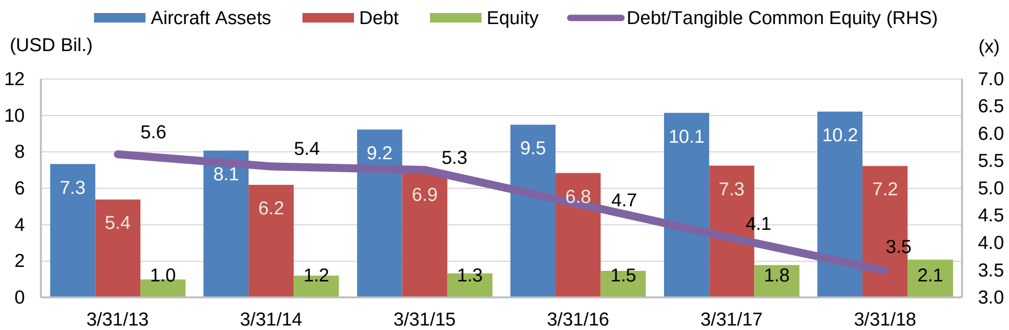
The board of directors has a number of committees in place. These include the asset value review committee, the maintenance review board, the portfolio review meeting, and the assets and liabilities committee, all of which are attended by SMBC AC and shareholder representatives. SMBC AC also manages in-house models for the purpose of measuring the liquidity of every aircraft in the market using a combination of both public and proprietary data. The company seeks to manage its credit risk through various processes. An approval of credit exposure must be granted prior to the advance or extension of credit. A credit risk assessment of the customer and related credit facilities is undertaken prior to approval of credit exposure. All credit exposures are monitored and managed, and the company endeavors to identify customers with emerging credit problems in advance. Fitch views these risk controls as appropriate.

Growth

At March 31, 2018, the company owned 226 aircraft, on lease to airline customers in 43 countries. The net carrying book value of these assets was USD9.1 billion at March 31, 2018. The company also managed 199 aircraft, including 22 aircraft owned by affiliates. At the same date, SMBC AC had committed deliveries of 250 aircraft including 126 A320neo and 113 B737-MAX. At March 31, 2018, the firm had placed all of its aircraft deliveries through March 31, 2019.

The company's growth was constrained at the tail end of its ownership under RBS due to uncertainty over the parent company's plans; however, the company has resumed expansion in the past several years and anticipates continued compounded annual growth of aircraft assets net book value through 2021, driven by order book deliveries, modestly offset by discretionary disposals. Growth is viewed as achievable as a result of SMBC AC's strong platform, experienced management team and track record of performance, although managing the currently competitive environment and the company's large order book will remain important considerations for the rating.

Growth



Source: SMBC Aviation Capital Limited, Fitch.

Market Risk

The company's most significant market risk exposure is to fluctuations in the value of its fleet, which SMBC AC attempts to manage and mitigate via its active monitoring and trading of its portfolio. Other market risks relate to currency risk, interest rate risk, liquidity risk and credit risk. Currency risk is minimal, since for the year ended March 31, 2018, 100% of SMBC AC's lease revenues were denominated in U.S. dollars. SMBC AC minimizes currency risk by ensuring that its leases and associated financing are in the same currency, or entering into currency swaps or forwards over the life of the lease.

The company's interest rate risk is due to the differentials between its lease terms and its borrowings. The company's policy is to seek to minimize interest rate risk when entering into leasing transactions through the use of match funding, including the use of derivative financial instruments such as floating-to-fixed interest rate swaps. SMBC AC's hedging capabilities are further augmented by its relationship with SMFG and SMBC.

Financial Profile

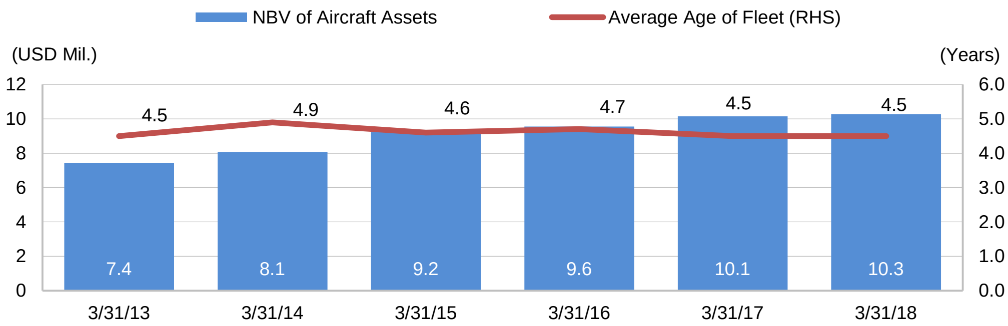
Asset Quality

SMBC AC's fleet mainly consists of Boeing B737 NG and Airbus A320-CEO aircraft families, which represented 40.7% and 37.8% of net book value, respectively, as of March 31, 2018. Fitch considers these to be among the most liquid and popular aircraft in the market. The company also has exposure to the Boeing 787 family (9.2% of net book value) and A350-900 (6.8%).

The weighted average age of the fleet was approximately 4.5 years. The company has been able to sustain an attractive fleet profile during periods of shock to the aviation sector (for example, recession, terrorism, disease) and ownership changes. Based on the evidence of recent orders that have been made, Fitch believes asset quality will remain strong as the company has been able to dispose of midlife aircraft to an array of buyers including other aircraft lessors, airlines and large financial institutions. SMBC AC's impairments have generally represented less than 0.5% of total aircraft asset annually since inception, which is at the low end compared to the peer group.

Moreover, it has committed deliveries of 250 aircraft including 126 A320neo and 113 B737-MAX, which should allow the company to migrate more heavily toward a fleet comprising next generation aircraft over the next five years.

NBV of Aircraft Assets and Average Fleet Age

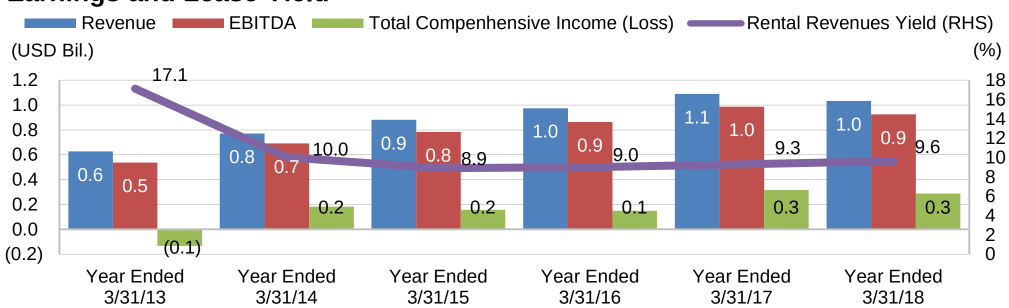


Source: SMBC Aviation Capital Limited and Fitch.

Earnings and Profitability

Despite sector cyclicality, SMBC AC's core profitability has been and is expected to remain fairly steady. Lease yields have generally been in the 9%–10% range and are expected to remain in that range due to high cash flow generation from aircraft held under operating leases along with an attractively priced order book. At March 31, 2018, the weighted average remaining lease term for the portfolio was 6.5 years, up slightly from 6.4 years at March 31, 2017.

Earnings and Lease Yield



Note: Reported total comprehensive loss was USD (134) million during the year ended March 31, 2013. When adjusting for one-time break losses, total comprehensive income was USD 187 million for the year ended March 31, 2013.
Source: SMBC Aviation Capital Limited and Fitch.

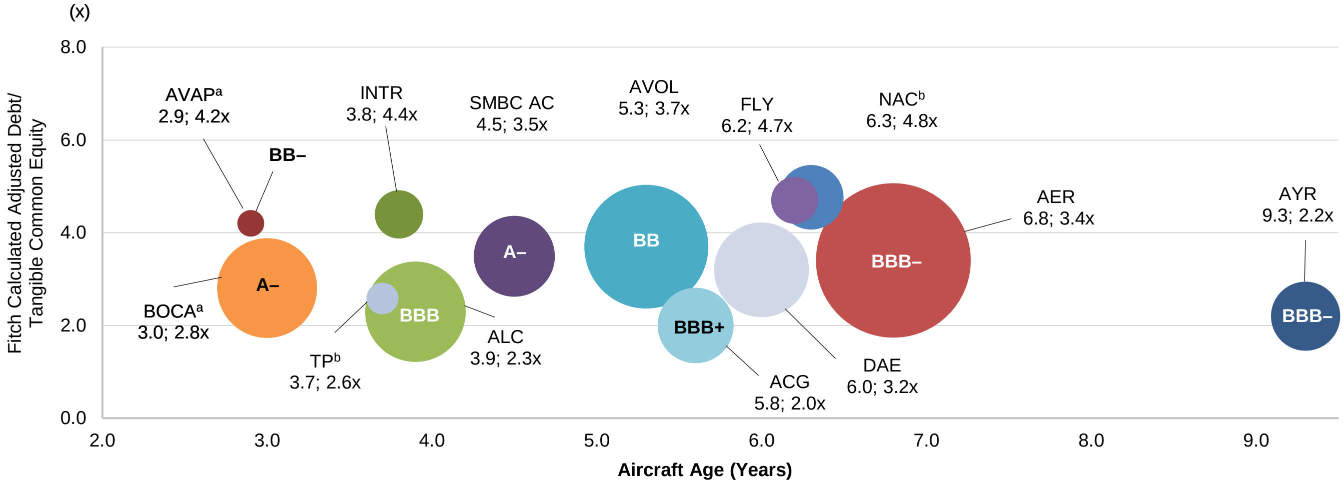
Fitch regards the company's depreciation policy as fairly conservative. Aircraft are depreciated to the expected maintenance condition of the aircraft at the end of each useful economic life (UEL), which is measured in five-year increments, representative of the average period SMBC AC expects to hold each of its aircraft.

Capitalization and Leverage

Leverage (debt to tangible equity) of 3.5x at March 31, 2018 remains high compared to the peer average but has trended down in recent years via capital retention, from 4.1x at March 31, 2017 and 4.7x at March 31, 2016.

Pro forma for the USD1 billion capital commitment, total debt to tangible equity was 2.3x. Fitch believes the capital commitment will support SMBC AC's growth aspirations and further strengthens the view that the company is a strategically important subsidiary of SMFG.

Aircraft Lessors' Leverage and Fleet Age
(At March 31, 2018)



[a] Represents Dec. 31, 2017. [b] Represents June 30, 2017. Note: Bubble sizes represent fleet book values at Mar. 31, 2018. Bubbles without ratings are not publicly rated by Fitch. AVAP's fleet age excludes financial leases. AER – AerCap Holdings N.V. ALC – Air Lease Corporation. AYR – Aircastle Limited. AVAP – Avation Plc. ACG – Aviation Capital Group LLC. BOCA – BOC Aviation Limited. DAE – Dubai Aerospace Enterprise Limited. FLY – FLY Leasing Limited. INTR – Intrepid Aviation Group Holdings, LLC. NAC – Nordic Aviation Capital DAC. SMBC AC – SMBC Aviation Capital Limited. TP – Transportation Partners Pte. Ltd.
Source: Company reports and Fitch.

Funding, Liquidity and Coverage

Funding

SMBC AC's funding is drawn principally from unsecured debt and equity. Third-party funding has expanded over the past several years, which Fitch views favorably, and includes secured debt with export credit agencies, unsecured bank loans and corporate bonds. Third-party funding represented 49.2% of total debt at March 31, 2018. That said, high levels of parent-provided funding further reinforce the alignment of SMBC AC's ratings with the parent and the likelihood of support.

At March 31, 2018, the company had USD1.3 billion of borrowing capacity under its third party revolving credit and term facilities. Subsequent to March 31, 2018, the company drew USD300 million of this capacity and therefore has USD600 million available up to August 2020, and USD400 million available up to April 2023. Fitch expects the company will extend these facilities over time. In addition, the majority of the fleet is unencumbered, increasing flexibility in a stress scenario. At March 31, 2018, secured debt represented 2.5% of total debt and 1.7% of total assets, which is among the lowest of the aircraft lessor peer group.

In July 2016, SMBC Aviation Capital Finance DAC issued USD500 million of 2.65% five-year senior unsecured notes, due 2021, in an inaugural offering. Proceeds from the offering were used for general corporate purposes, which included purchasing aircraft and the repayment of existing indebtedness. In July 2017, SMBC Aviation Capital Finance DAC issued USD500 million of 3.0% five-year senior unsecured notes, due 2022, and in July 2018, SMBC Aviation Capital Finance DAC issued USD500 million of 4.125% five-year senior unsecured notes, due 2023. Fitch believes that additional unsecured bond offerings are likely in the future as SMBC AC looks to diversify its funding, which Fitch would view favorably in the context of SMBC AC's stand-alone credit profile.

Fitch views SMBC AC's stand-alone funding profile as a rating constraint as it exhibits concentration within parental sources.

Liquidity

The company had USD3.4 billion of available liquidity at March 31, 2018, which, along with USD914.1 million of annual operating cash flow, covered debt maturities and aircraft commitments over the next 12 months by 1.3x, before taking into account proceeds from aircraft sales.

Coverage

EBITDA coverage of interest expense was 3.3x in the year ended March 31, 2018, unchanged from the prior year, and adequate relative to assigned ratings.

Factors Impacting Institutional Support

Strategically Important Subsidiary

Fitch considers SMBC AC to be a strategically important subsidiary of SMFG as defined under the agency's "Non-Bank Financial Institutions Rating Criteria," dated June 2018. This consideration results in a rating one to two notches lower than the parent company's Long-Term IDR. In SMBC AC's case, the IDR is notched down once from SMFG's Long-Term IDR, reflecting that SMBC AC has a proven track record of profitability under SMFG's ownership, exhibits an integrated strategy, consistent branding and parent company representation on its board of directors.

Ability of Parent to Support Subsidiary

SMBC AC presently represents less than 1% of SMFG's total assets, and SMFG is highly rated (Long-Term IDR 'A'), so its ability to support is not a constraint.

Propensity of Parent to Support Subsidiary

Since SMBC AC's funding is drawn principally from unsecured debt and equity, each primarily provided (or guaranteed) by its shareholders, Fitch believes this increases the likelihood of parent support.

Although not expected by Fitch, SMBC AC's ratings could be adversely affected should SMFG seek to dispose of, or meaningfully reduce its investment in SMBC AC, resulting in significant influence by minority shareholders, or should there be any other developments within SMFG which are perceived by Fitch to alter SMFG's willingness or ability to provide support to SMBC AC. Negative rating action could also be taken if SMBC AC's operating performance deteriorates, thereby not delivering the return on investment envisaged by SMFG, which could affect Fitch's assessment of the propensity of SMFG to provide support to SMBC AC, in case of need.

Balance Sheets — SMBC Aviation Capital Limited

(USD 000)	3/31/15	3/31/16	3/31/17	3/31/18
Assets:				
Non-Current Assets				
Property, Plant and Equipment	9,232,836	9,550,921	10,141,783	10,074,420
Goodwill and Intangible Assets	24,768	22,017	12,558	4,309
Loan Receivables	78,524	0	0	0
Derivative Financial Instruments	2,947	420	16,339	27,023
Lease Incentive Assets	55,802	69,695	95,376	58,679
Current Assets				
Finance Lease Receivables	0	0	0	0
Loan Receivables	1,564	0	0	0
Trade and Other Receivables	39,074	51,524	67,891	64,113
Cash And Cash Equivalents	255,859	204,737	278,393	254,212
Derivative Financial Instruments	2,199	235	6	244
Lease Incentive Assets	20,594	22,449	24,165	14,112
Assets Held For Sale	0	0	0	204,508
Total Assets	**9,714,167**	**9,921,998**	**10,636,511**	**10,701,620**
Liabilities and Equity:				
Current Liabilities				
Trade and Other Payables	307,071	485,983	488,812	319,673
Obligations Under Finance Leases	48,389	54,723	59,556	48,880
Borrowings	994,529	612,745	571,861	394,509
Derivative Financial Instruments	586	547	0	0
Liabilities Associated With Assets Held For Sale	0	0	0	60.979
Non-Current Liabilities				
Trade and Other Payables	515,915	482,818	505,573	490,454
Obligations Under Finance Leases	340,999	286,584	227,028	132,336
Borrowings	5,930,002	6,223,833	6,681,890	6,838,364
Deferred Tax Liabilities	236,997	259,902	294,198	316,280
Derivative Financial Instruments	17,183	43,799	21,320	25,131
Total Liabilities	**8,391,671**	**8,450,934**	**8,850,238**	**8,626,606**
Share Capital	187,513	187,513	187,513	187,513
Other Components of Equity	197,718	171,244	215,725	228,789
Profit and Loss Account	937,265	1,112,307	1,383,035	1,658,712
Total Equity	**1,322,496**	**1,471,064**	**1,786,273**	**2,075,014**
Total Liabilities and Equity	**9,714,167**	**9,921,998**	**10,636,511**	**10,701,620**

Source: SMBC Aviation Capital Limited.

Income Statements — SMBC Aviation Capital Limited

	Year Ended			
(USD 000)	3/31/15	3/31/16	3/31/17	3/31/18
Income				
Revenue	839,403	916,819	1,002,159	1,020,258
Other Operating Income	40,450	57,661	70,312	86,933
Total Income	879,853	974,480	1,089,092	1,032,947
Expenses				
Depreciation	(285,801)	(320,967)	(347,736)	(296,099)
Impairment	(52,237)	(61,279)	(20,598)	(29,044)
Operating Expenses	(103,653)	(118,027)	(107,774)	(112,162)
Net Trading Income/(Expense)	2,356	(811)	398	22
Profit from Operating Activities	**440,518**	**473,396**	**613,382**	**595,664**
Finance Costs				
Interest Income	56,328	37,219	33,977	36,112
Interest Expense	(296,487)	(292,050)	(315,689)	(307,134)
Break Losses	(6,115)	(14,700)	(19,185)	(5,295)
Net Finance Costs	(246,274)	(269,531)	(300,897)	(276,317)
Profit/(Loss) before Taxation	194,244	203,865	312,485	319,347
Tax Expense	(29,763)	(28,823)	(41,757)	(43,670)
Profit/(Loss) from Continuing Operations	**164,481**	**175,042**	**270,728**	**275,677**
Other Comprehensive Income				
Effective portion of Changes in Fair Value of Cash Flow Hedges	(7,813)	(30,258)	50,880	14,935
Movement in Fair Value of Available for Sale Assets	(272)	0	0	0
Tax on Other Comprehensive Income	1,047	3,784	(6,399)	(1,871)
Other Comprehensive Income, Net of Tax	**(7,038)**	**(26,474)**	**44,481**	**13,064**
Total Comprehensive Income/(Loss)	**157,443**	**148,568**	**315,209**	**288,741**

Source: SMBC Aviation Capital Limited.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.