Rating Report

PR Aircraft Finance S.A. Compartment 1

Aviation Finance/Structured Finance

SCOPE Scope Ratings

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RATINGS

Class	Rating	Notional (USD m)	Average LTV	Coupon	Final maturity
Profit-contingent subordinated securities	A-	up to 500	68%	Quarterly, fixed interest	Dec 2030

Scope's quantitative analysis is based on the portfolio dated 1 October 2017, provided by the adviser. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Transaction details

Purpose	Funding of aircraft-backed debt portfolio
Issuer	Compartment 1 of PR Aircraft Finance S.A.
Instrument	Profit-contingent subordinated securities
ISIN	XS1362551183
Domiciliation	Luxembourg
Advisor	Investec Bank Plc
Asset class	Aviation debt
Closing date	8 March 2016
Restructuring date	29 September 2017
Legal final maturity	31 Dec 2030
Payment frequency	Quarterly
Payment dates	1 Jan., 1 Apr., 1 Jun., 1 Oct.

Transaction profile

The transaction involves the issuance of cash-pass-through notes secured by aircraft loans to airlines, lessors and special-purpose vehicles (SPVs). The issuer is a ring-fenced compartment of a debt fund domiciled in Luxembourg. Loans are denominated in US dollars. The issuer invests in senior or mezzanine tranches of aircraft-financing transactions granted directly to airlines or lessors, as well as in notes issued by SPVs holding one or more aircraft. Investec Bank Plc acts as adviser to the fund.

Analysts

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Rating rationale (summary)

Scope's rating reflects the expected loss to investors posed by the profit-contingent subordinated securities (the notes) issued by Compartment 1 of PR Aircraft Finance S.A. (PR Aircraft) until the instrument's maturity in December 2030. The fund is under ramp-up and is scalable up to USD 500m.

The rating considers the legal and financial structure of the transaction, the credit quality of the underlying assets, the quality and value of the aircraft securing the exposures, the trapping of excess spread, and the liquidity reserves available in the structure.

In Scope's view, the average credit risk of assets in the portfolio corresponds to a BBB- rating. This is due to the quality of the underlying aircraft as well as of the airlines and lessees operating and servicing the aircraft.

The notes outperform the underlying portfolio in terms of credit quality because the structure will capture excess spread and has strong, drawable liquidity reserves. The credit enhancement to be provided by the structure translates into a three-notch rating uplift above the portfolio's credit quality. Credit enhancement reduces the investor's expected loss, which considers the time value of money at the contractually promised rate. Scope also considers the credit enhancement embedded in senior and mezzanine tranches that benefit from the credit support of more-subordinated first-loss tranches.

The portfolio is well diversified with exposures to different aircraft types. Liquid aircraft with a proven secondary market makes up the largest portion. The involvement of experienced asset managers, lessors and banks in several of the underlying transactions reduces expected loss given default. All loans in the fund are secured by one or more aircraft and, in certain instances, direct recourse to a lessor. The ramp-up strategy is also consistently applied, demonstrated by the loans added until October 2017, which diversify the portfolio further and benefit the risk profile.

The fund's credit risk is lowered by its adviser, Investec Bank Plc (Investec), whose experience, track record and ability helps to reduce the severity of repossession scenarios.

The rating considers the portfolio's credit quality as of October 2017 as well as minor quality shifts expected during the ramp-up phase. The portfolio's credit characteristics are currently stronger than the fund's minimum investment criteria, and Scope believes Investec's investment strategy will be generally maintained until fund maturity. Scope has modelled a static portfolio that reflects the portfolio credit quality and the higher risk from the revolving nature of the transaction.

RATING DRIVERS AND MITIGANTS

Positive rating drivers	Negative rating drivers and mitigants
Alignment of incentives. The incentives the fund's adviser, Investec, are aligned with those of investors in the instrument. Investec retains sufficient interest in the transaction.	**Single-industry exposure.** The fund is exposed solely to the airline industry, which is inherently cyclical and highly sensitive to macroeconomic shocks.
Excess spread. The portfolio generates excess spread above the coupon rate promised on the notes, which can buffer losses from asset defaults and, when trapped, will build hard credit enhancement.	**Airline direct lending.** Certain facilities in the fund do not feature the active involvement of a lessor or bankruptcy-remote vehicle. An experienced lessor can generally support the efficient remarketing of the aircraft upon a lessee's default; a bankruptcy-remote vehicle could reduce repossession times in the event of default. This risk is partly mitigated by Investec's solid ability and good track record in aviation finance.
Asset quality. The loans are secured by high-quality collateral: Most underlying aircraft are recent models with strong demand and short expected remarketing times. In addition, younger, higher-quality aircraft are relevant for the fleets of certain obligors (core fleet aircraft), reducing the contracts' probability of default (i.e. the affirmation of those contracts, rather than their rejection, benefits lenders when restructuring in some jurisdictions).	**Asset replenishment.** The revolving nature of the fund exposes investors to a long risk horizon, increasing the risk of the fund's credit characteristics changing adversely. This is partly mitigated by Investec's strong experience and incentives in asset sourcing.
	Balloon assets. Some assets in the portfolio rely on residual value to repay the final balloon payment, posing a higher risk of losses.

Positive rating-change drivers	Negative rating-change drivers
Asset additions with better quality than the current average in the pool could affect the rating positively.	A cycle of unexpected and abnormal downturn volatility for the airline industry could affect the rating negatively. This could be attributed to a global economic depression featuring unusually high oil prices, a change in state trade rules and regulations, or higher interest rates. A fall beyond Scope's expectations in the market value of most aircraft in the portfolio could also result in a downgrade.

(‡) Relevant disclosure

Information in this rating report concerning the rated instrument and underlying portfolio is limited by confidentiality to protect the adviser's business positioning, strategy, and intellectual property. Scope Ratings had access to information which is only available to investors in the rated instrument. The rating analysis captures and reflects this additional information. In this rating report, we will flag when our analysis relied on relevant elements of the transaction which are not publicly disclosed, with a call to this relevant disclosure, represented with the double-dagger symbol (‡).

Related reports

General Structured Finance Rating Methodology, dated August 2017.

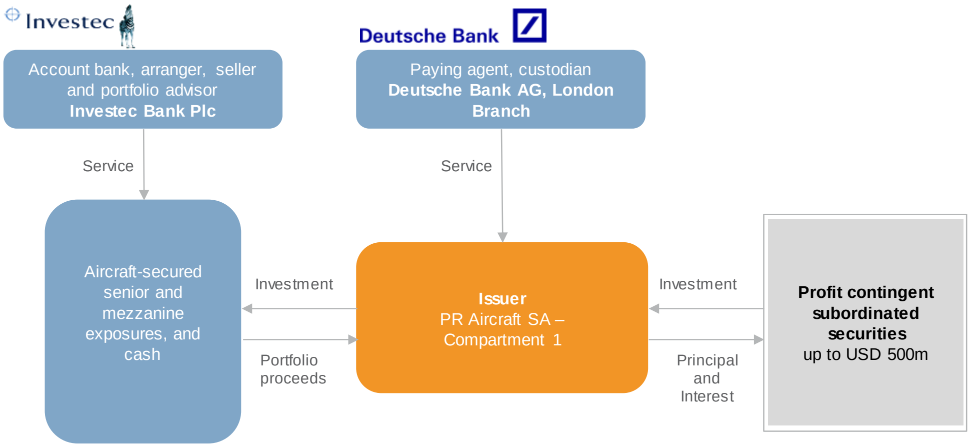
Auto ABS Rating Methodology, dated August 2017.

Methodology for Counterparty Risk in Structured Finance, dated August 2017.

Contents

1 TRANSACTION SUMMARY

Figure 1. Simplified transaction diagram



Source: Transaction documents and Scope.

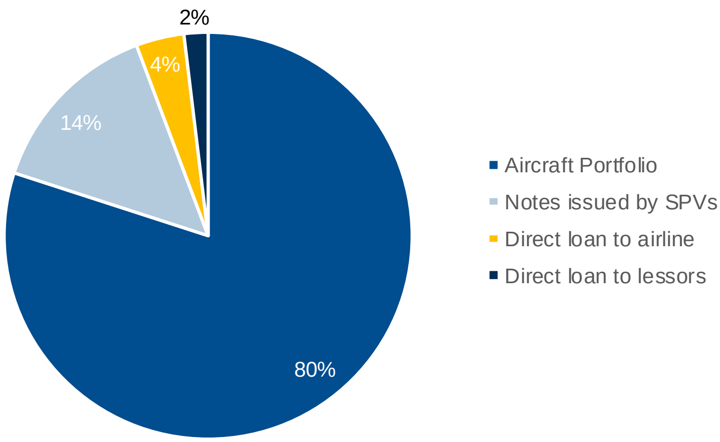
PR Aircraft Finance S.A. – Compartment 1 (PR Aircraft) is an aircraft debt fund structured as a ring-fenced compartment of a public limited-liability company (société anonyme) based in Luxembourg. The fund invests on behalf of its Compartment 1 into senior and mezzanine credit exposures secured by aircraft. The fund is scalable up to USD 500m. The exposures are either notes issued by special-purpose vehicles, or direct loans to airlines or lessors.

2 ASSET ANALYSIS

2.1 Type of assets in the portfolio

The portfolio invests in a diverse range of credit exposures, all secured ultimately by aircraft. Figure 2 shows the distribution of asset types in the portfolio.

Figure 2. PR Aircraft credit exposures



2.1.1 Notes issued by single-aircraft SPVs

14% of the portfolio consists of debt to SPVs which own one aircraft leased directly to airlines.

Repossession times and costs are lowered by the use of ring-fenced bankruptcy-remote SPVs. This is because the aircraft's legal ownership resides with these entities, which simplifies the legal process in case of default or, as legal repossession is not necessary. In addition this eliminates the risk of other business activities impacting the revenues and costs as the SPV is involved only in leasing the aircraft to the operator.

SPV debt also is less prone to legal disputes upon a default. This is because a third party ensures adherence to the waterfall when recovered amounts are distributed. An SPV's shares are also normally part of the security pledged to investors, and are held by a trustee who ensures that the rights of senior and subordinated tranches are enforced as per the co-terms and conditions. All the above mentioned elements lower the credit risk of the fund.

2.1.2 Credit exposure to aircraft portfolios through SPVs

Aircraft portfolios held by SPVs comprise 80% of the fund. This increases diversification and cross-collateralisation within each SPV, thereby lowering credit risk. Credit exposures to the SPVs are ring-fenced, and SPV liabilities are divided into senior and subordinated tranches. The fund invests in senior tranches that benefit from overcollateralisation funded by the subordinated tranches. Several portfolios have fund managers with aviation industry experience, which is also credit-positive.

In addition, the SPVs have remarketing parties in place, which better ensures the rapid and cost-efficient repossession and remarketing of aircraft when the need arises.

2.1.3 Direct loans to airlines

Direct loans, despite being secured by aircraft, increase the risk of repossession. This is because aircraft are accounted for on the airline's balance sheet, which makes security enforcement a more lengthy process than when an SPV legally owns the aircraft. 4% of the portfolio consists of this exposure.

The assumptions used by Scope when estimating recovery rates incorporate the operator's jurisdiction, as some are more debtor-friendly than others. This has a significant impact on repossession time and costs, necessitating an upfront analysis in this area, determining the ease or repossession under the legal framework of the jurisdiction.

Upon an airline's default, direct loans generally do not offer recourse to a third party (i.e. a lessor) nor to a predetermined remarketing party. It therefore falls on lenders to appoint a third party which will repossess and remarket the aircraft, which can lengthen that process. For example, a newly appointed remarketing party will not have monitored the aircraft in the period before the default occurred, resulting in longer grounding times to give the newly appointed remarketing party time to go through documentation. This can increase loss severity. Also, in this instance, the repossession process would typically start after default has already occurred, increasing repossession and remarketing times and lowering the recoverable amount.

Some direct loans are secured by several aircraft. This lowers the risk of cross-default and enhances cross-collateralisation because operator default on one aircraft enables the lessor to repossess all the aircraft securing the loan. Sister aircraft are also easier to remarket as their features and documentation tend to be similar. However, to take advantage of sister aircraft`s similarities the process needs to happen simultaneously for both aircraft for the remarketing party to benefit from this.

In Scope's view, full recourse to an airline that also happens to be the loan's obligor does not significantly decrease the credit exposure. In this instance, no extra security is available if the airline defaults, because lease rentals as well as the full recourse or guarantee would be lost. A full recourse or guarantee is credit-positive when, for example, it is provided by an airline group to a subsidiary airline, and the default of that subsidiary does not automatically cause the default of the group.

2.1.4 Direct loans to lessors

The portfolio contains 2% of exposures to direct loans to lessors. In our opinion, such exposures lessen credit risk when the lessor is tasked with remarketing, repossession and debt service. However, this does not provide a second layer of security (unlike full recourse to lessors), because aircraft must be repossessed if a lessor defaults. The lessor legally owns the aircraft, which then forms part of any bankruptcy proceedings. For this transaction, Scope has analysed the default probability of lessors related to the credit exposures, instead of the airlines', with a focus on which party has the legal interest of the aircraft.

2.1.4.1 Recourse to lessors

Full recourse adds a second layer of security that helps to decrease default probability while increasing the recovery rate. The lessor is tasked with repossession, and is obliged to service debt in a timely manner, even when the airline is no longer paying lease rentals, for instance, due to default. This also lowers credit risk as the airline can still use the aircraft and pay lease rentals if the lessor defaults, meaning the lease can be enforced with the airline instead.

2.1.5 Aircraft leases

Fixed-interest lease contracts prevent a sudden increase in lease rentals, lessening the risk of an airline's default. Lower interest rates also increase the trapping of excess spread.

The investment criteria's maximum floating-rate exposure is a credit-positive, as it helps predict future credit risk arising from floating rates in the ongoing ramp up period.

2.1.6 Aircraft securing the credits

Collateral ultimately consists of passenger aircraft leased to airlines, and the types of airlines are well diversified.

The portfolio also benefits from the high number of aircraft manufacturers, which enhances diversification and reduces the exposure to manufacturer events. Scope also views positively that models by Airbus and Boeing, the two largest aircraft makers, comprise the largest portion of the portfolio, and that the most established manufacturers are present in the portfolio. Scope's analysis also considered the degree of support by the different manufacturers in terms of remarketing (i.e. on the secondary market).

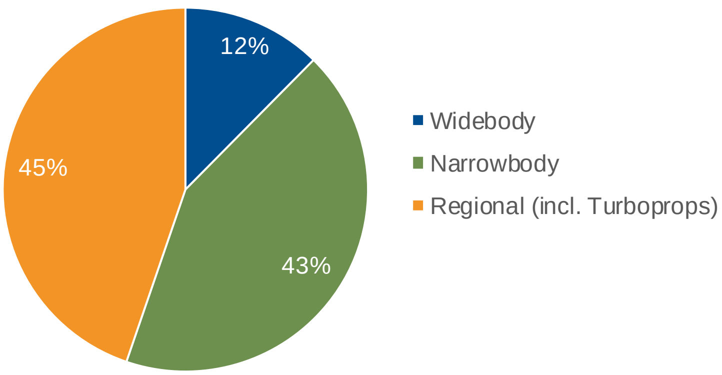
The liquidity of the aircraft securing the portfolio reduces the expected loss to the investor, because liquid models can be remarketed more quickly in the case of default. The portfolio has large shares of liquid narrow-body planes and regional aircraft, with an adequate portion of wide-body aircraft and turboprops. Also, there are no freighter aircraft in the portfolio as of October 2017.

Aircraft depreciation also poses market risk, which we address by stressing depreciation rates.

The exposure to wide-body types enhances diversification because the business models concerning aircraft of this type differs to those one relying on narrow-body aircraft.

The weighted average age of aircraft in the portfolio is low at 3.56 years (October 2017). This assists in remarketing if the operator defaults.

Figure 3. Portfolio distribution by aircraft type – as of October 2017



Source: Scope, Investec

2.2 Asset sourcing and origination

Investec's ability to source assets is adequate in Scope's view. Also, that Investec's incentives are aligned with investors' interests helps to ensure that acquisitions are not aggressive with respect to credit risk. Investec's good credit quality also provides an extensive network, which supports asset sourcing (see '**Counterparty Risk**' on page 10). Investec's experience and track record also demonstrate that its staff and resources facilitate the ability to source sound loans.

PR Aircraft invests in senior or mezzanine tranches together with established aviation banks. Third parties have also evaluated the transactions and provided financing on similar terms, resulting in a more-thorough sourcing process which reduces the risk of originator and seller biases.

2.3 Investment criteria

Scope expects the adviser's track record will help stabilise the fund's credit quality, even more so because of the strict investment criteria. Underlying assets and lease contracts are currently commensurate with low BBB-category risk as the portfolio ramps up. The ramp-up strategy is clear, consistent, and well within investment criteria. Investec's acquisition approach has also so far been sound and conservative.

The risk that the fund will be unable to source suitable assets is mitigated by i) its ability to source and select assets; and ii) Investec's track record as mentioned above. Undrawn commitments are not exposed to risky assets because drawdowns are made only when assets become available. In addition, only drawn commitments bear interest.

We consider investment criteria to be sound and that the limit of subordinated debt tranches aligns with an A- rating. Conservative loan-to-value ratios under the criteria constrain the number of subordinated loans in the form of mezzanine exposures. All tranches have one or more subordinated tranches that protect from and reduce expected loss.

The transaction's non-amortising balloon tranches increase expected loss: almost half of the fund is exposed to balloon risk. This risk is included in our calculation of expected loss. Loss given default increases as the aircraft's value declines, but the exposure at default does not amortise at the same rate.

We judge balloon risk to be excessive because this is not limited by investment criteria. This increases credit risk, in our opinion. This risk is partly mitigated, however, by the maximum loan-to-value as per the criteria. Scope will monitor this risk closely during the transaction's life.

2.4 Regional diversification

The fund's regional diversification is strong: aircraft related to the transaction operate in over 17 countries (as of October 2017), and shocks in one region will not impact the whole portfolio. This makes high portfolio default rates less probable. On the other hand, systemic risks still pose a threat.

The fund's largest regional exposure (29.9%) is to the United States, a stable and tested jurisdiction for aircraft finance. This reduces the default severity because repossessions are usually executed quickly in this region. Current regional exposures reflect a sound investment strategy.

3 FINANCIAL STRUCTURE

The financial structure provides credit enhancement, which reduces expected loss for investors and supports the rating. Credit enhancement takes the form of excess spread between i) the yield of assets and contractual costs, and ii) the interest rate promised to investors. Excess spread can restore collateralisation upon a default and is partly trapped in the structure, resulting in overcollateralisation under benign scenarios.

3.1 Capital structure

The capital structure features one tranche of profit-contingent subordinated securities which are pro rata and pari passu. Credit enhancement supports these notes.

Up to USD 500m of notes can be issued; beyond this would require an extraordinary resolution. Proceeds to date were used to acquire portfolio assets; initially fund the liquidity reserve; and cover initial costs (‡). New proceeds are used to acquire further exposures secured by aviation finance. An increase in principal would not affect the rating because the new acquisitions would also increase the fund's net asset value.

3.2 Reinvestment period and maturity extensions

After ramp-up, the transaction has reinvestment period which can be extended (‡). The issuer can only acquire assets with a scheduled maturity that is less than that of the notes (December 2030 if not extended).

The risk of reinvestment in lower-quality assets or during stressed conditions is reduced by structural triggers (‡). The fund generally invests in good-quality loans. The main asset selection criteria include seniority, aircraft type, maximum original LTV, aircraft age, geography and airline (‡).

Prolonged recovery periods will not affect the structure, which would otherwise lead to forced asset sales and severe market value losses (‡).

Excessive commingling risk is prevented by early amortisation in the structure, which is triggered when eligible assets cannot be sourced during the reinvestment period (‡).

3.3 Amortisation

The notes amortise once the reinvestment period has ended. The pass-through amortisation via principal collections from assets is allocated quarterly and pro-rata among the notes.

An early-redemption option is granted to majority investors, which reduces credit risk at the tail of the transaction's life (‡).

3.4 Interest payments

Excess spread can cover credit losses, making it a form of credit enhancement. Notes accrue fixed interest every quarter on the outstanding nominal amount. Our analysis considers this promised fixed rate when calculating expected loss for the investor.

Additionally, the notes may distribute annually profit arising from contingent interest, but only after the advisor has confirmed there are sufficient funds.

The timely payment of interest is supported by three structural mechanisms (see next section). The transaction defers interest when funds are insufficient on a given payment period. The final rating reflects this risk, accounting for the time value of money contractually promised to the investor.

3.5 Liquidity support

We believe liquidity is supported by the servicer's high credit quality and the assets' liquidity. The liquidity reserve alone can cover non-deferrable obligations accrued over a period of time sufficiently long to deal with unexpected disruptions of collections from assets (‡). Three sequentially available mechanisms also support liquidity: two reserves and one liquidity facility (‡). These mechanisms are instrumental in trapping excess spread and protecting the investor.

Counterparty risk associated with the liquidity facility is commensurate with the notes' rating because the facility provider's credit quality must be higher than a minimum threshold quality (‡).

3.6 Priority of payments

The structure will trap excess spread to compensate for undercollateralisation resulting from asset defaults. Excess spread can bring the notes back to par when asset losses result in a write-down (‡).

The priority of payments features two separate but interconnected waterfalls for interest and principal. The priority of payments enable the cash trapping mechanisms of the transaction reserves (‡).

Principal proceeds cannot be used to pay interest to investors or any other subordinated items.

4 QUANTITATIVE RATING ANALYSIS

4.1 Asset-level expected loss

We expect credit losses for the portfolio over its lifetime risk horizon, commensurate with our idealised BBB- loss vector as defined in Scope's General Structured Finance Rating Methodology. The loan-by-loan analysis is based on information from October 2017.

4.1.1 Probability of default

Scope assessed the assets' probability of default by considering the default probability of the risk-presenting entity, considering the relevance of the underlying aircraft in the fleet.

We assessed the credit quality of exposures comprising a significant portfolio share by performing private ratings (over 10% of combined exposures) and credit estimates (over 5%). This approach is in line with Scope's General Structured Finance Rating Methodology.

An asset's probability of default relates to the credit quality of: the underlying airline, the pool of airlines, or the guarantor. Scope also accounts for the underlying aircraft's relevance in the airline's fleet. Scope expects a contract's default probability to be lower than that of the airline if the aircraft is relevant and operates under certain jurisdictions. Such contracts are likely to survive and be honoured, even if the obligor files for protection. For example, an airline will pay lease payments and expenses to avoid the repossession of aircraft that are vital to operations. Conversely, non-critical aircraft will turned in first in the event of financial stress.

4.1.2 Recovery rate

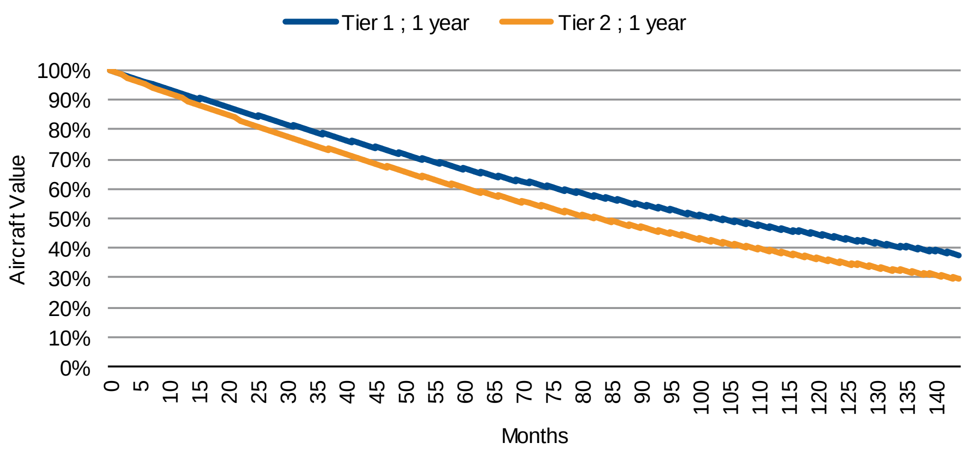
A loan benefits from full recovery on any given period if the underlying aircraft's stressed value can cover the outstanding loan exposure on that period.

Our analysis of the recovery rate takes the stressed proceeds from the remarketing of an aircraft after a repossession and remarketing lag, minus repossession costs, remarketing costs, and senior charges. The result is then compared with the debt balance outstanding at the point of default. Scope accounts for security deposits and other forms of cash securities if these are pledged for the benefit of the investor and always accessible.

We obtained the half-life base value from aircraft appraisal, and then stressed the value by applying yearly depreciation factors based on the aircraft's quality and age. Figure 5 illustrates the yearly depreciation of one-year-old tier 1 (best quality) and tier 2 aircraft.

From a credit perspective, a tier 1 aircraft includes liquid narrow-body or regional aircraft, or next-generation medium wide-body aircraft with a large operator base; such aircraft can be remarketed quickly, avoiding the value losses incurred when not in use. Tier 2 aircraft include wide-body types; tier 3 are niche aircraft that are difficult to remarket due to specific characteristics or a low operator base.

Figure 4. Examples of aircraft depreciation curves



Source: Scope.

We consider the aircraft underlying the portfolio to be of high credit quality (i.e. tier 1 or tier 2 aircraft). A high-quality aircraft eases the remarketing process, increases the likelihood of obtaining the estimated recovery rate, and reduces the risk of losses.

The aircraft's characteristics affects the recovery lag between the time of default and the aircraft being placed with a new operator. We have considered longer remarketing times during hypothetical market downturns and assumed different repossession times based on the jurisdiction of the aircraft's operation.

Scope estimated the aircraft's half-life value under market-value-decline assumptions specific to each aircraft type. Scope's assumptions reflect worse-than-agreed return conditions for aircraft upon an obligor's bankruptcy. Scope assumes that recoveries can reach half-life base values after maintenance reserve payments are included (when available and sufficient). Scope also considered shorter remarketing times for lessors with above-average quality.

Scope's assumptions range from a 20% downside volatility for the most liquid types (i.e. narrow-body or new-technology wide-body aircraft) to 35% for 'last of the line' wide-body aircraft. Downturns were assumed for years 1-5 and 10-15, during which Scope reduces the value of aircraft over the first 24 months. The high quality of the aircraft underlying the portfolio allows Scope to assume a gradual reduction of 50% in downside volatility stresses.

4.1.3 Expected loss

We have calculated the expected loss on each of the credits in the portfolio by: i) analysing the asset's probability of default; ii) estimating the stressed value of aircraft underlying the credit; iii) calculating the loss given default on each period of the life of the contract; and, finally, iv) calculating the total expected loss on each contract by taking the probability-weighted-average loss (i.e. the expected loss).

4.2 Calculation of expected loss for the instrument

The structure of the fund enhances the credit quality of the notes to an A- rating thanks to substantial excess spread yielded from the fund's assets.

Excess spread can be used to provision for losses from defaulted assets, which reduces losses for the investor. Additionally, over the life of the transaction, excess spread turns into hard credit enhancement for the notes when replenishing the liquidity reserve (‡). Excess spread allocated to reinvestments will build up overcollateralisation.

Scope has conducted a Monte Carlo analysis of the portfolio's performance to estimate the loss coverage provided by excess spread in the transaction. For this analysis, we consider the amortisation of the current pool. The Monte Carlo analysis produces the expected loss for investors in the notes and the risk horizon of the investor (i.e. the expected weighted average life of the notes).

We benchmarked the expected loss, at the risk horizon, against Scope's idealised expected loss curves (a part of our methodology) to determine the uplift due to the average portfolio quality as a result of excess spread. Our analysis also shows that the pool can withstand at least one loan default without any material effect on the rating.

5 RATING STABILITY

5.1 Rating sensitivity

Scope tested the sensitivity of the rating against deviations from main modelling assumptions, including the credit quality of obligors and market-value-decline assumptions on aircraft. This analysis has the sole purpose of illustrating the sensitivity of the rating and is not indicative of expected or likely scenarios.

- The rating would decrease by one notch if the average obligor quality (airline, lessee or guarantor) decreased by one notch to B from B+.
- The rating would decrease by one notch if downside volatility increased by 10 percentage points.

6 COUNTERPARTY RISK

Counterparty risk does not limit the rating. Airlines and lessors, acting as obligors, were not individually evaluated as part of the asset analysis. The default probabilities of the airlines are incorporated in the rating through the calculation of expected loss. Scope monitors the quality of the obligors on an ongoing basis.

6.1 Investec Bank Plc

Investec acts as adviser to the fund, sourcer, account bank, arranger, and liquidity facility provider. The exposure of the fund to Investec is material.

Scope believes that the credit risk of Investec is currently adequate and its contribution to total credit risk is reflected in the rating. Investec is currently rated investment grade. Furthermore, a deterioration of Investec's credit quality below a BB would trigger its replacement as account bank and liquidity facility provider.

6.2 Deutsche Bank

Deutsche Bank AG, London Branch acts as the paying agent. Deutsche Bank Trustee Company Limited is the security and note trustee. Scope considers the counterparty risk posed by the exposure to Deutsche Bank to be immaterial. Deutsche Bank AG is rated BBB+ by Scope as of 17 November 2017. As paying agent, Deutsche Bank's investment grade quality and the short duration in this role results in a negligible contribution to the notes' total expected loss.

6.3 Remarketing parties

The experienced and well-established remarketing parties linked to the transaction help to lessen repossession and remarketing times. Most fund exposures have a remarketing party designated at the inception of each transaction. This ensures that the monitoring of aircraft underlying the assets, which is performed by the remarketing parties, is in place from the beginning. Remarketing agents are prepared to quickly intervene upon an operator's default, which reduces grounding times and maximises the value extracted from the aircraft ultimately securing the exposure.

7 LEGAL STRUCTURE

7.1 Legal framework

The securitisation is governed by Luxembourg law and represents the true sale of the assets to a bankruptcy-remote vehicle.

7.2 Restructuring

The rating in this report reflects the transaction's structure following its restructuring in September 2017. The new structure reduces: i) the credit risk posed to investors, by increasing the liquidity reserves, and ii) the fixed interest rate promised to investors, which reduces the time value of money in our analysis and results in a lower present value of losses (i.e. the difference between par value and the present value of all cash flows to the investor, discounted at the fixed, promised rate).

Transaction documents allow restructuring if 75% of the noteholders agree in an extraordinary resolution. The restructuring clause also allows for credit-deteriorating measures (e.g. increase of the promise or decrease of liquidity reserves).

7.3 Use of legal and tax opinions

Scope reviewed the draft legal and tax opinions produced for the issuer. The legal opinions provide comfort on the issuer's legal structure and supports Scope's general legal analytical assumptions.

8 MONITORING

Scope will monitor this transaction based on the performance reports provided by the cash manager as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events. Our monitoring process will focus particularly on the development of the portfolio as new assets are added during the re-investment period.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

9 APPLIED METHODOLOGY AND DATA ADEQUACY

For the analysis of this transaction, Scope has applied its General Structured Finance Rating Methodology, dated August 2017, and the Methodology for Counterparty Risk in Structured Finance, dated August 2017, all available on our website www.scoperatings.com.

Scope has been provided all standard transaction documents for a transaction of this type. Detailed information on all leases and loans have been made available.

APPENDIX I. REGULATORY AND LEGAL DISCLOSURES

Stress testing & cash flow analysis

Stress testing was performed by applying rating-conditional recovery rate assumptions and considering the joint probability of asset default via a Monte Carlo simulation.

Cash flow analysis was performed jointly with the Monte Carlo simulation, implementing structural mechanisms like reserves and liquidity facility.

Methodology

The methodology applicable for the ratings is 'General Structured Finance Rating Methodology', dated August 2017, and the 'Rating Methodology for Counterparty Risk in Structured Finance Transactions', dated August 2017. All files are available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.
A comprehensive clarification of Scope's definition of default as well as definitions of rating notations can be found in Scope's public credit rating methodologies on www.scoperatings.com.

Solicitation, key sources and quality of information

The rated entity and/or its agents participated in the rating process.

The following substantially material sources of information were used to prepare the credit rating: agents of issuer and Scope internal sources.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Scope Ratings AG has not relied on a third-party asset due diligence/asset audit. Scope has performed its own asset review, which is not – and should be not deemed equivalent to – a due diligence or an audit. The impact of Scope's internal review is reflected in the credit rating.

Regulatory Disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

Lead analyst Helene Spro Johansen, Associate Director.

Person responsible for approval of the rating: Carlos Terré, Managing Director.

The ratings/outlooks were first released by Scope on 27.01.2017. The ratings/outlooks were last updated on 20.10.2017.

Potential conflicts

Please see www.scoperatings.com. for a list of potential conflicts of interest related to the issuance of credit ratings.

Scope provided the following ancillary services to the rated entity and/or its agents within two years preceding the current credit rating: Rating Assessment Service.

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