Article Title: Criteria | Corporates | Industrials: Methodology And Assumptions For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates Data: (EDITOR'S NOTE: —On July 11, 2023, we republished this criteria article to make nonmaterial changes, namely updating the contact information and references to related publications. See the "Revisions And Updates" section for details.) OVERVIEW AND SCOPE 1. This article presents S&P; Global Ratings' methodology for rating aircraft-backed debt that benefits from having certain legal protections for creditors, often referred to as equipment trust certificates (ETCs) and enhanced equipment trust certificates (EETCs). These criteria supersede our "Criteria For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates," published Sept. 12, 2002. 2. This methodology applies to airline debt secured by aircraft, aircraft engines, or aircraft parts that qualifies for special protection under Section 1110 of the U.S. Bankruptcy Code, or has comparable protection (either due to provisions that apply to aircraft or to the strength of creditor protections in the overall insolvency regime) under other countries' insolvency regimes. This could include countries that have signed a treaty called the Convention on International Interests in Mobile Equipment, generally referred to as The Cape Town Convention (CTC), which seeks to establish comparable protections for creditors. Key Publication Information Effective date: These criteria are effective May 26, 2021, except in jurisdictions that require local registration. In those jurisdictions, the criteria are effective only after the local registration process is completed. This updated methodology follows our request for comment, titled "Request For Comment: Methodology And Assumptions For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates," published Nov. 18, 2020. For the changes between the RFC and the final criteria, see "RFC Process Summary: Methodology And Assumptions For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates," May 26, 2021. These criteria supersede the criteria articles listed in the "Fully Superseded Criteria" section at the end of this article. 3. The methodology does not apply to: Debt secured by a combination of aircraft (which could include aircraft engines and parts) and nonaircraft collateral. Debt extended in jurisdictions where we believe the laws or their expected application would not provide creditors with timely access to their aircraft collateral if the airline fails to pay. Aircraft-backed debt issued by issuers (including leasing companies) other than airlines. Debt issued by two or more airlines that are not part of the same corporate group. 4. We use our methodology to formulate the issue-level ratings for ETCs and EETCs. Our analysis of ETC or EETC ratings typically starts with our issuer credit rating (ICR) on the airline that operates the aircraft, and adds any applicable notches for the likelihood that an airline will successfully reorganize in bankruptcy and continue to make payments on the ETC or EETC. We may adjust--by reducing those notches--for any adverse legal considerations that may arise from the jurisdiction in which the airline operates. For EETCs, we may also add notches for the likelihood that repossession and sale of the aircraft collateral will be sufficient to repay the EETC's principal and accrued interest, avoiding a default, if the airline does not reorganize or rejects the aircraft securing the certificates. 5. We do not assign recovery ratings to ETCs or EETCs. This is because we base any rating elevation above our ICR on the airline on our expectation of the ETC's or EETC's reduced default risk, rather than incorporating possible recovery after any default. CHANGES FROM PREVIOUS CRITERIA 6. The updated methodology provides: Greater transparency and additional information as to how we arrive at our ETC and EETC ratings. We have introduced a specific assessment for the legal treatment of aircraft-backed debt and to modify how we assess collateral quality. A change in how we combine our assessments of the EETC's collateral coverage with the likelihood that a bankrupt airline would continue paying its EETC debt. While our prior methodology added notches of rating credit for each of those assessments to our ICR on an airline, we now combine these assessments using a matrix that results in a preliminary EETC profile. Where applicable, more information on how we incorporate assessments of counterparty risk, transfer and convertibility (T&C;) risk, and sovereign risk in our rating of ETCs and EETCs. More guidelines about how we apply case-specific adjustments to arrive at an EETC rating, including the cases in which we may use a comparable ratings analysis modifier. More specific guidelines for analyzing credit risk in periods of industry stress (including stress linked to macroeconomic recession, the effects of terrorism, and a pandemic such as COVID-19 on demand for air travel). IMPACT ON OUTSTANDING RATINGS 7. We expect the implementation of these criteria to result in rating changes. Based on our preliminary testing, we expect that approximately 30% of the ratings on ETCs and EETCs could change. The majority of

these changes would be the result of the modifications to our approach to assessing collateral credit and combining it with other analytical considerations discussed herein, which results in more conservative collateral coverage for certain rating outcomes. Other rating changes would occur due to more conservative assumptions, in some cases, regarding the likelihood that the airline would reorganize and choose to affirm an ETC or EETC. Overall, we expect that almost all of the rating changes would be limited to one notch, with significantly more downgrades than upgrades. METHODOLOGY Chart 1 8. Our methodology starts with our ICR on the airline unless the ICR is 'CC' or below. We then consider the likelihood that an airline will continue to make payments on the ETC or EETC through the airline's bankruptcy and reorganization (which we call "affirmation credit"). For EETCs, we then adjust for our view of creditor protections and the predictability of their application in our assessment of the legal treatment of aircraft financing (which we call "legal assessment"). We also consider the likelihood that the EETC collateral, if repossessed, will be sufficient to repay the EETC creditors (which we call "collateral credit") and thereby reduce default risk. We combine these assessments to form our preliminary EETC profile. Finally, we apply adjustments for our comparable ratings analysis and other considerations (such as the risk of sovereign intervention and counterparty risk) to arrive at our issue-level ratings. 9. The final rating on the ETC or EETC may be higher than the ICR on the airline because, given the specific protections built into ETCs and EETCs, the likelihood of a default on the debt may be lower than the likelihood of the airline's default. 10. ETCs or EETCs are secured by aircraft, aircraft engines, or (in certain jurisdictions) aircraft parts. We refer to "aircraft" throughout this article to cover all of these types of collateral unless otherwise specified. The principal distinctions between ETCs and EETCs are that EETCs have a liquidity facility that provides for interest payments if the airline does not make its scheduled payments, and that the terms of an EETC require timely interest and ultimate principal payments by the final maturity date. 11. ETCs typically have the following characteristics: Leases or debt issued by airlines and secured indirectly by aircraft. Favorable treatment in bankruptcy or insolvency (for example, Section 1110 in the U.S.). Finance a single aircraft, or finance multiple aircraft using pass-through certificates. 12. EETCs typically have all of the characteristics above plus the following: A liquidity facility sufficient to pay at least 18 months of interest. Terms that require timely interest and ultimate principal payments (i.e. by final maturity). Key Terms 13. When our ICR on an airline is 'CC' or 'D'--because we anticipate the airline's bankruptcy ('CC') or the airline is already bankrupt ('D')--we may begin our ETC/EETC analysis at a higher rating than our ICR on the airline. This is because our ICR reflects the airline's general creditworthiness, and it is this general creditworthiness that is applicable to the airline's other debt obligations. These typically have a higher likelihood of default and fewer creditor protections than the ETCs or EETCs. In these scenarios, we would typically use 'ccc-' as the starting point for our analysis. However, we would begin our analysis using a starting point of 'cc' if we assess the airline's likelihood of reorganization as low for an EETC (or medium/low for an ETC), if the likelihood of affirmation is low, or if the airline has rejected the ETC or EETC obligations. 14. If our ICR on the airline is 'CC' or 'SD' (selective default), because we anticipate that the airline will conduct a distressed exchange (of some but not all of its debt) or repurchase some of its debt at a discount, or it has already done so, we typically do not use 'cc' or 'sd' as our starting point. Rather, we begin our analysis using our expected ICR on the airline when it completes its partial restructuring. 15. We treat ETCs or EETCs secured by aircraft spare parts slightly differently than those secured by aircraft or engines to reflect the different characteristics of those assets. In certain circumstances, we may provide an additional one notch of rating elevation for affirmation credit to debt secured by aircraft spare parts, because spare parts are potentially more critical to an airline's ongoing operations than the aircraft portfolios securing most EETCs. This is because airlines' spare parts inventory support the operations of the entire fleet. Accordingly, this could make airlines more likely to affirm those debts. However, we would penalize the collateral assessment on EETCs secured by aircraft spare parts, because of the likely greater costs and longer time period to dispose of the many spare parts that would secure the EETC. ETC Analysis Chart 2 16. When we rate an ETC, we start with the ICR on the airline and may notch up from it based on potentially lower default risk if we expect the airline to reorganize in bankruptcy and affirm the ETC debt before any scheduled principal or interest payment comes due. In most legal jurisdictions where we apply these criteria, there is a 60-day stay period following a bankruptcy filing, and if a payment fell due in that period, there would

be a default since ETCs do not have liquidity facilities. Given this, we would not assign a rating enhancement to an ETC with payments more frequent than semiannually. This is because there is greater risk that a payment would fall due within the initial 60-day stay period. However, if the stay period is shorter than 60 days, we may assign rating enhancement to ETCs with payments that are more frequent than semiannually. 17. Our analysis considers the airline's likelihood of reorganization and its likelihood of affirming the ETC. If we consider that either of these is unlikely, or if the airline is in a jurisdiction with less predictable aircraft-backed creditor outcomes, we would not rate the ETC above the airline ICR. Likelihood of affirmation 18. We base our assessment of an airline's likelihood of affirming an ETC on whether we believe that the airline would view the aircraft that secure the ETC as advantageous to help facilitate a reorganization. We consider whether the ETC's payment terms and loan to value (LTV) relative to aircraft quality are favorable compared to other debt or leases that the airline might choose to reject in bankruptcy. 19. Our assessment of the adequacy of collateral coverage (as measured by LTV) depends on how technologically current the aircraft are and how liquid their resale market will likely be. In certain circumstances, other factors such as aircraft age may be relevant to our analysis. 20. We may conclude that an airline would not affirm the ETC if: The amount of debt relative to an aircraft's value is high (generally exceeding 80% LTV). For collateral that is less technologically current or is less liquid in the resale market, we may require lower LTVs to support an assumption that an airline would affirm the ETC in bankruptcy. Likelihood of reorganization 21. We base our assessment of an airline's likelihood of reorganizing successfully on its size and market presence, its importance to the country or region in which it operates, the viability of its business model and how that might change in bankruptcy, and the influence of the legal insolvency regime of the jurisdiction where the airline would likely file for bankruptcy. We assess the airline's likelihood of reorganizing using three categories: very high, high, and medium/low. 22. For a complete description of our approach for assessing the likelihood of reorganizing in an ETC, please see the Likelihood of airline reorganizing section below. For ETCs, we treat airlines that we assess as having a medium or low likelihood of reorganizing as equivalent in our analysis. Issue rating on ETC: notching up from the ICR 23. We use the ETC framework above to determine the number of notches that we add to the ICR of an airline. If we assess the likelihood of reorganizing as very high and the other conditions for maximum potential uplift are met, we would assign one notch if the airline is investment grade and up to two notches if the airline is speculative grade. If the ETC is a junior class of debt (without a liquidity facility) in an EETC structure, we would assign no more than one notch of uplift above the ICR on the airline. This reflects our view that the default risk is greater for the junior class in an EETC structure since the senior EETC is the controlling class and could negotiate a restructuring with the airline that disadvantages the junior class. (As explained later, we would rate an EETC tranche without a liquidity facility or with an insufficient one, as an ETC.) 24. In assessing the predictability of aircraft-backed creditor outcomes for ETCs, we may reference our legal treatment for aircraft financing assessments that we use to analyze EETCs. We would consider a jurisdiction as having less predictable aircraft creditor outcomes if our legal assessment is negative 2 or negative 3. 25. The bankruptcy stay period may vary from one jurisdiction to another but is typically 60 days. Although we generally would not assign any ratings uplift to an ETC with payments due more frequently than semiannually, we could if the bankruptcy stay period in the jurisdiction in which the airline operates is less than 60 days. This is because it would be less likely that a payment would fall due during a stay period and trigger a default. 26. The risk of the sovereign restricting access to foreign currency to service debt may affect an ETC issued in a currency other than the local currency of the country where the airline is located. We measure this risk by using the T&C; assessment for each country. We cap the issue-level rating at our T&C; assessment on the country where the airline is located (unless the ICR on the airline is above the T&C; assessment, in which case the ETC rating would be equal to the ICR). This is because our rating elevation is based on the likelihood that the airline will reorganize and affirm the ETC debt. 27. For ETCs that have aircraft operated by airlines in multiple countries, we use a weighted average T&C; assessment, which is then rounded down to the nearest weaker assessment. To determine the weighted average, we typically use the initial proportion of aircraft value operated by airlines in each country and recalculate the proportion if any aircraft leave the collateral pool. 28. ETC ratings are subject to our methodology for ratings above the sovereign for corporate and government ratings as

applied to issue ratings. 29. The rating on an ETC without cross-default and cross-collateralization is limited to the higher of 'A+' or our ICR on the airline. This is because of the risks posed by selective rejection of individual aircraft debt or leases by a bankrupt airline, which could result in adverse selection in the airline turning back undesirable aircraft to creditors. EETC Analysis Chart 3 30. EETCs are a specialized form of aircraft-backed debt with structural features that reduce default risk and help them to achieve potentially higher ratings than ETCs. 31. The key features of EETCs generally include: A dedicated liquidity facility to support continued cash interest payments, per the EETC's terms, during negotiations with the airline and, if necessary, repossession and sale of the aircraft collateral. We apply our counterparty risk criteria to determine what ratings on the liquidity provider are required to support a particular EETC issue rating. A multilevel structure in which the airline's payments on its secured debt or leases flow through a pass-through trust that issues the EETCs. The airline is responsible for making timely, scheduled principal and interest payments on the aircraft-backed debt. However, the EETC payment terms require timely payment of cash interest and repayment of principal as available, but not until the EETC's legal final maturity. This soft amortization of the EETC enables drawings from the liquidity facility to maintain interest payments on the rated EETC debt in order to potentially avoid a default while EETC creditors attempt to repossess and sell the aircraft collateral for sufficient proceeds to repay liquidity draws and EETC principal. An escrow arrangement if the EETCs are issued to pre-finance aircraft not yet delivered to the airline. The proceeds from the EETC issuance are held temporarily with a depositary financial institution, which also commits to pay interest on the EETC if the airline does not pay it during the pre-delivery period. We apply our counterparty risk criteria to determine what ratings on the depositary are required to support a particular EETC rating. Generally, a multiclass (tranche) structure with a senior class and one or more junior classes. If an EETC class does not have a liquidity facility, regardless of its seniority, we would rate it as an ETC. A structure that grants a priority claim to repayment of any liquidity facility drawings or depositary interest payments. 32. Our methodology for rating EETCs is based on the fact that a default would occur only if: The airline enters bankruptcy; The airline either liquidates or reorganizes but rejects the EETC's underlying aircraft debt or leases; and Proceeds from repossession and sale of the aircraft collateral are insufficient to repay principal and interest when due. 33. In addition, holders of EETCs, particularly the senior class, can also be repaid if the airline agrees on a restructuring plan that reduces payments, but still pays sufficient amounts to cover that class. 34. The potential elevation above our ICR on the airline is higher for EETCs than for ETCs since EETCs possess features, such as liquidity facilities and soft amortization schedules, which can result in substantially lower default risk. For example, the liquidity facility can cover EETC interest payments that may fall due during the first 60 days of an airline's bankruptcy filing. This covers the period when the airline is not required to make payments under Section 1110 and generally under country-specific applications of the CTC. In addition, the liquidity facility could cover any interest payments that come due while EETC creditors negotiate with the bankrupt airline (assuming the airline is either making no payments or is making insufficient payments), or while the creditors repossess and sell the collateral. If we do not consider the liquidity facility's term length to be adequate (typically at least 18 months), we would not rate the certificate as an EETC, but as an ETC. EETC liquidity facilities 35. EETCs typically include a liquidity facility sufficient to pay at least 18 months of scheduled interest payments. We believe an 18-month facility, which is the market standard, should be enough time to cover negotiation with creditors and collateral sale. Repayment of liquidity facility drawings rank senior to the EETC. For those reasons, we would typically analyze a class of EETC (typically the junior-most class) without a liquidity facility or with a shorter liquidity facility using our framework for ETCs. Similarly, if an EETC allows for capitalization of interest instead of a liquidity facility (sometimes called a PIK liquidity facility), we would analyze this using our ETC framework since paying in kind is effectively the same as accruing unpaid interest. 36. If the EETC is amortizing, the absolute amount of the liquidity facility commitment declines as well so that it continues to cover (typically) at least 18 months of interest due. 37. Potential interruptions of interest payments necessitating draws on the liquidity facilities could occur during: The initial (usually 60-day) stay of payments following an airline bankruptcy filing; Ongoing negotiations with the airline after the initial stay if EETC holders choose not to repossess the aircraft collateral and instead negotiate revised payment terms with the bankrupt airline; and The period following repossession but before the sale of the aircraft

collateral. 38. Typically, the liquidity facility's terms will require that, if the liquidity provider is downgraded below a specified minimum rating (usually referred to as the "threshold rating"), it must either replace itself with a suitably rated alternative liquidity provider or fund a cash collateral account to provide liquidity support for the EETCs. 39. We apply our counterparty risk framework methodology to determine the maximum possible EETC rating given a liquidity facility provider rating and replacement terms. 40. We apply our methodology for temporary investments in transaction accounts if a downgraded liquidity provider has not replaced itself and instead funded a cash collateral account. Affirmation credit Chart 4 41. We determine an EETC's affirmation credit by evaluating the following factors: The likelihood of the airline reorganizing after a bankruptcy filing, or similar event. The likelihood of the airline affirming the aircraft notes or leases. Whether there are cross-collateralization and cross-default protections for secured notes against each aircraft in the collateral pool. The seniority of a class within overall EETC structure. The LTV, since very high levels could encourage the airline to reject or renegotiate an EETC. 42. Affirmation credit can add up to four notches above the airline ICR for aircraft-backed EETCs and up to five notches for EETCs secured by aircraft parts. 43. If the airline ICR is 'BBB+' or higher, the maximum affirmation credit is three notches for all EETCs. This is because we view the predictability of airline reorganization and affirmation as less certain in a stress scenario that would have to occur for a highly rated airline to go bankrupt. 44. Likelihood of the airline reorganizingFor EETCs, we categorize our assessment of the likelihood of the airline's reorganization after a bankruptcy filing as very high, high, medium, or low. 45. We evaluate an airline's likelihood of reorganizing by evaluating its size, importance, and market position relative to its competitors. We also consider the viability of the airline's business model within the overall industry. Finally, we review the insolvency regime of the airline's home country to form an opinion of whether or not it facilitates or impedes the airline's reorganization. In addition, we factor in the sovereign's interest in maintaining its flag carrier's operations, where applicable. Although we do not individually score each of these components for EETCs, we analyze them to form a holistic view of an airline's likelihood to reorganize, which we assess as very high, high, medium, or low. 46. An airline with a very high likelihood of reorganizing would typically have a strong market position, substantial scale, and a viable business model. In addition, we would consider whether the overall insolvency regime facilitates reorganizations rather than liquidations. We could also assign a very high likelihood of reorganizing if we believe the sovereign will make strenuous efforts to reorganize the airline (even if the legal regime generally favors liquidation rather than reorganization). 47. An airline with a high likelihood of reorganizing could have the favorable market position, scale, and business model characteristics that we typically associate with a very high likelihood of reorganizing, but it operates in a country with an insolvency regime that is relatively less favorable to reorganizing. Alternatively, we could assign a high likelihood of reorganizing to an airline with business characteristics that, while favorable, are not strong enough to be assessed as very high, but that operates in a country with an insolvency regime that is very favorable to reorganizing rather than liquidating. 48. An airline that we assess as having a medium likelihood of reorganizing would have business or legal regime characteristics that are less favorable than those of an airline for which we would assess the likelihood of reorganization as high, but which we believe has a reasonable chance of reorganizing. This could include smaller or specialized airlines (e.g., medium-sized cargo or regional airlines) that have viable business models but are not as important to a country's overall air transportation system and economy. 49. An airline with a low likelihood of reorganizing would typically be smaller, less dominant in its markets, and it may demonstrate a failing business model. Furthermore, we may also assess the likelihood of reorganizing as low if the insolvency regime favors liquidation over reorganization. 50. Likelihood of the airline affirming the EETCWe categorize the airline's likelihood of affirming the aircraft debt or leases as high, medium, or low. This assessment reflects our view of the likelihood that the airline would continue making payments for the EETC following a bankruptcy or restructuring. 51. When we assess an airline's likelihood of affirming the EETC's underlying debt, we first focus on identifying which aircraft we believe the airline would view as important to facilitate a successful reorganization. We can assess the importance of a particular aircraft model to the airline by considering how many of that model are in its fleet and the number of outstanding orders the airline has placed for that model. An airline may be willing to reject aircraft that no longer fit its strategy. We also consider aspects of the EETC financing in

comparison to other sources of capital. For example, an airline may be less likely to affirm EETCs that finance relatively few aircraft, have relatively high coupons, have very high LTVs, or have a large bullet maturity in the near future. 52. We would assess an airline's likelihood of affirming its underlying debt or leases as high if the aircraft are important to the airline's ongoing strategy after emergence from bankruptcy. In addition, with an assessment of high, we would view the EETC financing terms as comparable to, or better than, other available forms of financing. With all else equal, the higher an EETC's LTV, the less likely we are to assess the likelihood of affirmation as high. 53. We may assess the airline's likelihood of affirming the EETC's underlying debt as low if most of the EETC's collateral consists of aircraft that are older (generally at least 20 years old, or in some cases at least 15 years old), use less-efficient technology, or are not consistent with the airline's postemergence business strategy. In addition, we could also arrive at a low assessment if the interest rate and amortization profile of the EETC financing make it less attractive than other available sources of capital. Also, if the EETC has a very high LTV, this places the airline in a stronger bargaining position vis-à-vis its EETC creditors and makes it less likely to affirm the aircraft loans or leases. 54. We assess the airline's likelihood of affirming the EETC's underlying debt as medium if we believe the characteristics discussed in this section do not support a low or high assessment. 55. If the LTV exceeds 85%, we typically would not assign a likelihood of affirmation that is higher than medium. Furthermore, if the LTV, exceeds 100%, we typically would not assign a likelihood of affirmation that is higher than low (which means that there would be zero affirmation credit). We could assign a higher likelihood of affirmation than these levels if we have specific credible information to indicate that the airline will affirm the EETCs (such as indications from the airline to that effect following a bankruptcy filing). 56. We believe cross-collateralization and cross-default protections improve EETC creditors' bargaining position in an airline bankruptcy because the airline cannot selectively reject some aircraft from the collateral pool (e.g., less liquid aircraft, or those in poor maintenance condition). For us to consider the benefits of these provisions, the cross-default provisions must take effect immediately upon the airline rejecting the EETC's underlying debt or leases rather than on a delayed basis (for example, at the EETC's legal final maturity). 57. The seniority of EETC classes may affect the likelihood that a particular debt class will be repaid on a timely basis by the airline. We generally assign one less notch of affirmation credit to the junior class of an EETC that is next in priority to the senior-most class, and two notches less credit for the subsequent junior class below that (subject to the outcomes shown in chart 4). If the bankrupt airline affirms the debt that provides cash flows to service the EETCs, all classes of EETCs would be fully paid. However, the EETC's senior class investors and the airline could negotiate a reduced payment schedule sufficient to repay the senior class but not those below it, or the first two classes of EETCs but not the third. The senior EETC class is the "controlling party" and can negotiate on behalf of all of the EETC classes and thereby protect its own interests. There are some limits on the senior class' rights to negotiate with the airline, but we see this as an important factor for assigning different notches of affirmation credit to different EETC classes. 58. Likelihood of affirmation for EETCs exposed to airlines in multiple jurisdictionsThere may be cases where the EETC finances the aircraft of multiple airlines owned by the same parent company but that operate in different countries. In these cases, we apply the same general approach that we use for other EETCs with the following exception: if the individual aircraft financings are not cross-collateralized and cross-defaulted, we would consider the possibility that each airline would have different incentives to affirm or reject individual aircraft financings, influenced by the airline's individual circumstances and its importance within the broader airline group. This situation could result in what we would consider a weak-link risk, just as we see the potential for such risk when some of the aircraft in an EETC that is not cross-collateralized and cross-defaulted are judged less important to an airline's future needs and are at greater risk of rejection in insolvency. In those cases, we use the weaker affirmation credit. If payments from one airline flow through the other, we evaluate the incentives of the airline that is directly responsible to the EETC creditors to continue paying on all of the aircraft including those of the other airline with aircraft are in the transaction. Determining the legal assessment 59. We would apply these criteria to an EETC only when we believe the legal regime complies with the minimum conditions that allow us to conclude it is within the scope of these criteria. Even with these conditions met, we acknowledge there are gradations in the protections afforded to creditors among different jurisdictions, as well as airline- or

financing-specific factors that might influence the application of the law. We could assign a negative legal assessment if these factors lead us to believe EETC creditors could face less favorable treatment. Our legal assessment uses a scale of 0 to negative 3. 60. In our legal assessment, we examine provisions that are specific to aircraft financings and the overall treatment of creditors in the jurisdiction where the airline would likely file for bankruptcy. The items we consider include: The existence of relevant legal provisions that clearly recognize the rights of lessors or secured creditors to repossess aircraft collateral. The degree of certainty and speed with which we anticipate EETC creditors will repossess aircraft collateral if the airline misses a payment after the initial bankruptcy stay period. The consistency and track record of courts within a jurisdiction applying legal provisions that protect secured creditors, particularly those secured by aircraft. Whether a country has agreed to adopt the CTC and has implemented its provisions by passing any necessary domestic legislation (e.g., recognizing that the CTC procedures take precedence over otherwise prevailing local law and that there are related legal and administrative procedures to de-register an aircraft from one country and permit its export). S&P; Global Ratings' payment culture/rule-of-law risk score in the relevant country risk analysis (if available). 61. An EETC that warrants a legal assessment of 0 typically has the following characteristics: There are well-established legal institutions and a payment culture/rule of law that we believe support predictable application of relevant creditor protections. This would typically correspond to an assessment of 1 or 2 for the payment culture/rule-of-law risk in our country risk analysis, if available. One of the following: the insolvency regime includes special protections for aircraft-backed creditors that have been tested and applied in various airline bankruptcies, or regimes that have adopted the CTC's terms and, together, its provisions and the national provisions referenced above provide strong protections (including implementing legislation that delineates where the CTC takes precedence over national law). 62. An EETC that warrants a legal assessment of negative 1 typically has the following characteristics: There are well-established legal institutions and a payment culture/rule of law, that we believe support predictable application of relevant creditor protections. This would typically correspond to an assessment of 1 or 2 for the payment culture/rule-of-law risk in our country risk analysis, if available. There are no special protections for aircraft-backed creditors, and although we believe the general legal and insolvency provisions should provide timely access to collateral for aircraft-backed creditors (and there are precedents to support this conclusion), the lack of specific provisions for aircraft financing raises the potential for conflicting interpretations or delays in application. 63. An EETC that warrants a legal assessment of negative 2 may have the following characteristics: There are generally favorable legal institutions and payment culture/rule of law that we believe should support predictable application of relevant creditor protections. This would typically correspond to an assessment of 2 for the payment culture/rule-of-law risk score in our country risk analysis, if available. There are no special provisions (such as the CTC) for aircraft-backed creditors. While the general, legal, and insolvency regime provisions should provide timely access to collateral for aircraft-backed creditors, there are few or no precedents to support this. This could occur, for example, if the relevant laws are relatively new or untested, or there are potentially conflicting laws that we believe create additional uncertainty. 64. Alternatively, we could assign a negative 2 legal assessment if an EETC has the following characteristics: There are specific provisions (such as the CTC) to protect aircraft-backed creditors. We assess the payment culture/rule-of-law risk in our country risk analysis, if available, as 3 or 4. Our level of confidence in the application of the relevant legal provisions is not as high as in the cases where our legal assessment would be 0 or negative 1. 65. An EETC that warrants a legal assessment of negative 3 typically has the following characteristics: The insolvency regime is lacking some of the positive characteristics described for legal assessments of 0 or negative 1 or negative 2. We assess the payment culture/rule-of-law risk score in our country risk analysis, if available, as 3 or 4. Our level of confidence in the application of the relevant legal provisions is not as high as in the cases where our legal assessment would be 0 or negative 1 or negative 2. This reduced level of confidence may be due to a particular airline's or EETC's circumstances, rather than because of the general insolvency regime. For example, if the airline is a government-related entity we may believe that this could cause airline creditors to receive adverse treatment in bankruptcy proceedings. 66. While it is possible to achieve a neutral legal risk assessment for regimes that make no special provisions for aircraft financing, we believe that the clarity provided by special provisions (either within a

country's laws or through the application of the CTC) makes it more likely that effective creditor protections for aircraft financing would be available and applied. 67. In rare circumstances, if any particular risk or shortcoming is especially pronounced, we may apply a more negative assessment than what is indicated by the factors described above (with a floor to the more negative assessment of negative 3). For example, if we see a particularly material risk in a jurisdiction that would, excluding such risk, merit a negative 1 or negative 2 assessment, we may still apply a negative 3 assessment if we consider that particular risk to be of such relevance or magnitude to justify the weaker assessment. There are minimum legal protections required to apply these criteria to aircraft financings. 68. If a jurisdiction's relevant legal protections or our confidence in the application of these protections is weaker than the characteristics we listed above for the negative 3 assessment, we would typically not apply these criteria and we would rate the issue as secured debt using our "Recovery Rating Criteria for Speculative-Grade Corporate Issuers" or our methodology "Reflecting Subordination Risk in Corporate Issue Ratings." 69. We would generally apply the same legal assessment to all airlines within a country since they relate to a country's legal regime for aircraft financing. However, there may be circumstances where we see greater risk for one airline than another in the same jurisdiction, or more risk for one EETC relative to another in the same jurisdiction. This would typically be a higher risk in those countries where we have assigned a negative legal assessment. For example, a government-related entity might receive more favorable treatment in the courts than an airline that is unrelated to the government. Similarly, creditors could face increased risk where their collateral aircraft operate entirely within the domestic market of a higher-risk country, compared with cases where the aircraft operate internationally. As a result, this assessment may vary for transactions originated by different airlines in the same country or among different transactions originated by the same airline. 70. Applying the legal assessment for EETCs subject to multiple jurisdictionsFor EETCs that have aircraft operated by airlines in multiple countries, we use the legal assessment that reflects the blended legal risk of the EETC, and a weighted average sovereign rating that is then rounded down to the next-lowest rating. To determine the weighted average, we typically use the initial proportion of aircraft value operated by airlines in each country, and we recalculate the proportion if any aircraft leave the collateral pool. 71. If an EETC is subject to multiple legal regimes, we would seek to assess the overall level of risk and identify any weak links that represent a material risk to the overall transaction. We would do so only when we feel that the risks are significant and not captured in other parts of our legal assessment. 72. If the EETC finances aircraft of multiple airlines that are owned by the same parent company but that operate in different jurisdictions, we determine the legal assessment by calculating the aircraft value weighted average (rounded to the nearest full integer) of the legal assessment for each jurisdiction. To determine the weighted average, we typically use the initial proportion of aircraft value operated by airlines in each country, and we recalculate the proportion if any aircraft leave the collateral pool. 73. If EETC payments from one airline are made to another airline that is the party directly responsible for paying the EETC creditors, we use one of the following three approaches: If the directly responsible airline operates in a stronger jurisdiction, we assign a weighted average legal assessment based on the value of aircraft in each jurisdiction as described above. If the directly responsible airline operates in a weaker jurisdiction, we use the legal assessment applicable to the weaker jurisdiction. If the directly responsible airline operates in a jurisdiction with an insufficient legal regime, we would not apply these criteria. Rather, we would apply our recovery criteria or our criteria for reflecting subordination risk. 74. In multijurisdictional cases, if we lower our legal assessment for one of the countries to a level that would normally be insufficient to support application of these criteria, we would then exclude from our collateral credit analysis aircraft operated by the airline in that jurisdiction. EETC profile before collateral credit Chart 5 75. We determine the EETC profile before collateral credit by adding the affirmation credit (in notches) to our ICR on the airline. If our legal assessment is negative, we subtract that number from the affirmation credit. However, the legal assessment cannot reduce the rating level below the ICR on the airline. For example, if the airline has a 'BB' ICR, an affirmation credit of one, and a legal assessment of negative 2, the EETC profile before collateral credit would be 'bb'. 76. We cap the EETC profile before collateral credit at the relevant T&C; assessment (unless the ICR on the airline is above the T&C; assessment, in which case the EETC profile before collateral credit would be equal to the ICR). We then proceed through the rest of our analysis to determine the EETC rating

with no additional constraint from our T&C; assessment. Since an airline may rely on the availability of foreign exchange to pay foreign-currency-denominated EETC debt, there is a risk that the sovereign may interfere with the airline's ability to acquire and transfer foreign currency. If this occurs, we believe the airline may have difficulty continuing to service the EETC debt as it reorganizes through bankruptcy. Collateral credit 77. We combine the collateral assessment together with the EETC's relevant LTV percentages to determine collateral credit. Our analysis of collateral credit considers the aircraft quality and the extent of overcollateralization throughout the life of EETCs. Chart 6 78. Collateral assessmentTo determine the quality of the EETC's aircraft collateral, we assess its technological risk, resale liquidity, diversification, and aircraft age. We believe that potential declines in aircraft values in an airline bankruptcy and repossession scenario will likely be less for aircraft models that incorporate up-to-date technology and are widely used by airlines globally. Also, we believe that there is some benefit to having diverse aircraft collateral because it is less likely that the values of all aircraft models would be severely depressed at the same time. Lastly, we believe that relatively older aircraft are at greater risk of value declines than younger ones, particularly in industry downturns. 79. We assess technological risk, resale liquidity and diversity on a scale of 1 to 4 (with 1 being the best and 4 the worst). For technological risk, we use whole integers. For resale liquidity we use whole and half integers (e.g., 2.0 and 2.5). For diversity, we generally use whole integers, but there are certain situations where we use half integers. We then weight the results as follows: 35% weight for technological risk, 50% for liquidity, and 15% for diversification. 80. We then apply a penalty (i.e., increase) to the score if at least 50% of the aircraft collateral (weighted by value) is 15 or more years old, and a more severe penalty if 50% of the aircraft value is 20 or more years old. We round the result off to the nearest quarter integer (e.g., 3.25 or 3.50). Chart 7 81. Technological risk: We assess technological risk based on our view of how up-to-date the aircraft's technology is. Technology largely determines fuel efficiency and can be important for compliance with various regulations, including emissions controls, that many countries have agreed to phase in over the coming decades. 82. Modern technology in aircraft usually offers better fuel efficiency, lower greenhouse gas emissions, and sometimes greater capabilities, such as longer range. At any given time, there are usually two to three "generations" of technology in aircraft that are in wide use. The following provides examples of the types of planes that we would assign to various technological risk scores. (The descriptions shown in the table below are not intended to cover all possible cases.) Table 2 Technological Risk TECHNOLOGICAL RISK SCORE DESCRIPTION 1.0 Latest technology, providing better efficiency. 2.0 In production or recently ended production, but only one generation behind the latest technology. 3.0 Out of production, older technology aircraft, but some still in use; two generations behind latest technology. 4.0 Out of production, obsolete planes; few still in service. 83. We may assign a weaker (technological risk score than indicated by the table above if an aircraft incorporates technology that is unproven and/or may pose material safety risks, particularly if these perceived risks are limiting demand for the aircraft among airlines and aircraft leasing companies. 84. For aircraft whose technology is so old that they would not even qualify for a score of 4.0, we would assign no value should they be included in an EETC portfolio. 85. The technological risk score of a collateral pool backing an EETC is the weighted (by value) average score of the aircraft in the pool. 86. Resale liquidity: We assess resale liquidity based on our view of the liquidity in the secondary market for a particular aircraft model. 87. Resale liquidity is important to our view of the protection afforded by the collateral because a more-liquid market, with more alternative users of planes, makes it less likely that repossessed collateral will have to be sold for even more depressed prices than the average during an airline industry downturn. 88. We assess the liquidity of a particular aircraft model mostly based on the total number of aircraft in service and on order, and the number of airlines that operate that model. In evaluating this data, we consider how long the model of aircraft has been available (a recently introduced aircraft, even a popular one, will have fewer aircraft in service cumulatively than a comparable model that has been available for many years). 89. We may also consider various other factors, such as: How many different engine types are used on a particular aircraft model (multiple engine types in effect split up the population of a particular aircraft model into sub-population groups, since an airline will generally not wish to operate more than one engine type in its fleet for a particular aircraft model). The expected medium-term balance of supply and demand for a particular model of

aircraft based on our sector knowledge and discussions with manufacturers, airlines, aircraft leasing companies, appraisers, etc. In some cases, manufacturers have produced a higher number of planes than the market demands, which can depress values. 90. The following provides examples of the types of planes to which we would assign various resale liquidity scores. The examples are not intended to cover all possible cases. Table 3 Resale Liquidity RESALE LIQUIDITY SCORE DESCRIPTION 1.0 Most liquid new or previous (but still widely used) technology narrow-body (single-aisle) planes. 1.5 Other popular, but slightly less liquid, narrow-body planes; the most liquid wide-body (twin-aisle) aircraft. 2.0 Slightly less liquid but very successful wide-bodies of newest or previous technology; less popular versions of narrow-body families of planes referenced above or other narrow-body planes of equivalent liquidity. 2.5 Successful versions of previous technology, out of production or close to it aircraft; most-liquid models serving more niche markets (large regional aircraft, freighters); less successful but still capable narrow-bodies in newest or previous technology; less popular new technology wide-bodies. Other planes that we judge as having liquidity that falls between those we score 2.0 and 3.0. 3.0 Out-of-production planes that nonetheless are still fairly widespread; promising new technology planes that will likely remain a niche product; moderately successful regional or freighter aircraft. 3.5 Out-of-production planes that were successful but are rapidly being retired; more recent technology aircraft still in use but less successful and likely to decline; less widely used freighters. Other planes that we judge as having liquidity that falls between those we score 3.0 and 4.0. 4.0 The least liquid planes, such as aircraft of previous or earlier technology that were only moderately successful but rapidly being retired now; capable aircraft that nonetheless have very limited market penetration; previously popular models that suffered major structural changes in market and are in serious oversupply; once-popular planes that are several technologies out of date and almost all retired; other types of planes that we judge in an equivalent situation of weak collateral but not without value. 91. We may assign a weaker resale liquidity score than indicated by the table above if an aircraft incorporates technology that is unproven and/or may pose material safety risks, and these perceived risks are limiting demand for the aircraft among airlines and aircraft leasing companies. 92. We believe that, in general, regional aircraft and freighter aircraft are somewhat less liquid than otherwise comparable mainline (nonregional) aircraft, because of the typically lower number of aircraft produced and airlines operating them. 93. The resale liquidity score of a collateral pool backing an EETC is the weighted (by value) average score of the planes in the pool. 94. Diversification of the collateral pool: We assess diversification based on the concentration of each aircraft model in the collateral pool and, to a lesser extent, on how different they are from one another. For EETCs that do not provide for cross-collateralization and cross-default of the individual aircraft secured debt or leases, we typically give less credit for diversity to the most junior EETC class, and in certain circumstances to other classes that are junior to the most senior class. This is because they are most directly exposed to the risk of a bankrupt airline rejecting the financings on certain planes that are lower quality or in poor maintenance condition. 95. We begin by calculating the percentage of collateral value for each aircraft model in the collateral pool (i.e. the aircraft's value weighting). For each aircraft, we multiply the aircraft's value weighting by itself (we square the percentage weight for each aircraft). Then, we add the outcomes together to arrive at the sum of squared weights for the collateral pool. All else equal, a higher percentage within the possible range of 0% to 100% indicates weaker diversification while a lower percentage indicates stronger diversification. 96. Table 4 below shows the initial diversification assessment for a given sum of squared weights and table 5 provides some examples. Table 4 Initial Diversification Assessment SUM OF SQUARED WEIGHTS 1 <= 30% 2 > 30%-40% 3 > 40%-65% 4 > 65% Table 5 Initial Diversification Assessment AIRCRAFT MODEL WEIGHTS WITHIN THE COLLATERAL POOL (BY VALUE) Example Model A Model B Model C Model D Model E Sum of squared weights Assessment #1 20% 20% 20% 20% 20% 20% 1 #2 35% 25% 25% 15% 27% 1 #3 35% 35% 25% 5% 31% 2 #4 45% 40% 15% 39% 2 #5 65% 30% 5% 52% 3 #6 75% 25% 63% 3 #7 80% 15% 5% 67% 4 #8 90% 10% 82% 4 97. If the largest two concentrations are models that are closely related variants of the same aircraft "family" from a particular manufacturer, we may give only a half integer worth of diversification in the scoring (e.g., a portfolio that is half one aircraft model and half a different version from the same family would be scored 0.5 higher than a portfolio of two completely different models). However, the diversification assessment will be no worse than 4.0. 98. We could

adjust our diversification scoring if the proportions of value within the portfolio change materially, but we would not necessarily revise our assessment for changes in value that we believe won't likely be long-lasting. 99. For the junior-most class in an EETC that does not have cross-collateralization and cross-default provisions, we may score diversity 4.0 because there is a risk of selective rejection of aircraft by a bankrupt airline. In that situation, the airline might choose to reject the "worst" aircraft or those that have lost the most value and have weak LTVs. Diversification would not provide a benefit in those circumstances. We do this only for the junior-most class in an EETC because it would be most-exposed to a potential "weak-link" shortfall in value. 100. Determining the collateral assessment: Our collateral assessment typically includes a penalty of 0.25 if at least 50% of the aircraft collateral value is 15 or more years old, with a penalty of 0.50 if at least 50% is 20 or more years old. This is because we believe the values of older aircraft are at greater risk of declining, particularly in an industry downturn, than younger aircraft. 101. We determine a collateral assessment for aircraft engines and spare parts based on the aircraft models on which they are used. However, if aircraft spare parts make up the majority of the EETC's collateral, we typically adjust the collateral assessment by imposing a penalty of 0.5 (i.e., we add 0.5 to our collateral assessment). This is because of the likely greater costs and longer time to dispose of the many spare parts that would secure an EETC. 102. Determining the relevant LTVWe calculate the LTV by dividing the amount of debt outstanding (including the amounts of any classes of debt that are senior to those we are analyzing) by the collateral's estimated value. In some cases, we may adjust that value or use a different value if we believe it does not represent the risks inherent in the transaction. 103. We review appraisals of the collateral aircraft and compare them with internal information such as appraisals on similar aircraft from other rated transactions and periodic information from aircraft appraisers. Therefore, the value that we use to calculate a LTV may not be the same as that shown in the prospectus. 104. The two definitions of value most commonly used by appraisers are "base value" and "current market value." The definitions specify certain assumptions used to arrive at the appraised value. Base value assumes, among other conditions, that the secondary market for the aircraft being appraised has an approximately equal balance of supply and demand. The base value therefore should indicate the plane's long-term value, irrespective of where we are positioned in the airline industry cycle. By contrast, current market value accounts for the current balance of supply and demand for a particular aircraft type. The current market value will likely change more over industry cycles. 105. We generally focus on base value in calculating an LTV because we are typically assessing collateral coverage over the life of the EETC. However, sometimes using the current market value may be more appropriate. We would typically use current market values, if they are lower than base values, in any of the following scenarios: The aircraft in an EETC collateral pool are relatively older or less desirable planes. We assess the likelihood of affirmation as low. We rate an airline 'B-' or lower. This is because the bankruptcy scenario in which the airline might reject the aircraft is a more immediate possibility. The EETC does not incorporate cross-collateralization and cross-default provisions, our ICR on the airline is lower than 'BB-', and we see a greater risk that the airline will either liquidate or reject particular aircraft in the EETC collateral pool. 106. Some scenarios in which we would typically use an average of the base value LTV and the current market value LTV, if current market values are lower than base values, are: There is an unusually large gap between the base value LTV and the current market value LTV (more than 10%); and The airline ICR is 'B+' or 'B' (except in cases referenced above where the EETC does not incorporate cross collateralization or cross default provisions). 107. We depreciate the aircraft value over the life of the EETC using the same assumptions as described in the discrete asset valuation guidelines for aircraft in our recovery methodology. We generally apply less conservative (slower) depreciation assumptions to aircraft models with better technological risk and liquidity scores and more conservative (faster) depreciation assumptions to aircraft models with weaker technological risk and liquidity scores. Our depreciation assumptions may incorporate our views on other considerations. For example, aircraft delivered during the early part of a model's production life tend to have longer useful economic lives than aircraft of the same model delivered late in its production life. Therefore, we may use a more conservative depreciation assumption for aircraft delivered later in a model's production life. The future values that we assume in our LTVs do not attempt to forecast changes due to industry cycles since the values represent an approximate trend line rather than a specific projection. 108. Our LTVs do not explicitly

include an assumed draw on a liquidity facility, but we consider the effect of this potential priority claim in the LTV thresholds consistent with a given collateral credit. 109. If a liquidity facility potential drawing during one or more periods is unusually large relative to that in other EETCs, we may increase our LTV by adding an incremental percentage. We generally consider that the potential drawing is unusually large when it exceeds 6% of the collateral value, and would increase our LTV by the excess over 6%. We include potential drawings of all liquidity facilities in an EETC structure in our calculation, assuming repayment of liquidity drawings is a priority obligation. 110. Our LTVs may account for other factors that could affect potential collateral coverage in a repossession scenario. For example, the current or future LTV may not represent the collateral coverage over the remaining life of the EETC because of scheduled amortization or scheduled changes in collateral (selected aircraft may drop out of the collateral pool following a large scheduled amortization). 111. Almost all EETCs carry fixed interest rates, and a floating-rate EETC may include an interest rate cap or other mechanism that limits the potential size of a liquidity facility drawing. If a floating-rate EETC does not cap the maximum interest rate, we would apply our methodology to derive stressed interest rates in structured finance to estimate a potential maximum amount that might be drawn on a liquidity facility and adjust our LTV as indicated in the preceding paragraph. 112. We model future values of aircraft in a new EETC's collateral pool by depreciating the aircraft over the transaction's life. Our depreciation assumptions vary among aircraft models. 113. Historically almost all EETCs have been denominated in U.S. dollars, even those issued by non-U.S. airlines. Aircraft are generally valued and priced in U.S. dollars globally and, thus, EETCs denominated in another currency introduce added potential volatility in future LTVs. Specifically, if the currency of the EETC debt strengthens against the U.S. dollar, the LTV would weaken (increase). When rating such EETCs, we apply our methodology for foreign exchange risk in structured finance, which pertains to rating instruments with currency mismatches. 114. We adjust our LTV projections for any mismatch between debt denominated in non-U.S. currencies and the value of aircraft in U.S. dollars. We either adjust our projections for future aircraft values downward to model a weaker U.S. dollar, or we adjust projected amounts of the debt outstanding upward to model a stronger non-U.S. dollar currency in which the ETC or EETC debt is denominated. 115. We typically rate an EETC by focusing on its expected peak LTV (i.e. the weakest LTV) when deriving our collateral credit. That peak LTV may not occur at issuance; rather, it is usually at some point later in the life of the EETC. However, as described below, in some cases, we focus on an LTV calculated using different debt amounts in the numerator or aircraft values in the denominator. 116. We may calculate an alternative LTV if we expect the LTV to decrease in the near term, potentially from a large scheduled principal repayment. We may also calculate an alternative LTV if we expect that the proceeds realized in a scenario where the collateral is repossessed and sold could be significantly lower (compared to average) because of poor aircraft maintenance condition or unusually high reconfiguration costs. 117. In addition, for EETCs that do not have cross-collateralization and cross default provisions there is a risk that the airline may reject the debt or leases on individual aircraft that are viewed as less desirable than the overall collateral pool, or those that have lost more value than the collateral as a whole. In these circumstances, the LTV on those particular aircraft could represent a weak link because the EETC holders could not offset a shortfall on the debt secured by one aircraft with excess proceeds from the sale of other aircraft in the EETC. This risk is particularly relevant for the EETC's junior-most class. In these circumstances, we may estimate the LTV of the debt secured by particular aircraft at risk of rejection and use that LTV to derive our collateral credit. Determining the EETC's collateral credit 118. We cross-reference the collateral assessment with the relevant LTV, using chart 6, to determine collateral credit. The table shows LTV ranges, generally in 5% increments, and we choose the range into which our relevant LTV falls. 119. EETCs backed by spare aircraft enginesFor EETCs that are secured by spare aircraft engines (those that an airline owns to support its ongoing operations), we assess affirmation credit based on the same factors that we consider for aircraft-backed EETCs. We consider the importance of the spare engines to support ongoing operations of the aircraft types on which they are used and the availability of alternative sources for these engines (such as short-term rentals). We assess collateral credit by applying our scores for the aircraft models on which the engines are used. 120. EETCs backed by aircraft spare partsFor EETCs that are secured by aircraft spare parts, we may assign affirmation credit that is one notch higher than we do for aircraft-backed EETCs (see table CC) if all of

the following conditions apply: The collateral constitutes substantially all (generally more than 90%) of the airline's inventory of spare parts supporting its aircraft and we believe the airline would affirm the aircraft in a bankruptcy scenario; We assess the airline's likelihood of reorganization as high or very high; The EETC debt benefits from cross-collateralization and cross default (if there is more than one note secured by all the parts); and We believe that the legal regime governing the airline's secured debt or leases provides strong and predictable protections for creditors of this type (resulting in a legal assessment of 0 or negative 1). This is because debt or leases secured by aircraft spare parts are eligible for the same legal treatment as aircraft in some countries but not in others. 121. We determine a collateral assessment for aircraft parts based on the aircraft models on which they are used. However, because a collateral pool of aircraft parts would likely consist of thousands of items located in various airline maintenance locations, the disposal costs would most likely be proportionally higher (relative to the value of the parts) than the costs associated with selling the aircraft. And, it may take longer to dispose of the parts than the related aircraft, potentially running beyond the 18 months of liquidity coverage in a particularly adverse case. Therefore, we adjust collateral assessment by imposing a penalty of 0.5 (i.e., we add 0.5 to our collateral assessment) when the majority of the collateral value consists of spare parts. Preliminary EETC profile Chart 8 122. We use the collateral credit, along with the EETC profile before collateral credit, to determine a preliminary EETC profile using chart 8. Where there is a split outcome in chart 8, we use the lower outcome if the airline is investment grade and the higher outcome if the airline is speculative grade. This reflects our view that there would need to be greater stress to push an investment-grade airline into bankruptcy, and thus aircraft values could be under greater pressure. Determining the final EETC rating 123. Comparable ratings analysisWe may adjust our preliminary EETC profile up one notch or down by as much as two notches based on our comparable ratings analysis, which is a holistic review of the subfactors assessed to this point. The application of the comparable ratings analysis reflects the need to "fine-tune" rating outcomes if we believe certain factors are not adequately captured in the preliminary EETC profile. A one-notch positive or negative adjustment will therefore likely be more common than a negative two-notch adjustment, which we expect to apply in fewer cases. 124. We would apply an adjustment if we believe the preliminary EETC profile is overstated or understated based on our view that the factors considered are at the stronger or weaker end of the ranges for their respective assessments. The adjustment could also reflect one or more characteristics of the EETC not fully captured in our assessments of affirmation credit, legal assessment, or collateral credit. 125. Some of the factors that we typically expect could lead to a positive or negative adjustment using comparable ratings analysis include: The LTV used in our assessment of collateral credit is close to a threshold that, if breached, would result in a higher or lower preliminary EETC profile. In these situations, we may apply an adjustment to reflect the LTV trend we anticipate. We believe there is a higher likelihood for a significant decline in collateral value compared to EETCs with similar or weaker collateral assessments. This includes situations where we believe existing safety concerns for an aircraft model within the EETC's collateral pool could lower the demand and market value for that aircraft. The collateral assessment used in determining collateral credit is trending to a level that we expect will result in a higher or lower preliminary EETC profile within the next few months. For example, we may apply a negative adjustment if at least 50% of the aircraft (by collateral value) are approaching the 15- or 20-year mark, after which we expect a weaker collateral assessment to result in a lower preliminary EETC profile. We believe there would be a high correlation between a bankrupt airline's decision to reject a particular aircraft model and the overall global market for that aircraft model. This could occur, for example, if the airline is a particularly large operator of a specific model of aircraft and could materially affect aftermarket prices by deciding to remove that aircraft model from its fleet in bankruptcy. In those cases, we could assign a negative one or negative two-notch comparable ratings analysis. In our affirmation credit analysis, there is a potential two-notch gap between a high and medium likelihood of affirmation if the airline's likelihood of reorganizing is very high. In these cases, we may apply an adjustment using our comparable ratings analysis if we believe the likelihood of the airline affirming the EETC debt is near the mid-point between high and medium. We may adjust the preliminary EETC profile down one notch if we believe our affirmation credit, legal assessment, and/or collateral credit are at the weak end of the range we would assign for those factors. Similarly, we may

adjust the preliminary EETC profile up one notch if we consider these factors are at the stronger end. We may adjust the preliminary EETC profile down two notches if more than one of the situations listed above that indicate a negative adjustment are present. An adjustment of negative two notches may also apply if we believe the credit risk from one factor overstates the preliminary EETC profile by two notches. 126. Sovereign riskEETC ratings are subject to our methodology for ratings above the sovereign for corporate and government ratings. We may rate an EETC above the sovereign if we believe that the structural enhancements would still apply in a sovereign default scenario. In assessing that, we consider the ability for an EETC to withstand sovereign interference. The maximum possible elevation of the issue rating depends principally upon our legal assessment for the jurisdiction where the airline is domiciled. 127. As a result, the EETC rating will be the lower of the rating determined per these criteria, absent sovereign constraints, and the maximum ratings established in table 6. Table 6 Maximum Ratings Based On Legal Assessment And Sovereign Constraint LEGAL ASSESSMENT EETC MAXIMUM RATING 0 or -1 Five notches above our ICR on the airline or the sovereign (whichever is higher). -2 Four notches above our ICR on the airline or the sovereign (whichever is higher). -3 Three notches above our ICR on the airline or the sovereign (whichever is higher). 128. T&C; riskAs mentioned above, the risk of the sovereign restricting access to foreign currency to service debt may affect an EETC issued in a currency other than the local currency of the country where the airline is located. This risk, measured by the T&C; assessment for each country, may affect EETCs in several ways. The airline's ICR already incorporates the risk that the sovereign may restrict the airline's access to foreign currency and its ability to transfer it abroad to service debt. Therefore, our analysis focuses on any additional risk that T&C; may pose to an EETC. 129. We believe that T&C; risks to an EETC are mainly applicable to our analysis of affirmation credit. This is because an attempted reorganization occurs within the airline's country of domicile, and is subject to its foreign exchange actions and policies. The sovereign can restrict access to foreign currency that the airline needs to continue to service debt as it reorganizes. Accordingly, we do not believe that our affirmation credit (net of any adjustment based on our legal assessment) could justify an EETC profile before collateral credit that exceeds the country's T&C; assessment. As a result, we cap the EETC profile before collateral credit at our T&C; assessment (unless the ICR on the airline is above the T&C; assessment, in which case the EETC profile before collateral credit would be equal to the ICR). 130. In contrast, we believe that T&C; risk does not affect creditors' abilities to repossess and liquidate the collateral because the aircraft are U.S. dollar-denominated assets that can be sold in a global market. 131. For EETCs that have aircraft operated by airlines in multiple countries, we use a weighted average T&C; assessment, which is then rounded down to the nearest weaker assessment. To determine the weighted average, we typically use the initial proportion of aircraft value operated by the airlines in each country and recalculate the proportion if any aircraft leave the collateral pool. 132. Other constraints on rating elevationWe limit the rating on an EETC to no more than 10 notches above the airline ICR. We apply this limitation since we believe that in the rare circumstances in which the higher uplift would be theoretically possible (e.g., when the airline is rated 'B-' or lower and a series of many favorable conditions exist) the conditions for recovery on the sale of aircraft collateral would be inconsistent with incorporating the maximum possible collateral credit. 133. Because of the risks posed by selective rejection of individual aircraft debt or leases by a bankrupt airline, the rating on an EETC without cross-default and cross-collateralization cannot be higher than 'A+' unless our ICR on the airline is 'A' or higher. In that case, the issue rating would be no more than two notches higher than our ICR on the airline. 134. The rating on an EETC cannot be 'AAA' unless our ICR on the airline is also 'AAA'. This reflects our view that these structures do not provide the level of credit protection and rating stability that we would attribute to a 'AAA' issue-level rating not issued by a 'AAA' rated airline. REVISIONS AND UPDATES On July 11, 2023, we republished this criteria article to make nonmaterial changes, namely updating the contact information and references to related publications. RELATED PUBLICATIONS Criteria to be fully superseded Criteria For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates, Sept. 12, 2002 Related criteria Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019 U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019 Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019 Foreign Exchange Risk In Structured Finance--Methodology And

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