AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES

Consolidated Financial Statements
as of December 31, 2017 and 2016 and
for the years ended December 31, 2017, 2016 and 2015
and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Aviation Capital Group LLC and Subsidiaries:

We have audited the accompanying consolidated financial statements of Aviation Capital Group LLC and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche

February 23, 2018 (July 25, 2018 as it relates to the retrospective adoption of ASU 2016-18 as discussed in Note 2 of the financial statements)

Aviation Capital Group LLC and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands, except share figures)	December 31, 2017	2016
ASSETS		
Cash and cash equivalents	$166,875	$138,274
Restricted cash	206,168	175,153
Flight equipment held for lease, net	7,424,227	7,529,235
Assets held for sale	410,073	325,408
Prepayments on flight equipment	1,174,046	539,711
Investment in finance leases, net	332,648	253,707
Equity method investments	25,622	64,936
Other assets, net	107,217	54,454
TOTAL ASSETS	$9,846,876	$9,080,878
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$139,143	$273,533
Debt financings, net	5,900,839	5,204,412
Maintenance reserves	638,122	588,069
Security deposits	129,231	125,047
Deferred income	55,569	55,650
Lease incentives	21,126	33,321
Deferred income taxes, net	1,953	877,070
Derivative financial instruments at fair value, net	4,684	15,839
TOTAL LIABILITIES	6,890,667	7,172,941
Commitments and contingencies (Note 13)		
Equity (Notes 1 and 14):		
Members' equity	2,961,215	—
Common stock, $0.10 par value, 10,000 shares authorized and 5,627 shares issued and outstanding	—	1
Additional paid-in capital	—	773,385
Retained earnings	—	1,143,556
Accumulated other comprehensive loss	(5,006)	(9,005)
TOTAL MEMBERS'/STOCKHOLDER EQUITY	2,956,209	1,907,937
TOTAL LIABILITIES AND EQUITY	$9,846,876	$9,080,878

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(In Thousands)	2017	2016	2015
REVENUES			
Operating lease revenue	$874,161	$866,250	$835,144
Maintenance revenue	44,760	70,814	89,192
Amortization of lease incentives and premiums, net	(20,892)	(21,883)	(25,220)
Gain (loss) on sale of flight equipment	18,925	11,158	(69,198)
Finance lease revenue	18,568	14,080	3,487
Other income	14,706	22,631	25,615
TOTAL REVENUES	950,228	963,050	859,020
EXPENSES			
Depreciation	322,264	330,748	342,334
Interest, net	225,615	237,637	229,497
Asset impairment	156,109	151,509	61,638
Operating lease expense	23,323	23,484	23,653
Maintenance and transition expense	17,695	17,480	14,479
Selling, general and administrative	64,176	75,460	67,806
TOTAL EXPENSES	809,182	836,318	739,407
Income before (benefit from) provision for income taxes and earnings from equity method investments	141,046	126,732	119,613
(Benefit from) provision for income taxes (Note 16)	(898,120)	51,532	35,809
Earnings from equity method investments	5,108	2,804	3,299
NET INCOME	1,044,274	78,004	87,103
Less: net loss attributable to the noncontrolling interest	—	—	891
NET INCOME ATTRIBUTABLE TO MEMBERS/STOCKHOLDER	**$1,044,274**	**$78,004**	**$87,994**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(In Thousands)	2017	2016	2015
NET INCOME	$1,044,274	$78,004	$87,103
Other comprehensive income:			
Reclassification into earnings from accumulated other comprehensive loss for de-designated hedges (included in interest, net)	778	1,493	426
Unrealized gain on interest rate swap contracts, net of taxes of $629, $2,159 and $3,702	3,221	3,104	348
Unrealized loss on securities available for sale, net of a benefit from taxes of $0, $125 and $103	—	(222)	(183)
COMPREHENSIVE INCOME	1,048,273	82,379	87,694
Less: net loss attributable to the noncontrolling interest	—	—	891
COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS/STOCKHOLDER	**$1,048,273**	**$82,379**	**$88,585**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF EQUITY

(In Thousands)	Members' Equity	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Members'/ Stockholder Equity	Non-controlling Interest	Total Equity
BALANCES, JANUARY 1, 2015	**—**	**$1**	**$736,093**	**$977,558**	**($13,971)**	**$1,699,681**	**$36,229**	**$1,735,910**
Net income (loss)	—	—	—	87,994	—	87,994	(891)	87,103
Change in equity of noncontrolling interest	—	—	—	—	—	—	(36,116)	(36,116)
Assumption of noncontrolling interest	—	—	37,292	—	—	37,292	—	37,292
Total other comprehensive income	—	—	—	—	591	591	778	1,369
BALANCES, DECEMBER 31, 2015	**—**	**1**	**773,385**	**1,065,552**	**(13,380)**	**1,825,558**	**—**	**1,825,558**
Net income	—	—	—	78,004	—	78,004	—	78,004
Total other comprehensive income	—	—	—	—	4,375	4,375	—	4,375
BALANCES, DECEMBER 31, 2016	**—**	**1**	**773,385**	**1,143,556**	**(9,005)**	**1,907,937**	**—**	**1,907,937**
Net loss prior to organizational transactions (Notes 1 and 14)	—	—	—	(61,050)	—	(61,050)	—	(61,050)
Effect of LLC Conversion (Notes 1 and 16)	$2,746,797	(1)	(773,385)	(1,082,506)	—	890,905	—	890,905
Capital contribution from TCSA (Notes 1 and 14)	610,064	—	—	—	—	610,064	—	610,064
Capital distribution to PLAH (Notes 1 and 14)	(610,064)	—	—	—	—	(610,064)	—	(610,064)
Net income subsequent to organizational transactions (Notes 1 and 14)	214,418	—	—	—	—	214,418	—	214,418
Total other comprehensive income	—	—	—	—	3,999	3,999	—	3,999
BALANCES, DECEMBER 31, 2017	**$2,961,215**	**—**	**—**	**—**	**($5,006)**	**$2,956,209**	**—**	**$2,956,209**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Years Ended December 31, 2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$1,044,274	$78,004	$87,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	322,264	330,748	342,334
Amortization of lease incentives and premiums, net	20,892	21,883	25,220
Amortization of debt acquisition costs and original issuance discounts	18,611	23,212	21,786
Non-hedging derivative instrument settlements	5,174	(7,681)	35,201
Unrealized gain on non-hedging derivative instruments	(7,306)	(1,109)	(29,550)
Unrealized loss (gain) on foreign currency adjustment of debt financings	7,021	12,950	(4,166)
Maintenance reserves, security deposits and lease incentives included in earnings	(46,413)	(73,888)	(77,575)
Asset impairment	156,109	151,509	61,638
(Gain) loss on sale of flight equipment	(18,925)	(11,158)	69,198
Deferred income taxes	(868,767)	172,018	127,176
Earnings from equity method investments	(5,108)	(2,804)	(3,299)
Other operating activities, net	(3,916)	5,349	(2,803)
Changes in operating assets and liabilities:			
Equity method investments	5,567	—	—
Other assets, net	(24,776)	(7,292)	(10,354)
Accounts payable, accrued expenses and other liabilities	(30,726)	18,886	8,644
Lease incentives	(5,205)	(14,519)	(6,459)
Deferred income	1,848	2,028	6,819
NET CASH AND RESTRICTED CASH PROVIDED BY OPERATING ACTIVITIES	570,618	698,136	650,913
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of flight equipment and related assets	(1,290,548)	(835,673)	(1,093,887)
Prepayments on flight equipment	(808,407)	(408,952)	(192,824)
Capitalized interest on prepayments on flight equipment	(34,980)	(17,893)	(15,906)
Proceeds from sale of flight equipment	723,756	959,026	165,804
Payments on non-hedging derivative instruments	(6,582)	(117,926)	(197,003)
Receipts from non-hedging derivative instruments	1,408	125,607	161,802
Distributions from equity method investments	40,468	47	—
Contributions to equity method investments	(2,000)	(13,705)	(11,735)
Return of prepayments on flight equipment	—	—	28,670
Collections on investment in finance leases, net	15,086	7,732	5,108
Other investing activities, net	18,068	9,720	3,132
NET CASH AND RESTRICTED CASH USED IN INVESTING ACTIVITIES	(1,343,731)	(292,017)	(1,146,839)

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See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Years Ended December 31, 2017	2016	2015
(Continued)			
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt financings	$1,731,937	$222,014	$916,058
Repayment of debt financings	(271,705)	(1,296,234)	(826,213)
(Repayment of) proceeds from unsecured revolving credit facilities, net	(785,000)	535,000	219,000
Capital contribution from TCSA	610,064	—	—
Capital distribution to PLAH	(610,064)	—	—
Repayment of VIE revolving credit agreement	—	(35,000)	—
Receipts of security deposits	36,300	29,332	27,004
Payments of security deposits	(15,330)	(12,929)	(14,289)
Receipts of maintenance reserves	175,124	184,062	171,934
Payments of maintenance reserves	(34,029)	(30,890)	(37,180)
Distributions to noncontrolling interest	—	—	(16,804)
Other financing activities, net	(4,568)	(3,773)	(7,264)
NET CASH AND RESTRICTED CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	832,729	(408,418)	432,246
Net change in cash and cash equivalents and restricted cash	59,616	(2,299)	(63,680)
Cash and cash equivalents and restricted cash, beginning of year	313,427	315,726	379,406
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$373,043	$313,427	$315,726
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid, net of capitalized interest	$178,406	$208,590	$188,415
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	$210,977	$319,188	$55,875
Non cash transfer from flight equipment held for lease, net and assets held for sale to investment in finance leases, net	$88,946	$158,664	$54,834
Non cash additions to flight equipment held for lease, net	$12,753	$115,412	$15,400
Security deposits and maintenance reserves settled in sale of flight equipment	$79,656	$107,162	$39,076
Security deposits and maintenance reserves assumed in purchase of flight equipment	$25,992	$12,614	$49,493

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Aviation Capital Group LLC (ACG LLC) is a full service aircraft asset manager. Our business consists primarily of the acquisition, disposition and leasing of commercial jet aircraft and our principal activity is to act as an owner and lessor of commercial jet aircraft subject to operating leases. We also provide certain aircraft asset management services for third parties, including joint ventures. Our lessee customers are primarily commercial airlines operating across the globe.

ACG LLC is an indirect subsidiary of Pacific Life Insurance Company (Pacific Life), a wholly owned subsidiary of Pacific LifeCorp (LifeCorp). On March 31, 2017, ACG LLC was converted to a Delaware limited liability company from a corporation named Aviation Capital Group Corp. (ACG Corp). In connection with this conversion, a series of organizational transactions were completed, including:

- Pacific Life contributed 100% of its ownership in ACG Corp to Pacific Life Aviation Holdings LLC (PLAH), a wholly owned subsidiary of Pacific Life.
- In connection with the conversion to a limited liability company, all of the shares of capital stock in ACG Corp outstanding prior to the conversion were converted into limited liability company interests represented by 100 units.
- PLAH, as the sole stockholder of ACG Corp prior to the conversion, was admitted to ACG LLC as the sole member of ACG LLC in respect of all 100 units.
- Immediately after PLAH's admission as sole member of ACG LLC, PLAH contributed 1 unit in ACG LLC to Aviation Capital Group Holdings, Inc. (ACGHI), a Delaware corporation, and in connection therewith, ACGHI was admitted to ACG LLC as a member in respect of such unit and PLAH was deemed resigned as a member in respect of such unit. At the time of the conversion, ACGHI was a wholly owned subsidiary of PLAH.
- In the limited liability company agreement of ACG LLC, ACGHI was named the managing member of ACG LLC.

The accompanying consolidated financial statements therefore refer to ACG LLC and represent the accounts of ACG Corp, as it was formerly known, and all of ACG LLC's subsidiaries (together ACG, we, us, or our).

In December 2017, TC Skyward Aviation U.S., Inc. (TCSA), a Delaware corporation and direct subsidiary of Tokyo Century Corporation, a Japanese corporation (Tokyo Century), completed the purchase of newly issued limited liability company interests in ACG LLC in an amount that represents 20% of the outstanding units in ACG LLC immediately after giving effect to such issuance (Initial Investment). In connection with the closing of the Initial Investment, (i) ACG LLC increased the number of its units held by PLAH and ACGHI to 79,000 units and 1,000 units, respectively, and issued and sold 20,000 newly issued units to TCSA, and (ii) PLAH transferred one share of the outstanding common stock of ACGHI to TCSA. Following the Initial Investment, ACG LLC has 100,000 units of limited liability company interests outstanding. ACG distributed the proceeds from the Initial Investment to PLAH promptly following the closing. Consideration for the Initial Investment may be adjusted subject to certain conditions. At the request of ACG LLC and subject to certain conditions, TCSA has agreed to provide up to $600.0 million of additional equity capital to ACG through December 2020 (Primary Investment Period), pursuant to one or more investments, in exchange for newly issued units in ACG LLC. If TCSA owns less than 30% of the limited liability company interests in ACG LLC after the Primary Investment Period, TCSA shall have the right, subject to certain conditions, to purchase units in ACG LLC from PLAH up to an amount resulting in TCSA owning 30% of the outstanding limited liability company interests in ACG LLC immediately following such purchase.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Our consolidated financial statements include the accounts of all entities in which we have a controlling financial interest, including the accounts of any variable interest entity (VIE) in which we have a controlling financial interest and are thus deemed to be the the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

We manage, operate and present our business as a single segment.

Certain reclassifications have been made in the presentation of the 2015 and 2016 consolidated statements of cash flows to conform to the 2017 presentation.

RISK AND UNCERTAINTIES

In the normal course of business, we encounter several significant types of economic risk including but not limited to; credit, market, aviation industry and capital market risks. Credit risk is the risk of a lessee's inability or unwillingness to make contractually required payments and to fulfill its other contractual obligations. Market risk reflects the change in the value of derivatives and financings due to changes in interest rate spreads or other market factors, including the value of collateral underlying financings. Aviation industry risk is the risk of a downturn in the commercial aviation industry that could adversely affect a lessee's ability to make payments, increase the risk of unscheduled lease terminations and depress lease rates and the value of our aircraft. Capital market risk is the risk that we are unable to obtain capital at reasonable rates to fund the growth of our business or to refinance existing debt facilities.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires that we make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. While we believe that the estimates and related assumptions used in the preparation of the consolidated financial statements are reasonable, actual results could differ from those estimates. The use of estimates is or could be a significant factor affecting the reported carrying values of flight equipment, acquired contractual rights, lease incentives, deferred income taxes, accruals and reserves. In developing these estimates, we are required to make subjective and complex decisions that are inherently uncertain and subject to material changes as facts and circumstances change.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

RESTRICTED CASH

Restricted cash includes cash held by banks that is subject to withdrawal restrictions. Such amounts are typically restricted under secured debt agreements.

FLIGHT EQUIPMENT HELD FOR LEASE, NET AND DEPRECIATION

We record our flight equipment held for lease at cost less accumulated depreciation. Cost consists of the acquisition price, including interest capitalized during the construction period of a new aircraft, and major improvements. Depreciation to our estimated residual value is computed using the straight-line method over the estimated useful life of the aircraft, which is generally 25 years from the date of manufacture. We capitalize major improvements to aircraft as incurred and depreciate the improvements over the shorter of the remaining useful life of the flight equipment or the improvement. In addition, costs paid by us for planned major maintenance activities and overhauls are capitalized and depreciated on a straight-line basis until the next scheduled maintenance or overhaul event.

We test the carrying values of our flight equipment for impairment each quarter. Additionally, we test for potential impairment whenever events or changes in circumstances indicate that the carrying value of our flight equipment may not be recoverable. We test for impairment utilizing a two-step process. Step one, is a review of the recoverability which includes an assessment of the estimated future

undiscounted cash flows associated with the use of the flight equipment and its eventual disposal. The assets are grouped at the lowest level for which identifiable cash flows are largely independent of other groups of assets, which includes the individual aircraft and the lease-related assets and liabilities of that aircraft (the Asset Group). Step two, if the future undiscounted cash flows of the flight equipment are less than the Asset Group's carrying value, the Asset Group is deemed impaired and re-measured to fair value. We measure the impairment, if any, as the excess of the carrying value of the Asset Group over its fair value on the measurement date. An impairment loss for an Asset Group reduces the carrying amounts of the long-lived assets related to the Asset Group.

ASSETS HELD FOR SALE

We evaluate all proposed flight equipment sale transactions to determine whether the required criteria have been met under U.S. GAAP to classify the flight equipment or Asset Group as assets held for sale. We use judgment in evaluating these criteria. Assets held for sale are valued at the lower of depreciated cost or fair value less costs to sell. We cease recognition of depreciation and amortization expense upon transfer to assets held for sale. We continue to recognize operating lease revenue until the disposition date. Rent collected from the contracted sale date through the disposition date generally reduces the sale proceeds. An asset impairment is recorded for assets held for sale when the carrying value of the Asset Group exceeds its fair value, less estimated cost to sell.

PREPAYMENTS ON FLIGHT EQUIPMENT

Prepayments on flight equipment represent progress payments, and capitalized interest thereon, associated with aircraft order positions we hold with various aircraft manufacturers and deposits paid for aircraft purchases with other third parties. Upon delivery, the deposit associated with an order position will be capitalized to the aircraft's cost.

CAPITALIZED INTEREST ON PREPAYMENTS ON FLIGHT EQUIPMENT

We use debt financings to fund the acquisition of aircraft during the period it is under production by the manufacturer. We capitalize the interest expense on such financings thereby reducing the interest expense we report for the period. The amount capitalized is calculated using a composite borrowing rate for senior unsecured financings and is recorded as an increase to prepayments on flight equipment and ultimately the cost of the aircraft.

ACQUIRED AIRCRAFT CONTRACTUAL RIGHTS

When we acquire used aircraft subject to operating leases, we record the relative fair value of all assets acquired. Assets acquired generally include aircraft and certain contractual rights we acquire under a lease agreement. Contractual rights include aircraft maintenance right assets and liabilities and the right to receive lease cash flows above or below market rates (Lease Premium or Discount), which are assessed at the time of acquisition.

Lease Premium or Discount represents the present value of the difference in cash flows specified in an acquired lease agreement and the estimated cash flows the subject aircraft would command in market transactions at the acquisition date. We record acquired Lease Premium or Discounts in other assets. Lease Premiums are recognized as a reduction to revenues on a straight-line basis over the life of the lease. Lease Discounts are recognized as an increase to revenues on a straight-line basis over the life of the lease.

We identify, measure, and account for maintenance right assets and liabilities associated with our acquisitions of aircraft subject to a lease agreement. A maintenance right asset represents the fair value of the contractual right under a lease to receive an aircraft in an improved maintenance condition as compared to the maintenance condition on the acquisition date. A maintenance right liability represents the obligation to pay the lessee for the difference between the lease end contractual maintenance condition of the aircraft and the actual maintenance condition of the aircraft on the acquisition date. We record acquired net aircraft maintenance right assets in flight equipment held for lease, net.

Our aircraft leases are principally structured as triple net leases whereby the lessee is responsible for maintaining the aircraft, which is accomplished through one of two types of provisions in our leases: (i) end of lease return compensation based on the lessee's usage (EOL Leases) or (ii) periodic maintenance payments (MR Leases).

EOL Leases

Under EOL Leases, the lessee makes payments to us at the end of the lease term based on the usage of the aircraft and major life-limited components during the lease. In some cases, we may owe a net payment to the lessee in the event maintenance is performed and paid by the lessee during the lease term and the aircraft is returned to us in better condition than at lease inception.

Maintenance right assets in EOL Leases represent the difference in value between the contractual right to receive an aircraft in an improved maintenance condition as compared to the maintenance condition on the acquisition date. Maintenance right liabilities exist in acquired EOL Leases if, on the acquisition date, the maintenance condition of the aircraft is better than the contractual return condition in the lease and we are required to pay the lessee for the improved maintenance condition.

When we have recorded maintenance right assets for EOL Leases, the following accounting scenarios exist at the end of the lease (i) the aircraft is returned in the contractually specified maintenance condition without any cash payment to us by the lessee, the maintenance right asset is eliminated and an aircraft improvement is recorded to the extent the improvement is substantiated and deemed to meet our capitalization policy; (ii) the lessee remits a cash payment in excess of the value of the maintenance right asset, the maintenance right asset is eliminated and any excess is recognized as maintenance revenue; or (iii) the lessee remits a cash payment that is less than the value of the maintenance right asset, the cash is applied to the maintenance right asset and the balance of such asset is eliminated and recorded as an aircraft improvement to the extent the improvement is substantiated and meets our capitalization policy. Any aircraft improvement capitalized will be depreciated over a period to the next scheduled maintenance event in accordance with our policy with respect to major maintenance and included in depreciation.

When we have recorded maintenance right liabilities for EOL Leases, the following accounting scenarios exist at the end of the lease: (i) the aircraft is returned in the contractually specified maintenance condition without any cash payment by us to the lessee, the maintenance right liability is eliminated and is recognized as maintenance revenue; (ii) we remitted a cash payment to the lessee that is less than the value of the maintenance right liability, the maintenance right liability is eliminated and any difference is recognized as maintenance revenue; or (iii) we paid the lessee a cash payment in excess of the value of the maintenance right liability, the maintenance right liability is eliminated and the excess amount is recorded as an aircraft improvement if it meets our capitalization policy.

MR Leases

Under MR Leases, the lessee is required to make periodic payments to us for maintenance based upon usage of the aircraft and major life-limited components. When qualified major maintenance is performed during the lease term, we are required to reimburse the lessee for the costs associated with such maintenance. At the end of lease, we are entitled to retain any cash receipts in excess of the required reimbursements to the lessee.

Maintenance right assets in acquired MR Leases represent the right to receive an aircraft in an improved condition relative to the actual condition on the acquisition date. The aircraft is improved by the performance of qualified major maintenance paid by the lessee who is reimbursed by us from the periodic maintenance reserves that we received.

When we have recorded maintenance right assets with respect to MR Leases, the following accounting scenarios exist: (i) the aircraft is returned at the end of the lease and no qualified major maintenance has been performed by the lessee since the acquisition date, the maintenance right asset is offset by the amount of the associated maintenance reserve liability and any excess is recognized as maintenance revenue; or (ii) we have reimbursed the lessee for the performance of some or all of the qualified major maintenance, the maintenance right asset is relieved and an aircraft improvement is recorded and any excess is recognized as maintenance revenue. There are no maintenance right liabilities for MR Leases.

When flight equipment is sold while on lease, contractual rights are released as gain (loss) on sale of flight equipment.

We evaluate all acquired aircraft contractual rights for impairment when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

EQUITY METHOD INVESTMENTS

We account for our interest in entities in which we exert significant influence but do not have a controlling financial interest by the equity method of accounting. Under the equity method, we record our initial investment at cost and adjust the carrying value by our share of the entity's undistributed earnings and losses, and contributions and distributions of capital and dividends. We evaluate our equity method investments for potential impairment whenever events or circumstances indicate that the carrying value of such investments may not be recoverable.

DEBT FINANCINGS, NET

Debt financings are carried at the principal amount borrowed, net of unamortized original issuance discounts and debt acquisition costs. We amortize debt acquisition costs and original issuance discounts on a straight-line basis (which does not materially differ from the effective interest method) over the life of the related debt instrument/facility, and include the amortization in interest, net.

SECURITY DEPOSITS

Most of our operating leases require the lessee to pay a cash deposit or provide a letter of credit for security for certain contractual obligations. Security deposits are generally returned to the lessee at the end of the lease. If the lessee fails to perform under the terms of the lease, we may use security deposits to offset any outstanding contractual obligations and/or record them as other income.

MAINTENANCE RESERVES AND MAINTENANCE REVENUE

Our aircraft leases are principally triple net leases, structured as MR Leases or EOL Leases, the lessee is responsible for maintaining the aircraft. Factors we consider when deciding if a lessee will make periodic maintenance payments, rather than making maintenance payments at the end of the lease term, include the creditworthiness of the lessee, the level of security deposit provided by the lessee and market conditions at the time we enter into the lease.

Under MR Leases, unreimbursed cash receipts are recognized as maintenance revenue at the end of the lease.

Under EOL Leases, maintenance payments made to us at the end of the lease term are recognized as maintenance revenue when received. Maintenance payments we make to the lessee are recorded as a reduction to maintenance revenue.

LEASE INCENTIVES AND AMORTIZATION OF LEASE INCENTIVES AND PREMIUMS, NET

Some of our leases contain provisions which require us to pay a portion of a lessee's major maintenance based on use of the aircraft and major life-limited components that were incurred prior to the current lease. At lease inception, we estimate the amounts we expect to pay the lessee during the lease term based on the estimated utilization of the aircraft by the lessee, the estimated maintenance cost, and the estimated amount the lessee is responsible to pay.

We do not recognize lease incentive liabilities at the inception of the lease. Estimated lease incentive liabilities are recognized as a reduction to revenues on a straight-line basis over the life of the lease with the offset recorded as a lease incentive liability. When a payment is made to the lessee associated with the lease incentive, the lease incentive liability is reduced. Any amount paid in excess of the lease incentive liability is recorded as a prepaid lease incentive asset, which is included in other assets, net and continues to amortize as a reduction to operating lease revenue over the remaining life of the lease.

Major improvements funded by us pursuant to a lease agreement or lessee specific modifications (Lease Acquisition Costs) are capitalized and amortized as a reduction to operating lease revenues over the term of the related lease.

VARIABLE INTEREST ENTITIES

We evaluate our interests in all legal entities to determine if our interest is a variable interest and, if so, the legal entity is a VIE. For those legal entities that qualify as VIEs, we confirm their status on an ongoing basis and consolidate those VIEs in which we have a controlling financial interest and are thus deemed to be the primary beneficiary. A primary beneficiary has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

CONTINGENCIES

We evaluate each contingent matter separately. We record a loss when it is probable and reasonably estimable (Note 13). Additionally, should we identify a contingency that does not meet our criteria for accrual, but we estimate a reasonably possible chance of occurrence, we will disclose the nature of the contingency and, when possible, provide an estimate of the potential loss.

FAIR VALUE

Fair value is defined as the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We measure the fair value of our derivatives on a recurring basis and measure the fair value of aircraft on a non-recurring basis.

DERIVATIVE FINANCIAL INSTRUMENTS AT FAIR VALUE, NET

We use interest rate swaps, an interest rate cap and foreign currency swap contracts (collectively Derivative Financial Instruments) to manage exposure to changes in interest rates and foreign currencies. Derivative Financial Instruments are not held or issued for trading or speculative purposes. If certain conditions are met, a Derivative Financial Instrument may be specifically designated as a hedge. All Derivative Financial Instruments, whether designated as a hedging relationship or not, are required to be recorded at estimated fair value. If a Derivative Financial Instrument is designated as a cash flow hedge, the effective portion of changes in the estimated fair value of the derivative is recorded in accumulated other comprehensive loss (AOCL) and reclassified to earnings when the hedged item affects earnings, and the ineffective portion of changes in the estimated fair value of the derivative is recognized in interest, net. Changes in the estimated fair value of Derivative Financial Instruments that are not designated as hedges or do not qualify as hedges are included in interest, net.

On the date we enter into a Derivative Financial Instrument contract, we designate the derivative as a hedge of the identified exposure if it qualifies. All relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions, are formally documented at inception. In this documentation, the hedged item is specifically identified and how the hedging instrument is expected to hedge the risks related to the hedged item is stated. We formally assess the effectiveness of all hedging relationships both at inception and on a quarterly basis in accordance with our risk management policy.

Hedge accounting is discontinued prospectively when we determine that the Derivative Financial Instrument is no longer effective in offsetting changes on the cash flows of a hedged item, when the Derivative Financial Instrument expires or is sold or terminated, or when we determine that designation of the Derivative Financial Instrument as a hedge instrument is no longer appropriate.

The periodic cash flows for all Derivative Financial Instruments designated as a hedge are recorded consistent with the hedged item on an accrual basis. For Derivative Financial Instruments that are hedging current or future interest payments, these amounts are included in

interest, net. For Derivative Financial Instruments that are hedging lease cash flows, these amounts are included in operating lease expense.

RELATED PARTY TRANSACTIONS

We disclose all material related party transactions (Note 21) other than certain compensation arrangements, expense allowances, and other similar items incurred in the ordinary course of business. Because the requisite conditions of a competitive free-market may not exist, these transactions may differ from those available to us in the open market.

INCOME TAXES

Effective March 31, 2017, we changed our tax status from a corporation to a limited liability company treated as a partnership for U.S. federal and state income tax purposes. Therefore, for periods after March 31, 2017, we are a flow-through entity for U.S. tax purposes with all related U.S. income tax liabilities and/or benefits of us being passed through to its members. As such, no recognition of U.S. federal or state income taxes have been provided for in the accompanying consolidated financial statements for the period after March 31, 2017. Prior to March 31, 2017, we applied Accounting Standards Codification Topic 740 ("ASC 740") to the financial reporting of our U.S. and foreign income taxes, and continue to apply ASC 740 to the financial reporting of income taxes for our taxable foreign subsidiaries.

OPERATING LEASE REVENUE

Our aircraft leases are principally accounted for as operating leases and structured as triple net leases whereby the lessee is responsible for maintaining the aircraft and paying operational, maintenance and insurance expenses. All of our leases require payments in U.S. dollars (USD). We recognize operating lease revenue on a straight-line basis over the term of the lease agreements.

Lease payments received under the terms of the lease agreements, but unearned, are recorded as deferred income until earned. If collection of the scheduled lease payment is not reasonably assured, we recognize revenue on a cash basis.

FINANCE LEASE REVENUE

If a new or modified lease fails to qualify as an operating lease, we recognize the lease as a direct finance lease or a sales-type lease (collectively finance leases). At the inception of the lease agreement, a sales-type lease includes a profit or loss equal to the difference between the fair value of the aircraft and our carrying value. In a direct finance lease, the fair value of the aircraft and the carrying value are identical at lease inception.

Our investment in finance leases, net consists of future minimum lease payments, less the unearned income, plus the estimated unguaranteed residual value of the leased aircraft. We recognize the unearned income over the lease term in a manner that produces a constant rate of return on our net investment in finance leases. We evaluate the collectability of finance leases at an individual customer level. We monitor all lessees with past due lease payments and consider relevant operational and financial issues facing those lessees in order to determine an appropriate allowance for doubtful accounts. Based on our findings, we did not establish an allowance for doubtful accounts for our finance leases as of December 31, 2017 or 2016.

RECENT ACCOUNTING PRONOUNCEMENTS ADOPTED

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, which changes the presentation of restricted cash on the statement of cash flows. Restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this ASU retrospectively on January 1, 2018. We adjusted our consolidated statement of cash flows from amounts previously reported due to the adoption of ASU 2016-18. The following table presents the effects of adopting ASU 2016-18 on our consolidated statement of cash flows (*In Thousands*):

	December 31, 2017		
	As Previously Reported	Adoption of ASU-2016-18	As Adjusted
Change in restricted cash	$(31,015)	$31,015	—
Net cash and restricted cash provided by financing activities	$801,714	$31,015	$832,729
Net change in cash and cash equivalents and restricted cash	28,601	31,015	59,616
Cash and cash equivalents and restricted cash, beginning of the period	138,274	175,153	313,427
Cash and cash equivalents and restricted cash, end of period	166,875	206,168	373,043

	December 31, 2016		
	As Previously Reported	Adoption of ASU-2016-18	As Adjusted
Change in restricted cash	$85,055	$(85,055)	—
Net cash and restricted cash used in financing activities	(323,363)	(85,055)	(408,418)
Net change in cash and cash equivalents and restricted cash	82,756	(85,055)	(2,299)
Cash and cash equivalents and restricted cash, beginning of the period	55,518	260,208	315,726
Cash and cash equivalents and restricted cash, end of period	138,274	175,153	313,427

	December 31, 2015		
	As Previously Reported	Adoption of ASU-2016-18	As Adjusted
Change in restricted cash	$(676)	$676	—
Net cash and restricted cash provided by financing activities	431,570	676	432,246
Net change in cash and cash equivalents and restricted cash	(64,356)	676	(63,680)
Cash and cash equivalents and restricted cash, beginning of the period	119,874	259,532	379,406
Cash and cash equivalents and restricted cash, end of period	55,518	260,208	315,726

In October 2016, the FASB issued ASU 2016-17, which alters how a decision maker needs to consider indirect interests in a VIE held through an entity under common control. Under the ASU, if a decision maker is required to evaluate whether it is the primary beneficiary of a VIE, it will need to consider only its proportionate indirect interest in the VIE held through a common control party. We adopted this ASU on January 1, 2017 and it did not have an impact on our consolidated financial statements.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In August 2017, the FASB issued targeted improvements to accounting for hedging activities, ASU 2017-12. The amended guidance objective is to improve the financial reporting of hedging relationships to better portray the economic results of a Company's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance. It is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Upon adoption, cash flow and net investment hedges will require a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income (AOCI) with a corresponding adjustment to the beginning balance of retained earnings. The amended presentations and disclosure guidance is required only prospectively. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In January 2017, the FASB issued new guidance on business combinations, ASU 2017-01. The guidance clarifies the definition of a business and provides guidance to determine when a set of assets and activities is a business. It is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and should be applied on a prospective basis. The adoption of this guidance will result in fewer acquisitions that qualify as a business and acquisition costs associated with those acquisitions that don't

qualify as a business will be capitalized instead of expensed. We have concluded our evaluation of this guidance and determined that the standard will not have an impact on our financial statements.

In August 2016, the FASB issued ASU 2016-15, which provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. It is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We are currently in the process of evaluating the impact of this guidance on our consolidated statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, which primarily amends existing leasing guidance related to a lessee's accounting for operating leases. According to the guidance, accounting for leases by lessors would remain generally unchanged from the current existing concepts. We will adopt this guidance by the required adoption date for private companies of January 1, 2020. We are currently in the process of evaluating the impact of this guidance on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new guidance changes the current accounting guidance related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. It is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We are currently in the process of evaluating the impact of this guidance on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, which supersedes most of the current revenue recognition requirements. The guidance requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. We will adopt this guidance by the required adoption date for private companies of January 1, 2019. We are currently in the process of evaluating the impact of this guidance on our consolidated financial statements.

3. FLIGHT EQUIPMENT HELD FOR LEASE, NET

The following table presents the components of flight equipment held for lease, net, *(In Thousands)*:

	December 31,	
	2017	2016
Cost	$9,088,012	$9,226,166
Less: accumulated depreciation	(1,663,785)	(1,696,931)
Flight equipment held for lease, net	$7,424,227	$7,529,235

As of December 31, 2017 and 2016, included in flight equipment held for lease, net is $164.3 million and $123.8 million, respectively, of net aircraft maintenance right assets.

As of December 31, 2017 and 2016, flight equipment held for lease with a carrying value of $1,627.2 million and $1,838.5 million, respectively, were pledged as collateral for certain secured debt financings (Note 12).

As of December 31, 2017, we did not have any aircraft not subject to a signed lease or sales commitment.

The following table presents, by year, the future minimum lease rentals we are due under operating leases as of December 31, 2017 *(In Thousands)*:

Years Ended December 31:	
2018	$863,304
2019	822,204
2020	728,706
2021	641,374
2022	540,833
Thereafter	1,265,144
Total	$4,861,565

Included in the table above are future lease rentals of $134.4 million related to six aircraft we lease from third parties and sublease to airlines pursuant to subleases with maturity dates ranging from 2021 to 2024. During each of the years ended December 31, 2017, 2016 and 2015, the operating lease revenue we received from the subleases related to these aircraft was $27.1 million. We sold these aircraft to third parties and subsequently leased them back under operating leases with maturity dates ranging from 2023 to 2025. The following table presents our aggregate minimum future lease commitments on these operating leases *(In Thousands)*:

Years ended December 31:	
2018	$20,241
2019	20,663
2020	28,483
2021	27,601
2022	20,410
Thereafter	22,793
Total	$140,191

We hold fixed price purchase options exercisable for each of the six operating leases arising from these sale-leaseback transactions.

4. ASSETS HELD FOR SALE

Assets held for sale consists of flight equipment or an Asset Group that are part of a sale transaction. Assets held for sale totaled $410.1 million and $325.4 million as of December 31, 2017 and 2016, respectively. Assets held for sale are valued at the lower of carrying value or fair value less costs to sell. We cease recognition of depreciation and amortization expense on all related assets upon transfer to assets held for sale.

When we record assets held for sale at fair value less costs to sell and the amount is less than our carrying value, we record an asset impairment in our consolidated statements of income.

5. INVESTMENT IN FINANCE LEASES, NET

As of December 31, 2017, our investment in finance leases represents 22 aircraft on lease to five customers with over 75% of the carrying value leased to customers based in the U.S. The following table presents the components of investment in finance leases, net *(In Thousands)*:

	December 31,	
	2017	2016
Total future minimum lease payments	$369,111	$304,811
Less: unearned income	(133,327)	(129,943)
Estimated residual value (unguaranteed)	96,864	78,839
Investment in finance leases, net	$332,648	$253,707

The following table presents, by year, the future minimum lease payments we are due on finance leases (*In Thousands*):

Years Ended December 31:	
2018	$71,872
2019	39,892
2020	38,432
2021	38,282
2022	38,124
Thereafter	142,509
Total	$369,111

6. GEOGRAPHIC CONCENTRATION

We operated over 87% of our aircraft portfolio, which consists of flight equipment held for lease, net and assets held for sale, in markets outside the U.S. as of December 31, 2017 and 2016. The following table presents the global concentration of our aircraft portfolio, based on the lessee's location of record, measured at net book value of flight equipment held for lease and assets held for sale (*Dollars in Thousands*):

	December 31,			
	2017		2016	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia	$3,483,126	44.5%	$3,183,563	40.5%
Central and South America	1,330,815	17.0%	1,303,354	16.6%
Europe	1,318,133	16.8%	1,726,249	22.0%
North America	1,184,201	15.1%	1,166,558	14.9%
Middle East and Africa	300,834	3.8%	383,355	4.8%
Sub-total	7,617,109	97.2%	7,763,079	98.8%
Aircraft off-lease subject to a signed lease or sales commitment	217,191	2.8%	20,394	0.3%
Aircraft off-lease not subject to a signed lease or sales commitment	—	0.0%	71,170	0.9%
Total	$7,834,300	100.0%	$7,854,643	100.0%

The following table presents the global concentration of our operating lease revenue, based on the lessee's location of record during the years ended December 31, 2017, 2016 and 2015 (*Dollars in Thousands*):

	Years Ended December 31,					
	2017		2016		2015	
	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total
Region:						
Asia	$357,941	40.9%	$303,329	35.0%	$242,333	29.0%
Europe	186,381	21.3%	210,152	24.3%	215,897	25.9%
North America	155,412	17.8%	152,152	17.6%	174,942	20.9%
Central and South America	140,380	16.1%	156,468	18.1%	162,366	19.4%
Middle East and Africa	34,047	3.9%	44,149	5.0%	39,606	4.8%
Operating lease revenue	$874,161	100.0%	$866,250	100.0%	$835,144	100.0%

For the years ended December 31, 2017, 2016 and 2015, no individual lessee accounted for more than 10% of our operating lease revenue. For the year ended December 31, 2017, no country accounted for more than 10% of our operating lease revenue except the U.S. and China, and for the years ended December 31, 2016 and 2015, no country accounted for more than 10% of our operating lease revenue except the U.S.

7. VARIABLE INTEREST ENTITIES

FINANCING STRUCTURES

In connection with certain of our financing structures, we have participated in the design and formation of certain legal entities that we consolidate into our consolidated financial statements. The purpose of these legal entities is to enable our lenders under these financing structures to perfect their security interest in certain aircraft that secure the related debt financings.

These legal entities have entered into loans with various third parties and financial institutions that are primarily guaranteed by ACG and supported by secondary guarantees from either the Export-Import Bank of the United States (Ex-Im) or the export credit agencies of the United Kingdom, France and/or Germany (ECA) (collectively Export Credit Agencies). These legal entities use the proceeds from these loans to purchase aircraft. The aircraft secure the loans and are leased, pursuant to capital leases, to us. The loans are recourse to the general credit of ACG through the guarantee that is in place.

Some of these legal entities are considered VIEs because they do not have sufficient equity at risk. Additionally, we bear significant risk of loss and participate in gains through the leases and have the power to direct the activities that most significantly impact the economic performance of these legal entities. Therefore, we have determined we are the primary beneficiary of these VIEs and consolidate them into our consolidated financial statements.

The net book value of the aircraft owned by the legal entities that are considered VIEs as of December 31, 2017 and 2016, totaled $1,395.7 million and $1,619.3 million, respectively, and is included in flight equipment held for lease, net (Note 3). In addition, as of December 31, 2017 and 2016, the debt financing associated with these legal entities totaled $692.6 million and $885.6 million, respectively, and is included in debt financings, net (Note 12).

BACL and BAML

In February 2016, we established two separate joint ventures, Bauhinia Aviation Capital Limited (BACL) and Bauhinia Aviation Management Limited (BAML). BACL was established with two third party investors for the purpose of investing in the purchasing, leasing and selling of commercial aircraft. We own 20% of the equity of BACL and our subsidiary, ACG Aircraft Leasing Ireland Ltd. (AALIL), acts

as the servicer for aircraft owned by BACL. BACL is not consolidated because we are not the primary beneficiary since we do not have the obligation to absorb losses/benefits that could potentially be significant to BACL or a controlling financial interest. As of December 31, 2017 and 2016, the carrying amount and maximum exposure to loss related to BACL was $14.5 million and $12.7 million, respectively, which is included in equity method investments.

BAML was established with a separate third party investor for the purpose of providing management services for BACL. We own 50% of the equity of BAML. BAML is not consolidated because we are not the primary beneficiary since we do not have the obligation to absorb the losses/benefits that could potentially be significant to BAML or a controlling financial interest. As of December 31, 2017 and 2016, the carrying amount and maximum exposure to loss related to BAML was $0.7 million and $23.0 thousand, respectively, which was included in equity method investments.

In January 2018, we sold our equity interest in BACL and AALIL ceased acting as servicer. In connection with the sale of our equity interest in BACL, BAML ceased providing management services for BACL.

ACG TRUST

In December 2000, we sponsored, through our 50% ownership of ACG Acquisition VI LLC, which held a 20% ownership interest in ACG Acquisition XIX LLC, a financial asset securitization of aircraft whereby Aviation Capital Group Trust (ACG Trust) acquired 30 of our aircraft. We served as the remarketing and administrative agent as well as a beneficial interest holder in the transaction. As the remarketing and administrative agent, we earned management fees on the total rents paid. ACG Trust was not consolidated, as we were not the primary beneficiary since we did not have the obligation to absorb the losses/benefits that could potentially be significant to ACG Trust or a controlling financial interest. As of December 31, 2017 and 2016, the carrying amount and maximum exposure to loss related to ACG Trust was zero.

During March 2017, the Court of Chancery of the State of Delaware approved ACG Trust's Plan of Resolution providing for the orderly liquidation and dissolution of ACG Trust, at which time the liquidation became imminent. Pursuant to this court order, ACG Trust is authorized to carry out the Plan of Resolution. The net assets of ACG Trust have been transferred to a liquidating trust to fund administrative expenses and any other claims made against the assets of the liquidating trust in a manner consistent with the Plan of Resolution. On the termination date, the liquidating trust will distribute all remaining cash, subject to a reserve for any contingent liabilities, to the Class A-1 Noteholders.

8. OTHER ASSETS, NET

The following table presents the components of other assets, net (*In Thousands*):

	December 31, 2017	December 31, 2016
Lease premium, net	$51,522	—
Lease acquisition costs and lease incentives, net	17,751	$23,500
Operating lease receivables, net	16,472	4,316
Note and other receivables	14,945	21,470
Other, net	6,527	5,168
Other assets, net	$107,217	$54,454

We monitor all lessees with past due lease payments and consider relevant operational and financial issues facing those lessees in order to determine an appropriate allowance for doubtful accounts. Based on our findings, we established an allowance for doubtful accounts of zero and $1.5 million as of December 31, 2017 and 2016, which is included in other assets, net.

The following table presents the components of lease premium, net as of December 31, 2017 (*In Thousands):*

	Gross carrying amount	Accumulated amortization	Net carrying amount
Lease premium, net	$57,546	($6,024)	$51,522

9. FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. We determine fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

In some cases, the inputs used to measure fair value can fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period.

The valuation approaches that may be used to measure fair value are as follows:

Market Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income Uses valuation techniques to convert future amounts to a single current amount based on current market expectation about those future amounts.

Cost Based on the amount that would be required currently to replace the service capacity of an asset (current replacement cost).

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. As of December 31, 2017 and 2016, we did not have any Level 3 assets or liabilities that we measured at fair value on a recurring basis. The following table presents the assets and liabilities as of December 31, 2017 and 2016 that we measured at fair value on a recurring basis by level in the fair value hierarchy (*In Thousands*):

	December 31, 2017			December 31, 2016		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Level 2:						
Derivative financial instruments at fair value, net	$1,006	($5,690)	($4,684)	—	($15,839)	($15,839)

The fair value of our Derivative Financial Instruments (Note 10) are determined using market standard valuation methodologies using mid-market inputs that are observable in the market or that can be derived principally from or corroborated by observable market data (Level 2 in the fair value hierarchy), available to us as of December 31, 2017 and 2016. The pricing models utilize, among other things, interest swap rates, interest rate volatility, and foreign currency forward and spot rates, as applicable. Analysis of the derivative valuations is performed, which includes both quantitative and qualitative analyses. Examples of procedures performed include, but are not limited to, review of internally calculated valuations and comparison to external broker valuations for reasonableness, review of pricing statistics and trends, analysis of the impacts of changes in the market environment, and review of changes in the market value for each derivative by risk managers and accountants. Based on the experience and financial strength of our counterparty, we determined nonperformance risk to be immaterial as of December 31, 2017 and 2016.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

We measure the fair value of our flight equipment and acquired aircraft contractual rights on a non-recurring basis, when events or changes to circumstances indicate that the carrying amounts of the assets may not be recoverable.

For assets held for sale and certain flight equipment held for lease, net or investment in finance leases, net (that were previously held for sale), the fair value measurement is based on the estimated sales price, less selling costs (Level 2 inputs). For flight equipment held for lease, net, and acquired aircraft contractual rights the fair value measurements are based on the present value of the future cash flows (i.e., an income approach) that uses Level 3 inputs.

The following table presents assets impaired to fair value (as measured at the time of the adjustment) on a non-recurring basis during the fiscal year and still held at December 31, 2017 and 2016 (*In Thousands*):

	December 31,			
	2017		2016	
	Level 2 (a)	Level 3 (b)	Level 2	Level 3
Flight equipment held for lease, net	$18,161	$15,802	$14,696	$81,772
Assets held for sale	122,720	—	230,886	6,345
Investment in finance leases, net	52,286	—	—	—
Total	$193,167	$15,802	$245,582	$88,117

(a) Included in flight equipment held for lease, net, is $18,161 measured during the year ended December 31, 2017. Included in investment in finance leases, net is $52,286 measured during the year ended December 31, 2017.

(b) Included in flight equipment held for lease, net, is $7,994 measured during the year ended December 31, 2017.

ACQUIRED AIRCRAFT CONTRACTUAL RIGHTS

The income approach is used to measure the fair value of acquired aircraft contractual rights. The key inputs to the income approach for lease premiums include the current contractual lease payments, the market lease rate and the discount rate. The key inputs to the income approach for maintenance right assets are the estimated cash flows received from the lessee at the end of the lease or the estimated value of the improved maintenance condition of an aircraft at the end of the lease for EOL Leases and the discount rate.

We impaired certain acquired aircraft contractual rights during the year ended December 31, 2017 as the carrying value of these assets was not expected to be recovered. As of December 31, 2017 the carrying value of these impaired acquired aircraft contractual rights is zero.

FLIGHT EQUIPMENT HELD FOR LEASE, NET

The income approach is used to measure the fair value of flight equipment held for lease, net. The key inputs to the income approach include the current contractual lease payments, the projected future lease payments extended to the end of the aircraft's estimated holding period in its highest and best use configuration, estimated disposition value less selling costs, and the discount rate.

The current contractual lease payments are based on in-force lease rates. The projected future lease payments are based on the aircraft's type, age, configuration, current contracted lease rates for similar aircraft, industry trends, and the estimated holding period. We generally assume a 25-year estimated economic useful life for aircraft. Shorter holding periods may result based on our assessment of the continued marketability of certain aircraft types or when a potential sale of an individual aircraft has been identified, or is likely. In the case of a potential sale, the holding period is based on the estimated sale date. The disposition value reflects an estimated residual value or estimated sales price less selling costs and is generally estimated based on aircraft type and condition. The estimated cash flows are then discounted to present value.

For flight equipment held for lease, net that we measured at fair value on a non-recurring basis using Level 3 inputs during the year ended December 31, 2017, the following table presents the fair value as of the measurement dates, the valuation technique and the related unobservable inputs (*Dollars in Thousands*):

	Estimated Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Flight equipment held for lease, net	$15,802	Income Approach	Discount Rate	2.1% - 3.2% (2.7%)
			Remaining Holding Period	2.2 - 2.4 Years (2.3 Years)

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

In addition to the assets and liabilities measured at fair value on a recurring or nonrecurring basis, we also have certain financial instruments that are not measured at fair value, including cash and cash equivalents, restricted cash, operating lease receivables, accounts payable, accrued expenses and other liabilities, and debt financings, net. The carrying value of cash and cash equivalents, restricted cash, operating lease receivables, and accounts payable, accrued expenses and other liabilities approximates the fair value of these financial instruments because of their short-term nature (Level 1). The carrying value of note and other receivables approximates its fair value (Level 2). The fair value of our traded debt financings is primarily related to our senior notes and is estimated based on a quoted price with a third-party financial institution (Level 2) and the fair value of our non-traded debt financings is based on current market interest rates and credit spreads (Level 2).

The carrying amounts and fair values of our most significant financial instruments as of December 31, 2017 and 2016 are as follows (*In Thousands*):

	December 31, 2017		December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$166,875	$166,875	$138,274	$138,274
Restricted cash	206,168	206,168	175,153	175,153
Operating lease receivables, net	16,472	16,472	4,316	4,316
Note and other receivables	14,945	14,945	21,470	21,470
Liabilities:				
Accounts payable, accrued expenses and other liabilities	139,143	139,143	273,533	273,533
Debt financings, net:				
Revolving credit facilities and foreign denominated term loans	440,504	440,504	1,218,481	1,218,481
Export credit facilities	842,832	846,023	1,071,124	1,070,904
Senior debt financings	4,675,265	4,865,694	2,973,378	3,222,254

During the years ended December 31, 2017 and 2016, we made no changes to the valuation techniques used in the fair value measurement of the assets and liabilities discussed above.

10. DERIVATIVE FINANCIAL INSTRUMENTS AT FAIR VALUE, NET

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates and foreign currencies.

Our operating lease revenue is generated from rental payments. Rental payments are paid in USD and are generally fixed, but may be fixed or floating with respect to leases entered into in the future. In general, an interest rate or foreign currency exposure with respect to our borrowings arises to the extent that our floating interest and foreign currency obligations do not correlate to the mix of fixed and floating rental payments made in USD for different rental periods. We manage the interest rate and foreign currency exposure with respect to our rental payments and borrowings with Derivative Financial Instruments.

We have entered into a number of interest rate derivatives to hedge the current and future interest rate payments on our variable rate debt financings. Interest rate derivatives are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. The notional amount on an interest rate derivative is not exchanged. Our interest rate derivatives typically allow us to pay fixed amounts based on fixed interest rates and receive floating amounts based on one-month and three-month London Interbank Offered Rate (LIBOR) to convert our floating rate debt to fixed rate obligations to better match the largely fixed rate cash flows from rental payments. We have one interest rate cap that places a ceiling on interest due at 6.5% for a defined notional amount which was used for risk management purposes and is not designated in a hedging relationship.

Furthermore, from time to time we enter into foreign currency swaps that limit exposure to foreign currency fluctuations, in connection with the issuance of senior unsecured notes denominated in Japanese yen (JPY) (Note 12). The JPY swap exchanges the three-month JPY LIBOR for the three-month USD LIBOR.

CASH FLOW HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

As required for all qualifying and highly effective cash flow hedges, the change in the fair value of the interest rate swap contracts was recorded in AOCL to the extent effective. During the years ended December 31, 2017, 2016 and 2015, we recorded a pre-tax unrealized gain of $3.9 million, $5.3 million and $4.1 million, respectively. During the years ended December 31, 2017, 2016 and 2015, all of our hedged forecasted transactions were determined to be probable of occurring. We did not record any ineffectiveness for cash flow hedges during the years ended December 31, 2017, 2016 and 2015. The maximum length of time over which we are hedging our exposure to variability in future cash flows for forecasted transactions does not exceed four years.

Amounts reclassified from AOCL to earnings resulting from the discontinuance of cash flow hedges due to forecasted cash flows that were no longer probable of occurring were zero for the years ended December 31, 2017, 2016 and 2015. Over the next twelve months, we anticipate that $0.6 million of unrealized losses on derivative instruments in AOCL will be reclassified to earnings. There were no additional deferred realized gains or losses in AOCL as of December 31, 2017 and 2016.

CONSOLIDATED FINANCIAL STATEMENT IMPACT

We determine the fair values (Note 9) of our Derivative Financial Instruments using pricing models and inputs that are observable in the market or can be derived principally from or corroborated by observable market data (Level 2 in the fair value hierarchy) available to us as of December 31, 2017 and 2016.

The following tables present the components of derivative financial instruments at fair value, net *(Dollars in Thousands)*:

	December 31, 2017				
	Notional	Maturity Date	Pay Rate	Receive Rate	Fair Value
Interest rate swaps designated as hedging	$121,104	October 2019 - September 2021	2.7% - 3.5%	1M LIBOR or 3M LIBOR	($2,850)
Interest rate swaps not designated as hedging	20,000	September 2019 - July 2033	4.9% - 5.5%	1M LIBOR	(2,840)
Interest rate cap not designated as hedging	217,000	January 2018	6.5%	1M LIBOR	—
Foreign currency swap not designated as hedging	203,427	February 2019	3M USD LIBOR	3M JPY LIBOR	1,006
Derivative financial instruments at fair value, net	$561,531				($4,684)

	December 31, 2016				
	Notional	Maturity Date	Pay Rate	Receive Rate	Fair Value
Interest rate swaps designated as hedging	$227,049	April 2017 - September 2021	2.7% - 3.5%	1M LIBOR or 3M LIBOR	($6,700)
Interest rate swaps not designated as hedging	40,000	February 2017 - July 2033	4.8% - 5.5%	1M LIBOR	(3,694)
Interest rate cap not designated as hedging	246,000	January 2018	6.5%	1M LIBOR	—
Foreign currency swap not designated as hedging	203,427	February 2019	3M USD LIBOR	3M JPY LIBOR	(5,445)
Derivative financial instruments at fair value, net	$716,476				($15,839)

The following tables present the pre-tax effect of our derivatives on the consolidated statements of income excluding net periodic settlements for the years ended December 31, 2017, 2016 and 2015 and the consolidated balance sheets as of December 31, 2017 and 2016 *(In Thousands)*:

	Year Ended December 31, 2017		
	Gain Recognized In AOCL	Loss Reclassed from AOCL Into Income (a)	Gain Recognized In Income Due to Market Adjustments
Interest rate swaps designated as hedging	$3,850	—	—
Interest rate swaps not designated as hedging (b)	—	($778)	$854
Foreign currency swaps not designated as hedging	—	—	6,451
Total gain (loss) on Derivative Financial Instruments	$3,850	($778)	$7,305

	Year Ended December 31, 2016		
	Gain Recognized In AOCL	Loss Reclassed from AOCL Into Income (a)	Gain (Loss) Recognized In Income Due to Market Adjustments
Interest rate swaps designated as hedging	$5,263	—	—
Interest rate swaps not designated as hedging (b)	—	($1,493)	$1,580
Interest rate cap not designated as hedging	—	—	(2)
Foreign currency swaps not designated as hedging	—	—	12,769
Total gain (loss) on Derivative Financial Instruments	$5,263	($1,493)	$14,347

	Year Ended December 31, 2015		
	Gain Recognized In AOCL	Loss Reclassed from AOCL Into Income (a)	Gain (Loss) Recognized In Income Due to Market Adjustments
Interest rate swaps designated as hedging	$4,050	—	—
Interest rate swaps not designated as hedging (b)	—	($426)	$564
Interest rate cap not designated as hedging	—	—	(182)
Foreign currency swaps not designated as hedging	—	—	(2,765)
Total gain (loss) on Derivative Financial Instruments	$4,050	($426)	($2,383)

(a) Represents the amortization of the loss of de-designated interest rate swaps from AOCL to income.

(b) Represents mark-to-market adjustments of de-designated interest rate swaps after de-designation.

Credit risk arises from the potential failure of the counterparty to perform according to the terms of the derivative contract. Our exposure to credit risk at any point in time is represented by the fair value of the derivative contract reported as assets. We and the counterparty do not require collateral to support derivative contracts with credit risk. As of December 31, 2017, the counterparty to our derivative contracts was LifeCorp, which is rated investment grade by Standard and Poor's, Moody's, and Fitch Ratings. A credit valuation analysis was performed for all derivative positions to measure the risk that the counterparty to the transaction will be unable to perform under the contractual terms (nonperformance risk) and the risk was determined to be immaterial as of December 31, 2017.

11. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

The following table presents the components of accounts payable, accrued expenses and other liabilities (*In Thousands*):

	December 31,	
	2017	2016
Accrued interest	$63,282	$45,615
Employee compensation and benefits	35,189	37,748
Accounts payable and accrued expenses	30,476	42,667
Unearned operating lease revenue	8,190	5,922
Accrued acquisitions of flight equipment	2,006	102,628
Tax sharing agreement liability	—	38,953
Accounts payable, accrued expenses and other liabilities	$139,143	$273,533

12. DEBT FINANCINGS, NET

The following tables present the components of debt financings, net as of December 31, 2017 and 2016 (Dollars *in Thousands*):

	December 31, 2017					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt financings:						
Senior Notes	$4,694,000	January 2018 - November 2027	2.9% - 7.2%	Fixed	Semi-Annual	USD
Revolving Credit Facilities	235,000	December 2019 - April 2022	2.6%	Floating	Monthly	USD
Foreign denominated term loans	205,504	February 2019	0.7%	Floating	Quarterly	JPY
Secured debt financings:						
Export credit facilities	842,832	December 2018 - November 2024	1.5% - 3.9%	Fixed and Floating	Quarterly	USD
Original issuance discounts	(18,735)					
Debt acquisition costs	(57,762)					
Debt financings, net	$5,900,839					

	December 31, 2016					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt financings:						
Senior Notes	$2,976,000	April 2017 - October 2025	2.9% - 7.2%	Fixed	Semi-Annual	USD
Revolving Credit Facilities	1,020,000	December 2019 - April 2020	1.9%	Floating	Monthly	USD
Foreign denominated term loans	198,481	February 2019	0.7%	Floating	Quarterly	JPY
Secured debt financings:						
Export credit facilities	1,071,124	February 2018 - November 2024	1.2% - 3.9%	Fixed and Floating	Quarterly	USD
Original issuance discounts	(2,622)					
Debt acquisition costs	(58,571)					
Debt financings, net	$5,204,412					

We enter into various senior unsecured financings with third parties. These financings include notes issued in reliance on Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended, and private placement notes issued to third parties (Senior Notes). In January 2017, we issued $1.0 billion of five year senior unsecured notes with a fixed interest rate of 2.875%. In October 2017, we issued $750.0 million of 10 year senior unsecured notes with a fixed interest rate of 3.5%. These notes are recourse to ACG, but not to Pacific Life or LifeCorp.

We also enter into various senior unsecured bank credit facilities. We currently are party to two senior unsecured revolving credit facilities (Revolving Credit Facilities) and one foreign denominated term loan. As of December 31, 2017, we have drawn $235.0 million of the $1.7 billion capacities on the Revolving Credit Facilities. During April 2017, we extended the maturity date on $1.5 billion of our revolving credit facilities from April 2020 to April 2022. These loans are recourse to ACG, but not to Pacific Life or LifeCorp.

We enter into various secured loans guaranteed by Export Credit Agencies, of which portions are financed through VIEs (Note 7). These loans are recourse to ACG, but not to Pacific Life or LifeCorp.

The following table presents the aggregate estimated scheduled principal repayments of our debt financing obligations during the next five years and thereafter (*In Thousands*):

Years Ended December 31:	
2018	$1,277,881
2019	372,992
2020	956,002
2021	879,057
2022	1,317,982
Thereafter	1,173,422
Total	$5,977,336

As of December 31, 2017 and 2016, we were in compliance with all applicable debt covenants.

13. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

We lease office facilities in Newport Beach, California; Bellevue, Washington; Dublin, Ireland; and Singapore under non-cancelable operating leases. Rent expense, included in selling, general and administrative, was $1.6 million, $1.5 million and $1.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. The following table presents our future minimum office lease payments (*In Thousands*):

Years Ended December 31:	
2018	$2,564
2019	2,022
Total	$4,586

Leasehold improvement incentives received from the lessor are capitalized and amortized over the life of the lease.

CAPITAL COMMITMENTS

As of December 31, 2017, we had commitments to purchase 164 aircraft scheduled for delivery through 2022. In addition, we have a contingent commitment to purchase an additional three aircraft which are not included in the table below. All of these commitments arise from fixed price purchase agreements with Boeing, Airbus and other third parties, and may include escalation provisions.

The following table presents the estimated remaining payments for the purchase of these aircraft (including adjustments for certain contractual escalation provisions) *(In Thousands)*:

Years Ended December 31:	
2018	$1,562,880
2019	1,856,640
2020	1,763,206
2021	1,944,866
2022	887,121
Total	$8,014,713

As of December 31, 2017, deposits made related to these agreements totaled $1.1 billion and are included in prepayments on flight equipment.

GENERAL

In the ordinary course of business, as part of contractual agreements, we provide certain indemnifications related to debt financings, aircraft acquisitions, aircraft dispositions, and other transactions. Historically we have not made payments for these types of indemnifications. There are currently no indemnifications from which a probable and reasonably estimable loss could arise. Therefore, as of December 31, 2017 and 2016, we have no related liabilities to disclose.

In the ordinary course of our business, we are a party to various legal proceedings, claims and litigation we believe are incidental to the operation of our business. Typically, these claims relate to incidents involving our aircraft and claims that involve the existence or breach of a lease, sale, or purchase contract. We regularly review the possible outcome of such legal actions, and accrue for such legal actions at the time a loss is probable and the amount of the loss can be estimated. We also review all applicable indemnities and insurance coverage. Based on information currently available, we believe the potential outcome of these claims, and any reasonably possible losses exceeding amounts already recognized on an aggregated basis, are immaterial to our consolidated financial statements.

14. MEMBERS'/STOCKHOLDER EQUITY

Effective on March 31, 2017, the board of directors of ACG Corp approved the conversion of ACG Corp to ACG LLC, a limited liability company, and all outstanding shares of capital stock in ACG Corp immediately prior to the conversion were converted into limited liability company interests. As of December 31, 2017, PLAH holds 79% of our limited liability company interests, TCSA holds 20% of our limited liability company interests and ACGHI holds 1% of our limited liability company interests.

15. NONCONTROLLING INTEREST

In 2006, we and a third party bank established a 50/50 joint venture, ACG Capital Partners Singapore Pte. Ltd. (ACGCP Singapore), for the purpose of acquiring, financing, leasing, and selling a portfolio of aircraft assets. As we owned 50% of the equity and maintained control over the activities of ACGCP Singapore, we determined we had a controlling financial interest in the entity and consolidated it as a subsidiary. In December 2015, we became the sole owner of ACGCP Singapore. The noncontrolling interest balance was zero as of December 31, 2017 and 2016.

16. INCOME TAXES

Effective on March 31, 2017, we changed our tax status from a corporation to a limited liability company, which is taxed as a partnership for U.S. income tax purposes (Notes 1 and 14). Therefore, for periods after March 31, 2017, we are a flow-through entity for U.S. tax purposes and not subject to federal or state income tax at the partnership level. Instead, our members are responsible for income taxes on our U.S. federal and state taxable income. As a result of the change in tax status, we recorded a tax benefit of $890.9 million as of March 31, 2017, and an additional tax expense during the year ended December 31, 2017 of $7.0 million relating to deferred tax true-up adjustments, in order to eliminate our U.S. federal and state net deferred tax liability. Our foreign subsidiaries continue to be subject to income tax.

As a flow-through entity for U.S. tax purposes, there was no impact to our consolidated financial statements of the enactment of the Tax Cuts and Jobs Act on December 22, 2017.

Prior to March 31, 2017, we were included in the consolidated federal income tax return of PMHC as well as certain state tax returns where PMHC files on a combined/unitary basis. Consistent with a modified separate-return approach, our provision for federal income taxes was calculated on a systematic, rational, and consistent method, based on our income or loss, and giving recognition to the effects of net operating losses to the extent we estimated that they would be realizable in PMHC's consolidated federal income tax return, and reflecting the state apportionment factors in the combined/unitary state tax returns. Under the tax sharing arrangement PMHC credited us to the extent our net operating losses we've used in PMHC's consolidated tax return and charged us to the extent of our tax liability. Our provision for state income taxes included California, in which we filed with PMHC using the unitary apportionment factors, and certain other states, in which we filed separate tax returns. As part of the tax sharing arrangement, we paid $14.6 million during the year ended December 31, 2017 and received net receipts of $137.4 million and $96.9 million during the years ended December 31, 2016 and 2015, respectively. As a result of our conversion to a limited liability company, the tax sharing agreement with PMHC has been terminated. As of December 31, 2017 and 2016, we had an income tax sharing liability of zero and $39.0 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

The following table presents net income before (benefit from) provision for income taxes by locations in which such pre-tax income was earned or incurred. These amounts also include earnings from equity method investments (*In Thousands*):

	Years Ended December 31,		
	2017	2016	2015
Domestic	$144,215	$143,956	$130,635
Foreign	1,939	(14,420)	(7,723)
Total	$146,154	$129,536	$122,912

The following table presents the (benefit from) provision for income taxes, which consists of the following (*In Thousands)*:

	Years Ended December 31,		
	2017	2016	2015
Current:			
Federal	($31,087)	($118,835)	($90,482)
State and local	(937)	(1,651)	(1,954)
Foreign	2,671	—	1,069
Total current	(29,353)	(120,486)	(91,367)
Deferred:			
Federal	(841,368)	165,237	123,501
State and local	(25,124)	5,602	2,938
Foreign	(2,275)	1,179	737
Total deferred	(868,767)	172,018	127,176
(Benefit from) provision for income taxes	($898,120)	$51,532	$35,809

The following table presents deferred income taxes, net, which consists of the following deferred tax liabilities (assets) (*In Thousands)*:

	December 31,	
	2017	2016
Deferred tax liabilities:		
Aircraft basis difference	$4,693	$938,207
Partnership basis difference	—	11,635
Other	495	6,618
Deferred tax liabilities from operations	5,188	956,460
Deferred tax assets:		
Net operating loss carryforwards	(5,640)	(47,903)
Deferred income	—	(18,988)
Maintenance reserves	—	(11,934)
Deferred tax assets from operations	(5,640)	(78,825)
Net deferred tax (assets) liabilities from operations	(452)	877,635
Unrealized comprehensive loss (gain)	2,405	(565)
Deferred income taxes, net	$1,953	$877,070

Our U.S. deferred tax assets and liabilities were eliminated when we changed our status to a limited liability company, which is taxed as a partnership.

Our remaining net operating loss carryforwards relate to Singapore tax losses with an unlimited carryforward period. The following table presents tax loss carryforwards and their range of expiration dates *(In Thousands)*:

	Years Ended December 31,		
	2017	2016	2015
Federal Tax Loss Carryforwards:			
Expire between 2034 - 2035	—	$129,044	$530,504
California Tax Loss Carryforwards:			
Expire between 2017 - 2034	—	22,949	79,817
Other States Tax Loss Carryforwards:			
Expire between 2029 - 2035	—	39,596	42,026
Singapore Tax Loss Carryforwards:			
No expiration date	$33,179	21,963	12,795
Total	$33,179	$213,552	$665,142

For the years ended December 31, 2016 and 2015, the net operating loss has been reduced for certain tax contingencies. Our U. S. federal net operating loss carryforwards are expected to be utilized in the PMHC consolidated return that includes our final corporate tax period ending March 31, 2017.

A reconciliation of the income taxes based on the prevailing corporate statutory tax rate of 35% to the (benefit from) provision for income taxes reflected on the consolidated statements of income is as follows (*In Thousands)*:

	Years Ended December 31,		
	2017	2016	2015
Provision for income taxes at the federal statutory rate	$51,635	$45,338	$43,019
Nontaxable income due to partnership status	(65,838)	—	—
Conversion to LLC	(883,864)	—	—
Singapore Transfers	—	—	(14,137)
Singapore operations	397	7,387	5,086
State income taxes provision, net of federal benefit	(450)	1,200	1,376
Other	—	(2,393)	465
(Benefit from) provision for income taxes	($898,120)	$51,532	$35,809
Effective Tax Rate	(614.5)%	39.8%	29.1%

Since 2010, we have at times transferred aircraft assets and related liabilities to our foreign subsidiaries, ACG Singapore and ACGCP Singapore (Singapore Transfers). The Singapore Transfers decreased the provision for income taxes primarily due to the reversal of deferred tax liabilities related to basis differences in the aircraft assets transferred.

During the year ended December 31, 2017, we reduced our liability for uncertain tax positions by $52.1 million as a result of our change in tax status from a corporation to a limited liability company which is taxed as a partnership. A reconciliation in the changes in the unrecognized tax benefits is as follows (*In Thousands*):

Balance as of January 1, 2015	$99,008
Increases related to prior period positions	11,575
Balance as of December 31, 2015	110,583
Decreases related to prior year positions	(63,240)
Increases related to current period positions	4,707
Balance as of December 31, 2016	52,050
Decreases related to prior period positions	(52,050)
Balance as of December 31, 2017	—

Our policy is to recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes in the consolidated statements of income and any accrued interest and penalties related to unrecognized tax benefits within accounts payable, accrued expenses and other liabilities in the consolidated statements of financial condition. During the years ended December 31, 2017, 2016 and 2015, we did not record any interest and penalties related to unrecognized tax benefits.

For the period ended March 31, 2017, we were subject to taxation in the U.S. and various state jurisdictions. PMHC is under continuous audit by the IRS and is audited periodically by various state taxing authorities. The IRS has completed audits of PMHC's federal returns through the tax year ended December 31, 2012. PMHC is currently participating in the appeals process with the IRS for certain tax issues unrelated to us. The PMHC federal return for tax years 2013 onwards are open for examination. The IRS is currently auditing PMHC's federal returns for the tax years ended December 31, 2013 and 2014. The State of California is currently auditing the PMHC combined return for the tax year ended December 31, 2009. The State of Michigan is currently auditing the PMHC combined return for the tax years ended December 31, 2012 and December 31, 2013. Various state returns are open for examination from 2012 onwards. In Singapore, we are open for examination for tax years ended December 31, 2013 onwards. We do not expect the federal and state audits to result in any material assessments.

17. EMPLOYEE BENEFIT PLAN

We participate in a defined contribution Retirement Incentive Savings Plan sponsored by Pacific Life, which covers substantially all employees. We match 75% of employee contributions, up to a maximum of 6% of eligible employee compensation up to the IRS maximum allowable amount.

Our share of net expenses under this plan, included in selling, general and administrative expense, was $2.0 million, $1.8 million, and $1.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

18. OTHER INCOME

The following table presents the components of other income (*In Thousands*):

	Years Ended December 31,		
	2017	2016	2015
Lease termination settlements	$3,451	$5,001	$8,147
Management, transaction and advisory fees	2,560	1,779	1,623
Lease incentives released into income	2,243	6,905	5,547
Proceeds from insurance settlement	—	—	4,332
Other	6,452	8,946	5,966
Other income	$14,706	$22,631	$25,615

19. SELLING, GENERAL AND ADMINISTRATIVE

The following table presents the components of selling, general and administrative (*In Thousands*):

	Years Ended December 31,		
	2017	2016	2015
Employee compensation and benefits	$41,507	$47,249	$35,940
Professional services	4,579	8,089	7,998
Travel expenses	3,181	2,831	3,964
Office rent and utilities	1,798	1,795	1,691
Insurance	1,633	2,058	2,651
Other	11,478	13,438	15,562
Selling, general and administrative	$64,176	$75,460	$67,806

20. INTEREST, NET

The following table presents the components of interest, net (*In Thousands*):

	Years Ended December 31,		
	2017	2016	2015
Interest on debt financings and net settlements on interest rate derivatives	$239,228	$229,797	$223,170
Amortization of debt acquisition costs and original issuance discounts	18,611	23,211	21,786
Fees paid to service providers	2,262	2,426	1,784
Change in value on non-hedging derivatives	(6,527)	(12,854)	2,809
Foreign currency adjustments	7,021	12,950	(4,146)
Gross interest expense	260,595	255,530	245,403
Capitalized interest	(34,980)	(17,893)	(15,906)
Interest, net	$225,615	$237,637	$229,497

21. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2017 and 2016, we reimbursed Pacific Life $50.2 million and $43.8 million for expenses Pacific Life incurred on our behalf, predominantly for the payment of employee compensation and benefits.

In accordance with the terms of our tax sharing agreement with PMHC, we paid $14.6 million to Pacific Life for the year ended December 31, 2017, after reducing our payable due by $25.0 million to reflect net operating losses that Pacific Life can utilize in 2017. We received net proceeds of $137.4 million under the tax sharing agreement during the year ended December 31, 2016. As a result of our conversion to a limited liability company, the tax sharing agreement with PMHC has been terminated (Note 16).

As of December 31, 2017, we had a liability to PMHC and Pacific Life totaling $0.5 million, which is included in accounts payable, accrued expenses and other liabilities.

22. SUBSEQUENT EVENTS

Except for the events noted in Note 7, we have evaluated events subsequent to December 31, 2017 and through February 23, 2018, the date the consolidated financial statements were available to be issued, and have concluded that no events or transactions have occurred subsequent to December 31, 2017, that require consideration as adjustments, or disclosures in, the consolidated financial statements.