AVIATION CAPITAL GROUP CORP.
AND SUBSIDIARIES

Consolidated Financial Statements
as of December 31, 2016 and 2015 and
for the years ended December 31, 2016, 2015 and 2014
and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Aviation Capital Group Corp. and Subsidiaries:

We have audited the accompanying consolidated financial statements of Aviation Capital Group Corp. and subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016, 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, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 10, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Thousands, except share figures)	December 31, 2016	2015
ASSETS		
Cash and cash equivalents	$138,274	$55,518
Restricted cash (includes VIE assets of $0 and $116,737, respectively)	175,153	260,208
Aircraft, net (includes VIE assets of $0 and $697,350, respectively)	7,529,235	8,056,587
Aircraft held for sale (includes VIE assets of $0 and $15,295, respectively)	325,408	244,365
Investment in finance leases (includes VIE assets of $0 and $18,799, respectively)	253,707	100,141
Aircraft orders and deposits	539,711	434,689
Equity method investments	64,936	55,036
Other assets, net (includes VIE assets of $0 and $8,520, respectively)	54,454	64,696
TOTAL ASSETS	$9,080,878	$9,271,240
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities (includes VIE liabilities of $0 and $37,066, respectively)	$273,533	$187,999
Notes payable, net (includes VIE liabilities of $0 and $276,897, respectively)	5,204,412	5,710,199
Security deposits (includes VIE liabilities of $0 and $14,358, respectively)	125,047	137,303
Maintenance reserves (includes VIE liabilities of $0 and $57,706, respectively)	588,069	586,819
Lease incentives (includes VIE liabilities of $0 and $10,552, respectively)	33,321	43,050
Deferred income (includes VIE liabilities of $0 and $4,236, respectively)	55,650	55,081
Deferred income taxes, net	877,070	703,020
Derivative financial instruments at fair value, net (includes VIE assets of $0 and $2, respectively)	15,839	22,211
TOTAL LIABILITIES	7,172,941	7,445,682
Commitments and contingencies (Note 13)		
Equity:		
Common stock, $0.10 par value, 10,000 shares authorized and 5,627 shares issued and outstanding	1	1
Additional paid-in capital	773,385	773,385
Retained earnings	1,143,556	1,065,552
Accumulated other comprehensive loss	(9,005)	(13,380)
TOTAL EQUITY	1,907,937	1,825,558
TOTAL LIABILITIES AND EQUITY	$9,080,878	$9,271,240

The abbreviation VIE above means variable interest entity.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
(In Thousands)	2016	2015	2014
REVENUES			
Operating leases	$866,250	$835,144	$797,694
Maintenance revenues	70,814	89,192	58,228
Amortization of lease incentives	(21,883)	(25,220)	(24,615)
Finance leases	14,080	3,487	1,595
Gain (loss) on sale of aircraft, net	11,158	(69,198)	(21,356)
Other income	22,631	25,615	12,623
TOTAL REVENUES	963,050	859,020	824,169
EXPENSES			
Depreciation	330,748	342,334	337,091
Interest, net	237,637	229,497	243,995
Loss from aircraft value impairment	151,509	61,638	56,757
Aircraft operating leases	23,484	23,653	24,059
Aircraft parts, maintenance and transition	17,480	14,479	17,829
General and administrative	75,460	67,806	59,602
TOTAL EXPENSES	836,318	739,407	739,333
INCOME BEFORE PROVISION FOR INCOME TAXES AND EARNINGS FROM EQUITY METHOD INVESTMENTS	126,732	119,613	84,836
Provision for income taxes	51,532	35,809	4,617
Earnings from equity method investments	2,804	3,299	1,532
Net income	78,004	87,103	81,751
Less: net loss (income) attributable to the noncontrolling interest		891	(97)
NET INCOME ATTRIBUTABLE TO STOCKHOLDER	$78,004	$87,994	$81,654

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(In Thousands)	2016	2015	2014
NET INCOME	$78,004	$87,103	$81,751
Other comprehensive income:			
Reclassification into earnings from accumulated other comprehensive loss for de-designated hedges (included in interest, net)	1,493	426	704
Unrealized gain on interest rate swap contracts, net of taxes of $2,159, $3,702, and $5,259	3,104	348	9,637
Unrealized (loss) gain on securities available for sale, net of taxes of ($125), ($103), and $229	(222)	(183)	405
Comprehensive income	82,379	87,694	92,497
Less: net loss (income) attributable to the noncontrolling interest		891	(97)
COMPREHENSIVE INCOME ATTRIBUTABLE TO STOCKHOLDER	$82,379	$88,585	$92,400

See Notes to Consolidated Financial Statements

Aviation Capital Group Corp. and Subsidiaries

CONSOLIDATED STATEMENTS OF EQUITY

(In Thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholder's Equity	Noncontrolling Interest	Total Equity
BALANCES, JANUARY 1, 2014	**$1**	**$586,093**	**$895,904**	**($24,717)**	**$1,457,281**	**$34,987**	**$1,492,268**
Net income			81,654		81,654	97	81,751
Accumulated other comprehensive loss for de-designated hedges, unrealized gain on interest rate swap contracts, net and unrealized gain on securities available for sale, net				10,746	10,746	1,145	11,891
Capital contribution from parent		150,000			150,000		150,000
BALANCES, DECEMBER 31, 2014	**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
Accumulated other comprehensive loss for de-designated hedges, unrealized gain on interest rate swap contracts, net and unrealized loss on securities available for sale, net				591	591	778	1,369
Change in equity of noncontrolling interest						(36,116)	(36,116)
Assumption of noncontrolling interest (Note 15)		37,292			37,292		37,292
BALANCES, DECEMBER 31, 2015	**1**	**773,385**	**1,065,552**	**(13,380)**	**1,825,558**	**0**	**1,825,558**
Net income			78,004		78,004		78,004
Accumulated other comprehensive gain for de-designated hedges, unrealized gain on interest rate swap contracts, net and unrealized loss on securities available for sale, net				4,375	4,375		4,375
BALANCES, DECEMBER 31, 2016	**$1**	**$773,385**	**$1,143,556**	**($9,005)**	**$1,907,937**	**$0**	**$1,907,937**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Years Ended December 31, 2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$78,004	$87,103	$81,751
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	330,748	342,334	337,091
Amortization of lease incentives	21,883	25,220	24,615
Amortization of debt acquisition costs	21,638	21,086	21,970
Non-hedging derivative instrument settlements	(7,681)	35,201	29,820
Unrealized gain on non-hedging derivative instruments	(1,109)	(29,550)	(6,445)
Unrealized loss (gain) on foreign currency adjustment of notes payable	12,950	(4,166)	(20,863)
Bad debt expense	1,508	2,025	103
Maintenance reserves and lease incentives included in earnings	(70,632)	(75,380)	(44,872)
Loss from aircraft value impairment	151,509	61,638	56,757
(Gain) loss on sale of aircraft, net	(11,158)	69,198	21,356
Deferred income taxes, net	172,018	127,176	80,022
Earnings from equity method investments	(2,804)	(3,299)	(1,532)
Other operating activities, net	2,159	(6,323)	(27)
Changes in assets and liabilities:			
Other assets, net	(7,292)	(10,354)	(8,025)
Accounts payable, accrued expenses and other liabilities	18,886	8,644	2,532
Lease incentives	(14,519)	(6,459)	(3,117)
Deferred income	2,028	6,819	2,344
NET CASH PROVIDED BY OPERATING ACTIVITIES	698,136	650,913	573,480
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of aircraft and improvements	(835,673)	(1,093,887)	(781,865)
Advance payments for new aircraft orders	(408,952)	(192,824)	(286,123)
Capitalized interest on advance payments for new aircraft orders	(17,893)	(15,906)	(19,148)
Proceeds from sale of aircraft and other related activity	959,026	165,804	237,377
Payments on non-hedging derivative instruments	(117,926)	(197,003)	(97,974)
Receipts from non-hedging derivative instruments	125,607	161,802	68,154
Contributions to equity method investments	(13,705)	(11,735)	(7,600)
Return of advance payments on aircraft orders and deposits		28,670	94,404
Collections on investment in finance leases	7,732	5,108	6,734
Other investing activities, net	9,767	3,132	2,018
NET CASH USED IN INVESTING ACTIVITIES	(292,017)	(1,146,839)	(784,023)

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(In Thousands)	2016	2015	2014
(Continued)			
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of notes payable	$222,014	$916,058	$129,764
Repayment of principal on notes payable	(890,093)	(670,468)	(631,596)
Proceeds from unsecured revolving credit facilities, net	535,000	219,000	246,000
Repayment of VIE debt	(282,672)		
Repayment of foreign denominated term loan	(123,469)		
Repayment of VIE revolving credit agreement	(35,000)		
Change in restricted cash	85,055	(676)	47,735
Receipts of security deposits	29,332	27,004	31,841
Payments of security deposits	(12,929)	(14,289)	(17,792)
Receipts of maintenance reserves	184,062	171,934	168,529
Payments of maintenance reserves	(30,890)	(37,180)	(23,130)
Capital contribution from parent			150,000
Distributions to noncontrolling interest		(16,804)	
Repayment of joint venture debt		(155,745)	
Other financing activities, net	(3,773)	(7,264)	(5,343)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(323,363)	431,570	96,008
Net change in cash and cash equivalents	82,756	(64,356)	(114,535)
Cash and cash equivalents, beginning of year	55,518	119,874	234,409
CASH AND CASH EQUIVALENTS, END OF YEAR	$138,274	$55,518	$119,874
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid, net of capitalized interest	$208,590	$188,415	$193,112
Non cash transfer from aircraft orders and deposits to aircraft, net	$319,188	$55,875	$443,414
Non cash transfer from aircraft, net to investment in finance leases	$158,664	$54,834	$62,499
Non cash additions to aircraft, net	$115,412	$15,400	$3,000
Non cash settlement of maintenance reserves related to the sale of aircraft	$107,162	$39,076	$3,143
Non cash assumption of maintenance reserves related to the purchase of aircraft	$12,614	$49,493	
Non cash sale of aircraft in exchange for maintenance service credits or notes receivable			$12,102

See Notes to Consolidated Financial Statements

1. ORGANIZATION

Aviation Capital Group Corp. and its subsidiaries (ACG, we, us, or our) is a wholly owned subsidiary of Pacific Life Insurance Company (Pacific Life), a wholly owned subsidiary of Pacific LifeCorp (PacLife). Our principal activity is to act as an owner and lessor of commercial jet aircraft subject to operating leases. We also provide third party aircraft management advisory services, aircraft trading activities and aircraft brokerage services. Our customers are primarily commercial airlines operating scheduled and charter services across the globe.

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 VIE in which we have a controlling financial interest or for which we are 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 2014 and 2015 consolidated statements of cash flow to conform to the 2016 consolidated financial statement presentation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments with maturities at acquisition of three months or less.

RESTRICTED CASH

Restricted cash as of December 31, 2016 was $175,153,000, which includes security deposits, commitment fees, maintenance reserve payments, and rental payments received from certain lessees and held by us. Restricted cash as of December 31, 2015 was $260,208,000, which included a $55,000,000 liquidity reserve established in connection with ACG Trust III's issuance of Series 2005-1 Notes, and a drawing of $35,000,000 related to a revolving credit agreement by ACG Trust III (Notes 7 and 11). Also included in restricted cash as of December 31, 2015 was $170,208,000 of security deposits, commitment fees, maintenance reserve payments, and rental payments received from certain lessees and held by us.

AIRCRAFT, NET AND DEPRECIATION

We record our investment in aircraft and other aircraft components 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 values 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 aircraft or the useful life of 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.

AIRCRAFT HELD FOR SALE

We evaluate all proposed aircraft sale transactions to determine whether all of the required criteria have been met under U.S. GAAP to classify the aircraft as aircraft held for sale. We use judgment in evaluating these criteria. Aircraft held for sale are valued at the lower of depreciated cost or fair value less costs to sell. We cease recognition of depreciation expense on aircraft upon transfer to aircraft held for sale.

IMPAIRMENT

We test the carrying values of aircraft for impairment each quarter. Additionally, we test for potential impairment whenever events or changes in circumstances indicate that the carrying value of an aircraft or aircraft type may not be recoverable. We test for impairment utilizing a two-step process. Step one, the recoverability of an aircraft's carrying value is tested by comparing the carrying value of the aircraft to its estimated future undiscounted cash flows. Step two, if the future undiscounted cash flows of the aircraft are less than the aircraft's carrying value, the aircraft is deemed impaired and re-measured to fair value. We measure the impairment, if any, as the excess of the carrying value of the impaired aircraft over its fair value on the measurement date (Note 9).

AIRCRAFT ORDERS AND DEPOSITS

Aircraft orders and deposits represent progress payments, and capitalized interest thereon, associated with aircraft order positions we hold with various aircraft manufacturers and various other deposits. Upon delivery, the deposit associated with an order position will be capitalized to the aircraft's cost.

CAPITALIZED INTEREST ON ADVANCE PAYMENTS ON AIRCRAFT ORDERS AND DEPOSITS

We borrow funds to finance the acquisition of aircraft during the period they are under construction by the manufacturer. We capitalize the interest expense on such borrowings thereby reducing the interest expense we report for the period. The amount capitalized is calculated using a composite borrowing rate for senior unsecured borrowings and is recorded as an increase to aircraft orders and deposits and ultimately the cost of aircraft.

ACQUIRED AIRCRAFT CONTRACTUAL RIGHTS

For used aircraft acquisitions 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 lease cash flows above or below market rates (Lease Premium or Discount), which are assessed at the time of acquisition.

We identify, measure, and account for maintenance right assets and liabilities associated with our acquisitions of aircraft with in-place leases. 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 aircraft, net.

Lease Premium or Discount represents the present value of the difference in cash flows specified in acquired lease agreements and the estimated cash flows the subject aircraft would command in market transactions at the acquisition date, respectively.

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 its leases: (i) end of lease return conditions 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 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 lease expiry (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 revenues; 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 lease expiry: (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 revenues; (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 revenues; 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 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 lease expiry 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 revenues; or (ii) we have reimbursed the lessee for the performance of qualified major maintenance, the maintenance right asset is relieved and an aircraft improvement is recorded.

There are no maintenance right liabilities for MR Leases. When flight equipment is sold, net maintenance right assets are released as gain (loss) on sale of aircraft, net.

REVENUES FROM OPERATING LEASES

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 aircraft leases require payments in U.S. dollars (USD). We recognize operating lease revenues 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 in deferred income until earned. However, if collection of the scheduled lease payment is not reasonably assured, we recognize revenues on a cash basis. We review accounts receivable balances on a regular basis and utilize a specific identification method to estimate losses. An allowance for doubtful accounts will be recognized for past-due rentals based on our assessment of collectability. 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 $1,508,000 and $2,025,000 as of December 31, 2016 and 2015, which is included in other assets, net.

REVENUES FROM FINANCE LEASES

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.

The net investment in finance leases consists of lease receivables, 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 periodically 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, 2016 or 2015.

DEBT ACQUISITION COSTS

We may incur legal, financing and other closing costs associated with obtaining debt (Debt Acquisition Costs). We amortize on a straight-line basis (which does not materially differ from the effective interest method) over the life of the related debt instrument/facility, which is included in interest, net.

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 dividends and capital. 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.

ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Accounts payable, accrued expenses and other liabilities primarily consists of accrued expenses, accrued interest and amounts due to affiliates (Notes 11 and 21). Due to affiliates primarily represents income tax sharing liabilities due to Pacific Mutual Holding Company (PMHC), PacLife's parent, and other miscellaneous items in the amount of $40,499,000 and $24,044,000 as of December 31, 2016 and 2015, respectively. Tax sharing liabilities arise from PMHC's actual utilization of our tax losses versus payments made based on estimated utilization of tax losses in accordance with a tax sharing agreement (Note 16).

MAINTENANCE RESERVES AND MAINTENANCE REVENUES

Our aircraft leases are principally structured as triple net leases whereby the lessee is responsible for maintaining the aircraft, which is accomplished through MR Leases and EOL Leases. Factors we consider when deciding if a lessee will make periodic 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 revenues at the end of the lease.

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

LEASE INCENTIVES AND AMORTIZATION OF LEASE INCENTIVES

Many 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. We account for these estimated payments as lease incentives, which are amortized as a reduction of revenues over the life of the lease. At lease inception, we estimate the amounts we expect to pay the lessee during the lease term based on assumed utilization of the aircraft by the lessee, the estimated maintenance cost, and the estimated amounts 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 being 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 revenues 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 the primary beneficiary. A controlling financial interest has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the VIEs 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

Interest rate swaps, an interest rate cap and foreign currency swap contracts (collectively Derivative Financial Instruments) are used 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 in a hedging relationship or not, are required to be recorded at estimated fair value. If the derivative 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 expenses from aircraft operating leases.

INCOME TAXES

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the book basis and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected

future taxable income, tax-planning strategies, and results of recent operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of the net recorded amount, we would make adjustments to the deferred tax asset valuation allowance, which would reduce the provision for income taxes (Note 16).

We record uncertain tax positions in accordance with the Codification's Income Tax Topic on the basis of a two-step process whereby (i) we determine whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (ii) for those tax positions that meet the more likely than not recognition threshold, we recognize the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority.

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. However, our disclosures do not include transactions that are eliminated during the preparation of our consolidated financial statements. Because the requisite conditions of a competitive free-market may not exist, the amounts reported may differ from those available to us in the open market.

RISK AND UNCERTAINTIES

In the normal course of business, we encounter several significant types of economic risk including; 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 derivatives and 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 appropriate, actual results could differ from those estimates.

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. We have identified the following estimates as critical, as they involve a higher degree of judgment and are subject to a significant degree of variability:

- Estimation of lease incentives
- Aircraft useful lives and residual values
- Aircraft valuation and impairment
- Accounting for income taxes

RECENT ACCOUNTING PRONOUNCEMENTS ADOPTED

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, which requires debt issuance costs to be presented in the statement of financial condition as a direct deduction from the associated debt liability. The guidance in the new standard is limited to the presentation of debt acquisition costs and does not affect the recognition and measurement of debt acquisition costs. We adopted this ASU on January 1, 2016 on a retrospective basis and its adoption resulted in a decrease to notes payable, net of $77,480,000 as of December 31, 2015.

In February 2015, the FASB issued ASU 2015-02, which changes the analysis we perform in determining whether certain types of legal entities should be consolidated. Under the revised guidance, all legal entities are subject to reevaluation under the revised consolidation model, unless a scope exception applies. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, and affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. We adopted this ASU on January 1, 2016 on a retrospective basis and its adoption did not have a material

impact on our consolidated statements of financial condition, operations or cash flows. However, the adoption did result in one nonconsolidated entity changing status from a VIE to a voting interest entity (Note 7).

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In November 2016, the FASB issued ASU 2016-18, which changes the presentation of restricted cash and cash equivalents on the statement of cash flows. Restricted cash and cash equivalents 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. It is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently in the process of evaluating the impact of this guidance on our consolidated statements of financial condition and cash flows.

In October 2016, the FASB issued ASU 2016-16, which requires companies to recognize the income tax effects of intercompany sales and transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period in which the transfer occurs. It is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual reporting period. We are currently in the process of evaluating the impact of this guidance on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-17, which alters how a decision maker needs to consider indirect interests in a variable 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. It is effective for fiscal years beginning after fiscal years beginning after December 15, 2016. Early adoption is permitted. We are currently in the process of evaluating the impact of this guidance on our consolidated 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. Early adoption is permitted. We are currently in the process of evaluating the impact of this guidance on our consolidated statements of cash flow.

In February 2016, the FASB issued ASU 2016-02, which primarily amends existing leasing guidance related to a lessee's accounting for operating leases. Although lessor accounting is not fundamentally changed as the result of this ASU, the amended guidance attempts to clarify the requirements for the segregation of lease components from nonlease components in a contract. Under the new guidance, a lessor must allocate consideration in a contract between the lease and nonlease components on a relative standalone price basis. We will adopt this guidance on the required adoption date of January 1, 2019. We do not expect the adoption of this guidance to have a significant impact 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. Early adoption is permitted. 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. The effective date of ASU 2014-09 was extended in August 2015 by ASU 2015-14 and is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

3. AIRCRAFT

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

	December 31,	
	2016	2015
Aircraft	$9,226,166	$10,008,080
Less accumulated depreciation	1,696,931	1,951,493
Aircraft, net	$7,529,235	$8,056,587

As of December 31, 2016 and 2015, aircraft under operating leases with a carrying value of $1,838,543,000 and $2,871,311,000, respectively, were pledged as collateral to notes payable (Note 12).

As of December 31, 2016, we had two aircraft not subject to a signed lease or sales commitment, collectively representing less than 1% of aircraft, net.

The following table presents, by year, the future minimum operating lease rentals we are due under noncancelable operating leases as of December 31, 2016 *(In Thousands)*:

Years ended December 31:	
2017	$809,779
2018	769,106
2019	703,418
2020	607,441
2021	510,004
Thereafter	1,134,997
Total	$4,534,745

Included in the table above are six aircraft we have subleased to airlines with lease maturity dates ranging from 2021 to 2024 with total future rentals of $161,519,000. During each of the years ended December 31, 2016, 2015 and 2014, the revenues related to these aircraft, included in operating leases, were $27,121,000. These aircraft were sold to third parties and subsequently leased back under operating leases with maturity dates ranging from 2023 to 2025. The following table presents our aggregate minimum future lease commitment on these operating leases *(In Thousands)*:

Years ended December 31:	
2017	$20,631
2018	20,241
2019	20,663
2020	28,483
2021	27,601
Thereafter	43,204
Total	$160,823

We hold a fixed price purchase option exercisable at the end of the term for each of the six leases arising from the sale-leaseback transactions.

Included in aircraft, net as of December 31, 2016 are $123,754,000 of net aircraft maintenance right assets that represent the difference between the maintenance return conditions specified in the lease and the actual physical maintenance condition of the acquired aircraft at the purchase date. We estimate the fair value of the net aircraft maintenance right assets to equal the present value of the cost to place the aircraft in the specified maintenance condition or provide equivalent monetary compensation at the lease end.

4. AIRCRAFT HELD FOR SALE

Aircraft held for sale totaled $325,408,000 and $244,365,000 as of December 31, 2016 and 2015, respectively. Aircraft held for sale are valued at the lower of carrying value or fair value less costs to sell. We cease recognition of depreciation expense on aircraft upon transfer to aircraft held for sale.

When we record the aircraft held for sale at fair value less costs to sell that is less than our carrying value, we record a loss from aircraft value impairment and report it in our consolidated statements of operations.

5. INVESTMENT IN FINANCE LEASES

As of December 31, 2016, our investment in finance leases represents 18 aircraft leased to four customers, over 95% of the carrying value of our investment resides in the U.S. The following table presents the net investment in finance leases which consists of lease receivables, less the unearned income, plus the estimated unguaranteed residual value *(In Thousands)*:

	December 31,	
	2016	2015
Total future minimum lease payments	$304,811	$100,459
Less: unearned income	(129,943)	(52,027)
Estimated residual value (unguaranteed)	78,839	51,709
Investment in finance leases	$253,707	$100,141

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

Years ended December 31:	
2017	$31,032
2018	34,290
2019	32,190
2020	30,730
2021	30,580
Thereafter	145,989
Total	$304,811

6. OPERATING AND AIRCRAFT RISK

GEOGRAPHIC AND CONCENTRATION RISK

We operated over 87% and 85% of our aircraft portfolio which consists of aircraft, net and aircraft held for sale, in markets outside the U.S as of December 31, 2016 and 2015, respectively. 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 aircraft, net and aircraft held for sale (*Dollars in Thousands*):

	December 31,			
	2016		2015	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia	$3,183,563	40.5%	$2,633,032	31.7%
Europe	1,726,249	22.0%	2,230,593	26.9%
Central and South America	1,303,354	16.6%	1,482,122	17.9%
North America	1,166,558	14.9%	1,441,287	17.4%
Middle East and Africa	383,355	4.8%	449,354	5.4%
Sub-total	7,763,079	98.8%	8,236,388	99.3%
Aircraft off-lease not subject to a signed lease or sales commitment	71,170	0.9%	64,564	0.7%
Aircraft off-lease subject to a signed lease or sales commitment	20,394	0.3%		
Total	$7,854,643	100.0%	$8,300,952	100.0%

As of December 31, 2016, we leased aircraft to approximately 90 lessees whose principal places of business are located in approximately 40 countries.

The following table presents the global concentration of our revenues from operating leases, based on the lessee's location of record during the years ended December 31, 2016, 2015 and 2014 (*Dollars In Thousands*):

	December 31,					
	2016		2015		2014	
	Lease Revenues	Percent of Total	Lease Revenues	Percent of Total	Lease Revenues	Percent of Total
Region:						
Asia	$303,329	35.0%	$242,333	29.0%	$229,190	28.7%
Europe	210,152	24.3%	215,897	25.9%	214,871	26.9%
North America	152,152	17.6%	174,942	20.9%	149,262	18.7%
Central and South America	156,468	18.1%	162,366	19.4%	176,820	22.2%
Middle East and Africa	44,149	5.0%	39,606	4.8%	27,551	3.5%
Total	$866,250	100.0%	$835,144	100.0%	$797,694	100.0%

For the years ended December 31, 2016, 2015 and 2014, no lessee accounted for more than 10% of our revenues from operating leases, and no country accounted for more than 10% of our revenues from operating leases except the U.S.

AGING EQUIPMENT RISK

On certain aircraft and other aircraft components that are out of production, or 15 or more years of age, we have experienced declines in lease rates, residual values and market values in recent years due to the availability of newer, more fuel-efficient aircraft, among other factors. Further declines in these variables could impact our future cash flow assumptions which may result in future impairment charges and/or losses from the sale of aircraft as such assets have less remaining useful life in which to benefit from a market recovery. As of December 31, 2016, we owned 26 aircraft and other aircraft components with a net book value of $385,773,000 that are 15 or more years of age. For the years ended December 31, 2016, 2015 and 2014, we recognized impairments on 19, 16, and 13 aircraft and other aircraft

components, respectively, that were 15 or more years of age, resulting in impairments of $59,544,000, $33,800,000 and $52,827,000, respectively. See Note 9 for a description of the fair value methodology we employ on the date of impairment.

7. VARIABLE INTEREST ENTITIES

TRUST III

In December 2005, we sponsored a securitization transaction whereby ACG Trust III acquired 74 of our aircraft through a private placement note offering for $1,860,000,000 (Trust III Notes) on a basis exempt from registration under the Securities Act of 1933, as amended. We acted as the remarketing and administrative agent and provided various aircraft-related services to ACG Trust III for a fee. We own 100% of the equity and have a controlling financial interest in this VIE. Therefore, we determined we were the primary beneficiary of this VIE and ACG Trust III was consolidated into our consolidated financial statements. These private placement notes were the obligations of ACG Trust III and represented debt that was non-recourse to us (Note 12). VIE securitization debt consolidated from ACG Trust III was $282,113,000 (net of original issue discount) as of December 31, 2015. Interest on the Trust III Notes accrued at variable rates and was payable monthly, with a weighted average rate of 1.1% as of December 31, 2015. ACG Trust III's obligations, including its financial debt obligations, were not obligations of, or guaranteed by us, Pacific Life, PacLife or any other entity, other than ACG Trust III and its subsidiaries.

In January 2016, the Trust III Notes were retired at par. Absent the cash flow requirements associated with the debt, the total equity at risk is sufficient to finance the activities of ACG Trust III and it no longer qualifies as a VIE. However, we consolidate Trust III's assets and liabilities as a wholly owned subsidiary of ACG.

ACG TRUST

In December 2000, we sponsored, through our 50% ownership of ACG Acquisition VI LLC, which holds 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 serve as the remarketing and administrative agent as well as a beneficial interest holder in the transaction. As the remarketing and administrative agent, we earn management fees on the total rents paid. For the for the years ended December 31, 2016, 2015 and 2014, we recorded management fee income of $114,000, $347,000 and $424,000, respectively, which is included in other income. ACG Trust is not consolidated, as we are not the primary beneficiary since we do 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, 2016 and 2015, the carrying amount and maximum exposure to loss related to ACG Trust was zero.

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), serves as the servicer. BACL is not consolidated as 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, 2016, BACL owned four aircraft. As of December 31, 2016, the carrying amount and maximum exposure to loss related to BACL was $12,654,000, which is included in equity method investments. For the year ended December 31, 2016, AALIL recorded a service fee of $31,000, which is included in other income.

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 as 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, 2016, the carrying amount and maximum exposure to loss related to BAML was $23,000, which was included in equity method investments.

FINANCING STRUCTURES

We have participated in the design and formation of certain legal entities that we have consolidated. The purpose of these legal entities is to enable our lenders to perfect their security interest in financing structures used to purchase, lease, and obtain financings secured by various aircraft.

These legal entities have entered into loans with various third parties and financial institutions which 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 Facilities). The legal entities use the proceeds from loans to purchase aircraft. The aircraft secure the loans and are leased, pursuant to capital leases, to ACG or to wholly owned subsidiaries of ACG. The loans are recourse to the general credit of ACG through the guarantee that is in place.

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.

Aircraft associated with these legal entities as of December 31, 2016 and 2015, totaled $1,619,280,000 and $1,822,333,000, respectively, and are included in aircraft, net (Note 3). In addition, as of December 31, 2016 and 2015, the debt associated with these legal entities totaled $885,603,000 and $1,134,962,000, respectively, and is included in notes payable, net (Note 12).

As a result of the retrospective adoption of ASU 2015-02 (Note 2) on January 1, 2016, our investment in an aviation-related limited partnership investment fund (Aviation Fund) no longer qualified as a VIE because the limited partners are now considered to have a controlling financial interest. As such, we no longer have reportable carrying amounts or an associated maximum exposure to loss to report as of December 31, 2015.

8. OTHER ASSETS, NET

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

	December 31,	
	2016	2015
Lease acquisition costs and lease incentives, net	$23,500	$29,435
Notes and other receivables, net	21,470	9,800
Operating lease receivables, net	4,316	14,589
Other, net	5,168	10,872
Other assets, net	$54,454	$64,696

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 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, 2016 and 2015, we did not have any Level 3 financial assets or liabilities that we measured at fair value on a recurring basis. The following table presents the financial assets and liabilities as of December 31, 2016 and 2015 that we measured at fair value on a recurring basis by level in the fair value hierarchy (*In Thousands*):

	December 31, 2016			December 31, 2015		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Level 1:						
Corporate securities				$1,425		$1,425
Level 2:						
Derivative financial instruments at fair value, net		($15,839)	($15,839)	$2	($22,213)	($22,211)

We classify corporate securities as available-for-sale (recorded in other assets, net) and value our investments using inputs observable in active markets for identical securities. As such, we classify our investment in corporate securities in Level 1 of the fair value hierarchy. The fair values 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, 2016 and 2015. The pricing models utilize, among other things, interest swap rates, interest rate volatility, and foreign currency forward and spot rates, as applicable. Reviews of the valuations are performed, which includes both quantitative and qualitative analysis. Examples of procedures performed include, but are not limited to, 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. A credit valuation analysis was performed for all derivative positions to measure the risk that one of the counterparties to the transaction will be unable to perform under the contractual terms (nonperformance risk). Based on the experience and financial strength of our counterparties, we determined nonperformance risk to be immaterial as of December 31, 2016 and 2015.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

For impairments recognized during the reporting period, we measure the fair value of aircraft and other aircraft components on a nonrecurring basis as part of the recoverability assessment. The recoverability assessment is performed quarterly and whenever events or changes in circumstances indicate that the carrying amount of the aircraft and other aircraft components may not be recoverable. For aircraft and other aircraft components that are held for use, 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, which include contractual lease payments, projected future lease payments, projected sales prices, and the disposition value. For aircraft, net and aircraft held for sale, the fair value measurement is based on the estimated sales price, less selling costs (Level 2 input).

The following table presents the impairment losses in aircraft, net and aircraft held for sale recognized by us during the years ended December 31, 2016, 2015 and 2014, respectively (*In Thousands*):

	December 31,		
	2016 (a)	2015	2014
Carrying value prior to measurement	$848,777	$231,728	$213,357
Estimated fair value after measurement	697,268	170,090	156,600
Loss from aircraft value impairment	$151,509	$61,638	$56,757

(a) Included in the estimated fair value after measurement are aircraft and other components of $609,122 which were valued using Level 2 inputs and $88,146 using Level 3 inputs during the year ended December 31, 2016.

INPUTS AND VALUATION PROCESS OF NONRECURRING FAIR VALUE MEASUREMENTS CATEGORIZED AS LEVEL 3

The fair value of aircraft and other aircraft components is estimated when the carrying value of aircraft and other aircraft components held for use may not be recoverable. The income approach is used to measure the fair value of aircraft and other aircraft components, which is principally based on the present value of estimated future cash flows. 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 or aircraft component's estimated holding period in its highest and best use configuration, projected sales prices, estimated disposition value and 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 or the aircraft component'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. However, 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 aircraft's 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 aircraft, net that we measured at fair value on a non-recurring basis during the year ended December 31, 2016, 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 (a)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Aircraft, net	$88,146	Income Approach	Discount Rate	0% - 5% (3.5%)
			Remaining Holding Period	0 - 14 Years (11.9)

(a) Included in the total estimated fair value are aircraft and other components of $56,441 measured at December 31, 2016 and $31,705 measured during the year ended December 31, 2016.

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, net, accounts payable, accrued expenses and other liabilities, and notes payable. The fair value of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable, accrued expenses and other liabilities approximates the carrying value of these financial instruments because of their short-term nature. The fair value of our traded debt is primarily related to our senior notes and is estimated based on a quoted price with a third-party financial institution (market approach with Level 2 inputs) and the fair value of our non-traded debt is based on current market interest rates and credit spreads (market approach with Level 2 inputs).

The carrying amounts and fair values of our most significant financial instruments as of December 31, 2016 and 2015 are as follows (*In Thousands*):

	December 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$138,274	$138,274	$55,518	$55,518
Restricted cash	175,153	175,153	260,208	260,208
Operating lease receivables, net	4,316	4,316	14,589	14,589
Liabilities:				
Accounts payable, accrued expenses and other liabilities	273,533	273,533	187,999	187,999
Notes payable:				
Revolving credit facilities, foreign denominated term loans, and VIE securitization	1,218,481	1,218,481	872,687	872,687
Export credit facilities	1,071,124	1,070,904	1,342,629	1,345,552
Senior notes	2,973,378	3,222,254	3,572,363	3,800,039

During the years ended December 31, 2016 and 2015, 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 adverse position with respect to changes in interest rates and foreign currencies.

Our operating lease revenues are 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 borrowing 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. 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 the rental payments. In connection with the Trust III Notes (Note 7), we had one interest rate cap that places a ceiling on interest due at 6.5% as of December 31, 2016 and 2015 for a defined notional amount which was used for risk management purposes and 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 the senior unsecured notes denominated in Japanese yen (JPY) (Note 12). The JPY swap exchanges the three-month JPY LIBOR for the three-month 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, 2016, 2015 and 2014, we recorded a pre-tax unrealized gain of $5,263,000, $4,050,000 and $14,896,000, respectively. For the years ended December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014. The maximum length of time over which we are hedging our exposure to variability in future cash flows for forecasted transactions does not exceed five years.

During 2015, we removed the hedging designation from two swaps in liability positions with a deferred loss in AOCL of $3,473,000 and maturities of February 2017 and September 2019.

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, 2016, 2015 and 2014. Over the next twelve months, we anticipate that $778,000 of deferred 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, 2016 and 2015.

FAIR VALUE HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

We did not have derivatives that met the Accounting Standards Codification's Derivatives and Hedging Topic fair value hedging relationships as of December 31, 2016 and 2015.

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 Codification hierarchy) and available to us as of December 31, 2016 and 2015.

The following tables present the gross (liability) asset derivatives at fair value *(Dollars In Thousands)*:

	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 LIBOR	3M JPY LIBOR	(5,445)
Derivative financial instruments at fair value, net	$716,476				($15,839)

	December 31, 2015				
	Notional	Maturity Date	Pay Rate	Receive Rate	Fair Value
Interest rate swaps designated as hedging	$278,249	January 2016 - September 2021	2.7% - 3.5%	1M LIBOR or 3M LIBOR	($11,964)
Interest rate swaps not designated as hedging	40,000	February 2017 - July 2033	4.8% - 5.5%	1M LIBOR	(5,273)
Interest rate cap not designated as hedging	150,000	January 2018	6.5%	1M LIBOR	2
Foreign currency swap not designated as hedging	110,724	November 2017	3M LIBOR	3M JPY LIBOR	(4,976)
Derivative financial instruments at fair value, net	$578,973				($22,211)

The following tables present the pre-tax effect of our derivatives on the consolidated statements of operations excluding net periodic settlements for the years ended December 31, 2016, 2015 and 2014 and the consolidated statements of financial condition as of December 31, 2016 and 2015 *(In Thousands)*:

	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)

	Year Ended December 31, 2014		
	Gain Recognized In AOCL	Loss Reclassed From AOCL Into Income (a)	Loss Recognized In Income Due To Market Adjustments
Interest rate swaps designated as hedging	$14,896		
Interest rate swaps not designated as hedging (b)		($704)	($344)
Interest rate cap not designated as hedging			(650)
Foreign currency swaps not designated as hedging			(19,260)
Total gain (loss) on Derivative Financial Instruments	$14,896	($704)	($20,254)

(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 currently require collateral to support derivative contracts with credit risk. As of December 31, 2016, the counterparty to our derivative contracts was PacLife, 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, 2016.

11. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

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

	December 31,	
	2016	2015
Aircraft purchases	$102,628	$12,200
Accrued interest	45,615	53,033
Accounts payable and accrued expenses	42,667	35,504
Tax sharing agreement liability	38,953	22,602
Employee benefits	37,748	25,876
Unearned operating lease revenues	5,922	3,784
VIE revolving credit agreement		35,000
Accounts payable, accrued expenses and other liabilities	$273,533	$187,999

12. NOTES PAYABLE, NET

We issue notes payable to finance our investment in aircraft. The following tables present the components of notes payable, net which includes original issue discount as of December 31, 2016 and 2015 (*In Thousands*):

	December 31, 2016					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$2,973,378	April 2017 - October 2025	2.9% - 7.2%	Fixed	Monthly, Quarterly or 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 obligations:						
Export Credit Facilities	1,071,124	February 2018 - November 2024	1.2% - 3.9%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(58,571)					
Notes payable, net	$5,204,412					

	December 31, 2015					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$3,572,363	September 2016 - October 2025	2.9% - 7.2%	Fixed	Monthly, Quarterly or Semi-Annual	USD
Revolving Credit Facilities	485,000	October 2018 - December 2019	1.9% - 2.1%	Floating	Monthly	USD
Foreign denominated term loans	105,574	November 2017	1.2%	Floating	Quarterly	JPY
Secured debt obligations:						
Export Credit Facilities	1,342,629	November 2016 - November 2024	0.6% - 3.9%	Fixed and Floating	Quarterly	USD
VIE securitization debt	282,113	December 2035	0.8% - 3.7%	Floating	Monthly	USD
Debt acquisition costs	(77,480)					
Notes payable, net	$5,710,199					

We enter into various senior unsecured loans (Senior Notes) and foreign denominated term loans with third parties. These loans include notes issued to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended, and private placement notes issued with third parties. In September 2016, we prepaid our JPY denominated note with original maturity of November 2017 and terminated the corresponding JPY denominated swap with original maturity of November 2017. These notes are recourse only to ACG, and not to Pacific Life or PacLife.

We enter into various senior unsecured revolving credit facilities with third parties (Revolving Credit Facilities). As of December 31, 2016, $1,720,000,000 was available on these facilities. In April 2016, the borrowing capacity was increased to $1,720,000,000 and the maturity date was extended to April 2020 for $1,500,000,000 of the $1,720,000,000 revolving credit facilities. These loans are recourse only to ACG, and not to Pacific Life or PacLife.

In January 2017, we issued $1,000,000,000 of five year unsecured senior notes with a fixed interest rate of 2.9%. These notes are recourse only to ACG, and not to Pacific Life or PacLife.

ACG enters into various secured loans guaranteed by the Export Credit Agencies, of which portions are financed through VIEs (Note 7). These loans are recourse only to ACG, and not to Pacific Life or PacLife.

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

Years ended December 31:	
2017	$192,702
2018	1,334,087
2019	369,108
2020	1,979,399
2021	882,341
Thereafter	505,346
Total	$5,262,983

As of December 31, 2016 and 2015, 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 general and administrative expense, was $1,496,000, $1,328,000 and $2,113,000 for the years ended December 31, 2016, 2015 and 2014, respectively. The following table presents our obligation to make future minimum lease payments (*In Thousands*):

Years ended December 31:	
2017	$2,461
2018	2,339
2019	2,006
Total	$6,806

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

CAPITAL COMMITMENTS

As of December 31, 2016, we had commitments to purchase 144 aircraft scheduled for delivery through 2022. In addition, we have a contingent commitment to purchase an additional 10 aircraft that expires in 2019 which are not included in table below. All of these commitments arise from fixed price purchase agreements with Boeing, Airbus and other third parties, and include adjustments for inflation. The following table presents the aggregate estimated total remaining payments (including adjustments for certain contractual escalation provisions) *(In Thousands)*:

Years ended December 31:	
2017	$1,160,067
2018	1,515,603
2019	1,645,261
2020	1,529,246
2021	1,420,126
Thereafter	85,018
Total	$7,355,321

As of December 31, 2016, deposits made related to these agreements totaled $498,556,000 and are included in aircraft orders and deposits.

Our maximum commitment to invest in the Aviation Fund is $40,000,000 was fully funded as of December 31, 2016. However, it is possible that we could receive distributions from the Aviation Fund restoring a portion of our maximum funding commitment to the fund.

GENERAL

In the ordinary course of business, as part of contractual agreements, we provide certain indemnifications related to 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, 2016 and 2015, 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, that we believe are incidental to the operation of our business. Typically, these claims relate to incidents involving 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 is immaterial to our consolidated financial statements.

14. STOCKHOLDER'S EQUITY

As of December 31, 2016 and 2015, we had 10,000 authorized common shares, $0.10 par value per share, of which 5,627 shares were owned by Pacific Life. As of December 31, 2016, we had not authorized any shares of preferred stock.

No dividends have been declared or paid to date to Pacific Life during the three years ended December 31, 2016. We have no plans at this time to declare or pay any dividends in the near future.

In December 2015, we assumed a 50% equity interest in a joint venture (Note 15). Because we obtained the interest from our joint venture partner, the assumption was treated as an equity transaction between related parties. As such, we recorded a $37,292,000 increase in additional paid-in capital.

15. NONCONTROLLING INTEREST

In 2006, we and a third party bank established a 50/50 joint venture, ACGCP Singapore, for the purpose of acquiring, financing, leasing, selling, maintaining and modifying 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 therefore consolidated it as a subsidiary.

As of December 31, 2015, ACGCP Singapore's non-recourse debt that was consolidated by us was paid off in the total amount of $171,949,000. Additionally, we assumed the third party bank's unfunded portion of liability in exchange for the bank's 50% equity interest and $16,204,000 to become the sole owner of ACGCP Singapore. Therefore, the noncontrolling interest balance is zero as of December 31, 2016 and 2015.

16. INCOME TAXES

ACG is 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 income taxes is 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 estimate 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 credits ACG to the extent its net operating losses are used in PMHC's consolidated tax return and charges us to the extent of its tax liability. Our provision for state income taxes includes California, in which we file with PMHC using the unitary apportionment factors, and certain other states, in which we file separate tax returns. As part of the tax sharing arrangement, we received net receipts of $137,397,000, $96,877,000, and $72,143,000 during the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, we had an income tax sharing liability of $38,953,000 and $22,602,000, respectively, which is included in accounts payable, accrued expenses and other liabilities.

The following table presents net income before provision for income taxes by the domestic and foreign 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,		
	2016	2015	2014
Domestic	$143,956	$130,635	$79,737
Foreign	(14,420)	(7,723)	6,631
Total	$129,536	$122,912	$86,368

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

	Years Ended December 31,		
	2016	2015	2014
Current:			
Domestic	($118,835)	($90,482)	($73,655)
State and local	(1,651)	(1,954)	(1,750)
Foreign		1,069	
Total current	(120,486)	(91,367)	(75,405)
Deferred:			
Federal	165,237	123,501	78,342
State and local	5,602	2,938	2,061
Foreign	1,179	737	(381)
Total deferred	172,018	127,176	80,022
Provision for income taxes	$51,532	$35,809	$4,617

If we were to follow a separate entity approach, the tax provision would have been $50,586,000 for the year ended December 31, 2016 as a result of the difference in the state tax expense on a separate entity basis. The amounts shown as current tax expense above represent amounts estimated to be received under the tax sharing arrangement with PMHC, which would have been shown as deferred tax expense under a separate entity approach.

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

	December 31,	
	2016	2015
Deferred tax liabilities:		
Aircraft basis difference	$938,207	$920,682
Partnership basis difference	11,635	12,205
Other	6,618	6,754
Deferred tax liabilities from operations	956,460	939,641
Deferred tax assets:		
Net operating loss carryforwards	(47,903)	(194,152)
Deferred income	(18,988)	(17,632)
Maintenance reserves	(11,934)	(22,114)
Deferred tax assets from operations	(78,825)	(233,898)
Net deferred tax liabilities from operations	877,635	705,743
Unrealized comprehensive loss	(565)	(2,723)
Deferred income taxes, net	$877,070	$703,020

The net operating loss carryforwards relate to federal tax losses incurred in 2014 through 2015, with a 20-year carryforward, and California tax losses incurred in 2007 through 2014, with a 10-year or 20-year carryforward, depending on the year incurred. The following table presents tax loss carryforwards and their range of expiration dates *(In Thousands)*:

	Years Ended Years Ended December 31,		
	2016	2015	2014
Federal Tax Loss Carryforwards:			
Expire between 2034 - 2035	$129,044	$530,504	$568,358
California Tax Loss Carryforwards:			
Expire between 2017 - 2034	22,949	79,817	102,229
Other States Tax Loss Carryforwards:			
Expire between 2029 - 2035	39,596	42,026	39,892
Singapore Tax Loss Carryforwards:			
No expiration date			74,144
Total	$191,589	$652,347	$784,623

The net operating loss has been reduced for certain tax contingencies.

Based on management's assessment it is more likely than not that all deferred tax assets will be realized through current and projected taxable earnings, the projected amount, nature and timing of the realization of deferred tax liabilities, and tax planning strategies.

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

	Years Ended December 31,		
	2016	2015	2014
Provision for income taxes at the federal statutory rate	$45,338	$43,019	$30,229
Singapore Transfers		(14,137)	(23,938)
Singapore operations	7,387	5,086	(2,591)
State income taxes provision, net of federal benefit	1,200	1,376	1,109
Other	(2,393)	465	(192)
Provision for income taxes	$51,532	$35,809	$4,617
Effective Tax Rate	39.8%	29.1%	5.3%

In 2010, we began transferring aircraft assets and related liabilities to its 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. U.S. income taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary.

It is our practice and intention to reinvest the earnings of its non-U.S. subsidiaries in those operations. In addition to the accumulated bases differences in the aircraft asset transfers through December 31, 2016, we have not made a provision for U.S. or additional foreign withholding taxes on a total of approximately $7,401,000 of foreign subsidiary undistributed earnings that are essentially permanent in duration. Generally, such amounts become subject to U.S. taxation upon remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

We recorded a liability for uncertain tax positions of $52,050,000 for a tax position for which there is uncertainty about the timing of certain taxable income and deductions relating to maintenance reserves. The uncertain tax position relating to maintenance reserves had current year additions of $4,707,000. We expect to change our method to remediate this issue in 2017. We filed an application for an automatic change in its method of accounting with the IRS in 2016, which eliminated a $63,240,000 contingency relating to depreciation upon filing. None of the uncertain tax position affects the effective tax rate.

Because the tax contingencies would serve to reduce existing net operating loss carryforwards, pursuant to the Codification's Income Taxes Topic, we recorded the contingencies as an offset against the deferred tax asset for net operating loss carryforwards. Since the contingencies only reduce net operating loss carryforwards, these contingencies require no accrual for interest or penalties. A reconciliation in the changes in the unrecognized tax benefits is as follows (*In Thousands*):

Balance as of January 1, 2014	$94,790
Increases related to prior period positions	4,218
Balance as of December 31, 2014	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 prior period positions	4,707
Balance as of December 31, 2016	$52,050

Our policy is to recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes in the consolidated statements of operations 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, 2016, 2015 and 2014, we did not record any interest and penalties related to unrecognized tax benefits.

We are primarily subject to taxation in the U.S., Singapore, 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, 2010. PMHC is currently participating in the appeals process with the IRS for certain tax issues unrelated to the Company. The PMHC federal return for tax years 2011 onwards are open for examination. The IRS is currently auditing PMHC's federal returns for the tax years ended December 31, 2011 through 2014. Various state returns are open for examination from 2012 onwards. The State of California is currently auditing the PMHC combined return for the tax year ended December 31, 2009. In Singapore, we are subject to audit for tax years ended December 31, 2012 onwards. The Company does not expect the federal and California 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 general and administrative expense, was $1,800,000, $1,486,000, and $1,398,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

18. OTHER INCOME

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

	Years Ended December 31,		
	2016	2015	2014
Lease incentives released into income	$6,905	$5,547	$497
Lease termination settlements	5,001	8,147	6,129
Proceeds from insurance settlement		4,332	
Management, transaction and advisory fees	1,779	1,623	1,807
Other	8,946	5,966	4,190
Other income	$22,631	$25,615	$12,623

19. GENERAL AND ADMINISTRATIVE

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

	Years Ended December 31,		
	2016	2015	2014
Employee compensation and benefits	$47,249	$35,940	$31,720
Professional services	8,089	7,998	5,908
Travel expenses	2,831	3,964	3,204
Insurance	2,058	2,651	2,700
Office rent and utilities	1,795	1,691	2,461
Other	13,438	15,562	13,609
General and administrative	$75,460	$67,806	$59,602

20. INTEREST, NET

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

	Years Ended December 31,		
	2016	2015	2014
Interest on borrowings and net settlements on interest rate derivatives	$229,797	$223,170	$239,829
Amortization of capitalized financing fees and issuance discounts	23,211	21,786	22,884
Fees paid to service providers	2,426	1,784	2,688
Gain on repurchase of VIE debt			(110)
Change in value on non-hedging derivatives	(12,854)	2,809	20,958
Foreign currency adjustments	12,950	(4,146)	(20,863)
Gross interest expense	255,530	245,403	265,386
Capitalized interest	(17,893)	(15,906)	(21,391)
Interest, net	$237,637	$229,497	$243,995

21. RELATED-PARTY TRANSACTIONS

During the year ended December 31, 2016 and 2015, we reimbursed Pacific Life $43,813,000 and $35,388,000 for expenses Pacific Life incurred on our behalf, predominantly for the payment of employee compensation and benefits. Additionally, in accordance with the terms of our tax sharing agreement with PMHC, we received net proceeds of $137,397,000 and $96,877,000 during the years ended December 31, 2016 and 2015 (Note 16).

As of December 31, 2016, we had a liability to PMHC and Pacific Life totaling $40,499,000, of which $38,953,000 related to our tax sharing agreement with PMHC. The liability to PMHC and Pacific Life is included in accounts payable, accrued expenses and other liabilities.

22. SUBSEQUENT EVENTS

Except for the events noted in Note 12, we have evaluated events subsequent to December 31, 2016 and through March 10, 2017, 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, 2016, that require consideration as adjustments, or disclosures in, the consolidated financial statements.