AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements
as of June 30, 2021 and December 31, 2020 and for the
six months ended June 30, 2021 and 2020

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands)	June 30, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	$80,631	$595,500
Restricted cash	104,508	135,711
Flight equipment held for lease, net	9,934,555	9,747,329
Assets held for sale	254,957	156,761
Prepayments on flight equipment	1,005,201	1,007,199
Notes receivable, net	406,664	195,584
Investment in finance leases, net	188,807	198,433
Other assets, net	346,046	352,935
TOTAL ASSETS	$12,321,369	$12,389,452
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$204,825	$258,334
Debt financings, net	7,639,194	7,696,262
Maintenance reserves	536,936	588,062
Security deposits	128,505	129,054
TOTAL LIABILITIES	8,509,460	8,671,712
Commitments and contingencies (Note 10)		
Equity:		
Member's equity	3,811,909	3,717,740
TOTAL EQUITY	3,811,909	3,717,740
TOTAL LIABILITIES AND EQUITY	$12,321,369	$12,389,452

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In Thousands)	Six Months Ended June 30, 2021	2020
REVENUES		
Operating lease revenue	$425,867	$466,475
Amortization of lease incentives and premiums, net	(12,896)	(11,722)
Maintenance revenue	34,449	40,708
Gain on sale of flight equipment, net	16,350	10,468
Other income	38,343	25,898
TOTAL REVENUES	502,113	531,827
EXPENSES		
Depreciation	207,291	198,466
Interest, net	139,725	136,551
Asset impairment	10,251	8,476
Selling, general and administrative, net	51,770	79,948
TOTAL EXPENSES	409,037	423,441
Income before (benefit from) provision for income taxes	93,076	108,386
(Benefit from) provision for income taxes	(1,093)	4,711
NET INCOME	$94,169	$103,675

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In Thousands)	Total Equity
BALANCES, JANUARY 1, 2020	**$3,613,732**
Net Income	103,675
BALANCES, JUNE 30, 2020	**$3,717,407**
BALANCES, JANUARY 1, 2021	**$3,717,740**
Net income	94,169
BALANCES, JUNE 30, 2021	**$3,811,909**

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)	Six Months Ended June 30, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$94,169	$103,675
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	207,291	198,466
Maintenance reserves, security deposits and lease incentives included in earnings	(20,318)	(23,954)
Gain on sale of flight equipment, net	(16,350)	(10,468)
Amortization of debt acquisition costs and original issuance discounts	14,248	9,901
Amortization of lease incentives and premiums, net	12,896	11,722
Asset impairment	10,251	8,476
Allowance for doubtful accounts, net	—	17,126
Other operating activities, net	(7,495)	3,479
Change in operating assets and liabilities	(126,987)	(191,613)
NET CASH PROVIDED BY OPERATING ACTIVITIES	167,705	126,810
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of flight equipment and related assets	(543,141)	(454,620)
Prepayments on flight equipment	(154,198)	(106,676)
Issuance of notes receivable	(126,085)	(195,800)
Proceeds from sale of flight equipment and related assets	97,972	145,540
Capitalized interest on prepayments on flight equipment	(5,043)	(14,585)
Refunded prepayments on flight equipment	—	109,680
Other investing activities, net	51,782	26,812
NET CASH USED IN INVESTING ACTIVITIES	(678,713)	(489,649)

(Continued)

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)	Six Months Ended June 30, 2021	2020
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt financings	($1,326,761)	($270,826)
Proceeds from debt financings	858,882	196,779
Proceeds from revolving credit facilities and commercial paper, net	406,000	413,800
Receipts of maintenance reserves	35,899	37,500
Payments of maintenance reserves	(7,228)	(4,561)
Receipts of security deposits	11,435	11,870
Payments of security deposits	(2,432)	(7,082)
Other financing activities, net	(10,859)	(2,722)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(35,064)	374,758
Net change in cash and cash equivalents and restricted cash	(546,072)	11,919
Cash and cash equivalents and restricted cash, beginning of period	731,211	537,988
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$185,139	$549,907
RECONCILIATION TO CONDENSED CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	$80,631	$350,887
Restricted cash	104,508	199,020
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$185,139	$549,907
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	$127,825	$125,459
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	$160,654	$219,114
Non cash transfer from assets held for sale to notes receivable, net	$105,230	—

See Notes to Condensed Consolidated Financial Statements

1. ORGANIZATION

Aviation Capital Group LLC, a Delaware limited liability company (ACG LLC), together with its subsidiaries (collectively ACG, we, us, or our) is a full service aircraft asset manager. Our business consists primarily of the acquisition, disposition and leasing of commercial jet aircraft and our principal activity is to invest in and lease commercial jet aircraft pursuant to operating leases. We also provide certain aircraft asset management services and aircraft financing solutions (AFS) for third parties. Our lessee customers are primarily commercial airlines operating across the globe.

ACG LLC is a wholly owned subsidiary of TC Skyward Aviation U.S., Inc. (TCSA), a Delaware corporation and direct subsidiary of Tokyo Century Corporation (Tokyo Century), a Japanese corporation. Prior to December 5, 2019, ACG LLC was an indirect subsidiary of Pacific Life Insurance Company (Pacific Life), a wholly owned subsidiary of Pacific LifeCorp, with 74.6% of ACG LLC's limited liability company interests owned by Pacific Life Aviation Holdings LLC (PLAH), a wholly owned subsidiary of Pacific Life; 0.9% of its limited liability company interests owned by Aviation Capital Group Holdings, Inc. (ACGHI), a subsidiary of PLAH; and 24.5% of its limited liability company interests owned by TCSA. In December 2019, TCSA acquired all of PLAH and ACGHI's outstanding limited liability company interests in ACG LLC pursuant to a Membership Interest Purchase Agreement entered into by the parties in September 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements (consolidated financial statements) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim reporting. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The information presented reflects all adjustments, consisting of normal recurring adjustments, that in the opinion of management, are necessary to fairly state the consolidated financial statements for the periods indicated. Statements of income for the interim periods presented are not necessarily indicative of the results of operations for the full year. The condensed consolidated balance sheet as of December 31, 2020 was derived from the audited consolidated financial statements as of December 31, 2020. Therefore, the information included in these consolidated financial statements should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2020.

Our consolidated financial statements include the accounts of all entities in which we have a controlling financial interest, including the accounts of any variable interest entity (VIE) where 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 line items have been expanded in the presentation of the 2020 condensed consolidated balance sheet, condensed consolidated statements of cash flows and footnotes to conform to the 2021 presentation.

IMPACT OF COVID-19 PANDEMIC

In late 2019, an illness caused by a novel strain of coronavirus (COVID-19) was first detected and in March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Demand for commercial air travel decreased significantly due to the COVID-19 pandemic, which has adversely impacted the operations of nearly all of our lessees. Governmental authorities around the world implemented measures to try to contain COVID-19, including travel bans and restrictions, border closures, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. While certain countries have begun to loosen some of these restrictions, many of these containment measures remain in effect and additional measures could be implemented or reinstated due to new COVID-19 variants emerging around the world. Aircraft manufacturers and suppliers have also been negatively affected, including the temporary closure of Boeing and Airbus' final assembly facilities. The impact of the COVID-19 pandemic and the significant decline in commercial air travel led to declines in aircraft values and lease rental rates.

As a result of the COVID-19 pandemic, most of the lessees of our owned aircraft have requested some form of rental relief. Our marketing, risk management and legal teams jointly manage such requests on a case-by-case basis, with approvals based on various factors including our assessment of the long-term viability of the lessee and its affiliates, our existing security package in place, the strength and history of our relationship with the lessee and its affiliates, and the potential ability to facilitate other commercial transactions or objectives with such lessee in exchange for granting an accommodation. As of June 30, 2021, we have executed agreements to defer \$154.3 million in lease rental payments (\$140.2 million originally contracted to be paid on or before June 30, 2021). These agreements have generally involved partial rent deferrals with interest due on the deferred amounts. \$65.7 million of the deferred lease rental payments were due to be repaid by June 30, 2021. As of June 30, 2021, we have collected \$59.8 million of deferred lease rental payments. After accounting for adjustments primarily related to cash basis accounting for certain leases, \$65.8 million of unpaid deferred lease rental payments have been recorded within other assets, net as of June 30, 2021. In addition, we have entered into lease restructurings with certain lessees that provide rental relief in exchange for lease extensions or other accommodations, which had an insignificant impact on our operating lease revenue for the six months ended June 30, 2021. We remain in active discussions with our airline customers and may continue to provide accommodations on a case-by-case basis.

In addition to the deferral arrangements reached with certain of our lessees, since the start of the COVID-19 pandemic, we have seen a significant increase in delinquent rental payments, and some of our lessees have initiated bankruptcy proceedings or otherwise ceased operations and are seeking to restructure or liquidate. If collection is not probable, we will not recognize operating lease revenue for amounts due under the terms of the lease agreements and will recognize operating lease revenue on a cash basis. For the six months ended June 30, 2021 and 2020, we did not recognize operating lease revenue of \$54.2 million and \$27.9 million, respectively, because collection was not probable for certain of our leases. We believe it is likely that additional lessees could default on payments, experience insolvency or initiate bankruptcy, reorganization, liquidation, restructuring or similar proceedings. If this occurs and our aircraft are returned to us, we may not be able to lease such aircraft with other lessees for some time, or at comparable lease rates, which could adversely affect our revenue and cash position. Operating leases place a greater risk of realization of residual values on aircraft lessors because only a portion of the equipment's value is covered by current contractual cash flows. These events, together with the decrease in commercial air travel demand due to the COVID-19 pandemic, could adversely affect our business and results of operations in a material manner.

USE OF ESTIMATES

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

ACCOUNTING FOR LEASE CONCESSIONS RELATED TO THE EFFECTS OF THE COVID-19 PANDEMIC

In April 2020, the Financial Accounting Standards Board (FASB) issued a question-and-answer document regarding accounting for lease concessions related to the effects of the COVID-19 pandemic (the Q&A). The Q&A is applicable to companies whose leases are affected by the economic disruptions caused by the COVID-19 pandemic. The Q&A provides that a company may elect to account for lease concessions as though those concessions existed regardless of whether the enforceable rights and obligations for the concessions explicitly exist in the contract. As a result, an entity is not required to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and can elect to apply or not apply the lease modification guidance in ASC 840 Leases to those contracts. This election is available for concessions that result in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In 2020, the FASB issued ASU 2020-04, which, together with all subsequent amendments, targets to provide accounting relief for the transition away from the London Interbank Offered Rate (LIBOR) and certain other reference rates. The objective of the amended guidance is to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. Among other elections, entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. The amendments in this guidance are effective from March 12, 2020 through December 31, 2022 and can be adopted prospectively for any interim period that includes or is subsequent to March 12, 2020. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In 2016, the FASB issued ASU 2016-13, which, together with all subsequent amendments, provides guidance on the measurement of credit losses for certain financial assets. The new guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. The amendments in this guidance are effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years with a cumulative-effect adjustment to member's equity under a modified-retrospective approach. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In 2016, the FASB issued ASU 2016-02, which, together with all subsequent amendments, primarily amends existing leasing guidance related to a lessee's accounting for operating leases. The new guidance requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, leases would be classified as finance or operating leases. However, unlike current guidance, the new guidance will require both types of leases to be recognized on the condensed consolidated balance sheets by the lessee. Lessor accounting will remain largely unchanged from current guidance except for certain targeted changes. The amendments in this guidance are effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements. We do not expect the amendments in this guidance to have a material impact on our consolidated financial statements.

3. FLIGHT EQUIPMENT HELD FOR LEASE, NET

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

	June 30, 2021	December 31, 2020
Cost of flight equipment held for lease	$12,416,392	$12,129,178
Less: accumulated depreciation	(2,481,837)	(2,381,849)
Flight equipment held for lease, net	$9,934,555	$9,747,329

As of June 30, 2021 and December 31, 2020, maintenance right assets of $84.7 million and $100.7 million, respectively, were included in flight equipment held for lease, net.

As of June 30, 2021 and December 31, 2020, flight equipment held for lease, net, with carrying values of $916.2 million and $1,023.4 million, respectively, were pledged as collateral for our secured loans guaranteed by either the Export-Import Bank of the United States or the export credit agencies of the United Kingdom, France and/or Germany (collectively Export Credit Agencies) (Note 9).

We test for impairment whenever events or changes in circumstances, including the COVID-19 pandemic and the Boeing 737 MAX grounding (Note 10), indicate that the carrying value of our flight equipment may not be recoverable. Factors we consider include significant under-performance relative to historic results or projected future operating results, significant negative industry or economic trends, reductions to our future minimum lease rentals, a decline in the market values of our aircraft, and the maintenance condition of our aircraft. We may be required to record a significant charge to earnings during the period in which any impairment is determined. Such charges could have a material adverse effect on our business, financial condition, results of operations and cash flows.

For the six months ended June 30, 2021 and 2020, impairments related to flight equipment held for lease, net and lease related assets were $10.3 million and $8.5 million, respectively. Impairment amounts may be derived from maintenance adjusted estimated values, estimated sale prices, or present value of estimated future cash flows (Note 7).

We evaluate the collectability of operating lease receivables (inclusive of executed deferral agreements) at an individual customer level. We monitor lessees with past due lease payments and consider all relevant operational and financial issues facing those lessees, and consider our existing security package in place, in order to determine an appropriate allowance for doubtful accounts or revenue recognition on a cash basis. Accounts receivable, net of the allowance for doubtful accounts, is included in other assets, net. For the six months ended June 30, 2021 and 2020, we recorded bad debt expense, net of recoveries, of zero and $17.1 million, respectively, which is included in selling, general and administrative, net.

The following table presents the future minimum lease rentals (inclusive of executed deferral agreements) we are due under operating leases as of June 30, 2021 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2021	$476,691
2022	868,742
2023	772,389
2024	678,648
2025	585,739
Thereafter	2,290,894
Total	$5,673,103

4. INVESTMENT IN FINANCE LEASES, NET

As of June 30, 2021, our investment in finance leases, net, represents 17 aircraft on lease to two customers. As of June 30, 2021 and December 31, 2020, 100% of our investment in finance leases, net by carrying value were operated in the U.S. The following table presents the components of investment in finance leases, net *(In Thousands)*:

	June 30, 2021	December 31, 2020
Total future minimum lease payments	$173,326	$189,806
Less: unearned income	(52,080)	(58,934)
Estimated unguaranteed residual value	67,561	67,561
Investment in finance leases, net	$188,807	$198,433

The following table presents the future minimum lease payments that we are due under finance leases as of June 30, 2021 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2021	$16,402
2022	32,782
2023	32,722
2024	32,662
2025	30,315
Thereafter	28,443
Total	$173,326

5. GEOGRAPHIC CONCENTRATION

The following table presents the global concentration of our aircraft portfolio, based on the lessee's location *(Dollars in Thousands)*:

	June 30, 2021		December 31, 2020	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$1,960,589	19.2 %	$2,308,633	23.3 %
Europe	1,956,907	19.2 %	1,906,039	19.2 %
Central America, South America and Mexico	1,432,819	14.1 %	963,797	9.7 %
China	1,425,028	14.0 %	1,288,606	13.0 %
United States and Canada	1,131,595	11.1 %	1,198,465	12.1 %
Middle East and Africa	723,357	7.1 %	738,128	7.5 %
South Asia	504,693	5.0 %	515,179	5.3 %
Sub-total	9,134,988	89.7 %	8,918,847	90.1 %
Aircraft off-lease not subject to a signed lease or sales commitment	721,045	7.1 %	764,149	7.7 %
Aircraft off-lease subject to a signed lease or sales commitment	333,479	3.2 %	221,094	2.2 %
Total	$10,189,512	100.0 %	$9,904,090	100.0 %

As of June 30, 2021 and December 31, 2020, no individual lessee accounted for more than 10% of our aircraft portfolio. As of June 30, 2021 and December 31, 2020, no country accounted for more than 10% of our aircraft portfolio, except China. Our aircraft portfolio consists of flight equipment held for lease, net and assets held for sale.

The following table presents the global concentration of our operating lease revenue, based on the lessee's location *(Dollars in Thousands)*:

	Six Months Ended June 30,			
	2021		2020	
	Operating Lease Revenue	Percent of Total	Operating Lease Revenue	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$112,509	26.4 %	$127,642	27.4 %
Europe	71,430	16.8 %	98,392	21.1 %
United States and Canada	70,512	16.6 %	72,621	15.6 %
Central America, South America and Mexico	63,049	14.8 %	48,538	10.4 %
China	43,239	10.2 %	54,093	11.6 %
Middle East and Africa	34,931	8.2 %	35,394	7.5 %
South Asia	30,197	7.0 %	29,795	6.4 %
Operating lease revenue	$425,867	100.0 %	$466,475	100.0 %

For the six months ended June 30, 2021 and 2020, no individual lessee accounted for more than 10% of our operating lease revenue. For the six months ended June 30, 2021 and 2020, no country accounted for more than 10% of our operating lease revenue except the U.S. and China.

6. VARIABLE INTEREST ENTITIES

FINANCING STRUCTURES

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

These legal entities have entered into secured loans with various third parties and financial institutions that are primarily guaranteed by ACG and supported by secondary guarantees from Export Credit Agencies. These legal entities use the proceeds from these loans to purchase aircraft. The aircraft secure the loans and are leased, pursuant to capital leases, to us. The loans are recourse to our general credit through ACG guarantees that are 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.

The net book value of the aircraft owned by legal entities that are considered VIEs as of June 30, 2021 and December 31, 2020 was $741.7 million and $844.2 million, respectively, and is included in flight equipment held for lease, net (Note 3). In addition, as of June 30, 2021 and December 31, 2020, the debt financings associated with these legal entities was $155.4 million and $206.9 million, respectively, and is included in debt financings, net (Note 9).

NOTES RECEIVABLE, NET

In March 2020, we entered into a secured credit facility (AFS Facility) (Note 9), which we can draw on to provide loans (AFS Notes Receivable) to airlines (AFS Borrower(s)) in connection with our AFS program. The AFS Notes Receivable are secured by aircraft owned by such AFS Borrowers. As of June 30, 2021 and December 31, 2020, the carrying value of the AFS Notes Receivable, net of deferred fees, was $279.4 million and $177.1 million, respectively, and is included in notes receivable, net. The AFS Notes Receivable have maturity dates ranging from 2028 to 2033.

In connection with the financing of aircraft owned by the AFS Borrowers, we participated in the design and formation of certain SPVs. The purpose of each SPV is to satisfy certain requirements of our AFS Facility. We entered into loan agreements with each SPV and the SPVs used the proceeds from the loans to purchase aircraft from the AFS Borrowers. The aircraft secure our notes payable under the AFS Facility and are leased, pursuant to capital leases, to the AFS Borrowers. Each SPV is considered a VIE because it does not have sufficient equity investment at risk. Because we do not have the power to direct the activities that most significantly impact the economic performance of the SPVs, we determined that we are not the primary beneficiary of the SPVs and do not consolidate them into our consolidated financial statements. Our maximum exposure to loss approximates the carrying value of the AFS Notes Receivable.

In January 2021, we sold an aircraft to a third party airline (Borrower) and financed a portion of the purchase price for the airline (Airline Note Receivable). The Airline Note Receivable is secured by the aircraft and another aircraft which is financed with guaranteed debt that is amortizing over a 10 year period and matures in January 2031. As of June 30, 2021, the carrying value of the Airline Note Receivable was $103.2 million and is included in notes receivable, net.

In connection with the financing of the Airline Note Receivable, we participated in the design and formation of an SPV. The purpose of the SPV is to provide a structural risk mitigant. We entered into loan agreements with the SPV and the SPV used the proceeds from the loan to purchase an aircraft from us. The SPV is considered a VIE because it does not have sufficient equity investment at risk. Because we do not have the power to direct the activities that most significantly impact the economic performance of the SPV, we determined that we are not the primary beneficiary of the SPV and do not consolidate it into our consolidated financial statements. Our maximum exposure to loss approximates the carrying value of the Airline Note Receivable.

7. FAIR VALUE

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

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

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

We fund certain deferred compensation obligations to meet funding obligations to employee participants. The assets are held in a trust and are subject to the claims of ACG's general creditors under federal and state laws in the event of insolvency. The assets are invested in a mutual fund and are included in other assets, net. The realized and unrealized holding gains and losses related to this investment are recorded in other income.

We use foreign currency swap contracts to manage exposure to changes in foreign currencies (Note 8). We record our foreign currency swap at fair value. When the fair value is in an asset position, it is recorded in other assets, net and when it is in a liability position, it is recorded in accounts payable, accrued expenses and other liabilities.

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. The following table presents our Level 1 and Level 2 assets and (liabilities) measured at fair value on a recurring basis *(In Thousands)*:

	Level	June 30, 2021	December 31, 2020
Securities held in trust	1	$19,512	$37,862
Foreign currency swap	2	($1,016)	$6,492

As of June 30, 2021 and December 31, 2020, we did not have any Level 3 assets or liabilities that we measured at fair value on a recurring basis.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

We measure the fair value of our aircraft and related assets when events or changes to circumstances indicate that the carrying amounts of these assets may not be recoverable.

The following table presents assets measured at fair value (at the relevant measurement date) on a non-recurring basis during the six months ended June 30, 2021 and the year ended December 31, 2020 and still held at period end *(In Thousands):*

	June 30, 2021		December 31, 2020	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	6,887	—	93,050
Total	$ —	$ 6,887	$ —	$ 93,050

The fair value measurements of our aircraft and related assets may be based on the estimated sales price less selling costs (i.e., a market approach) based on Level 2 inputs, maintenance adjusted estimated values (i.e., a market approach) based on Level 3 inputs, or the present value of estimated future cash flows (i.e., an income approach) based on Level 3 inputs. We used the market or income approach for all assets measured at fair value on a non-recurring basis during the six months ended June 30, 2021 and the year ended December 31, 2020.

For the six months ended June 30, 2021 and June 30, 2020, impairments related to lease related assets were $7.1 million and zero, respectively. These lease related assets were measured at a fair value of zero as there were no future contractual cash flows because of the termination of the related leases.

LEVEL 3 INPUTS FOR FLIGHT EQUIPMENT HELD FOR LEASE, NET MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

The key inputs for the income approach include the current contractual lease payments, estimated future lease payments extended to the end of the aircraft's estimated holding period in its highest and best use configuration, estimated disposition value less selling costs, and the discount rate. The key inputs to the market approach include maintenance adjusted estimated values.

The current contractual lease payments are based on in-force lease rates. Estimated future lease payments are based on the aircraft's type, age, configuration, current contracted lease rates for similar aircraft, industry trends, and the estimated holding period. We generally assume a 25-year estimated economic useful life for aircraft. Shorter or longer holding periods may be used 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. The estimated cash flows are then discounted to present value. In the case of a potential sale, the holding period is based on the estimated sale date. The disposition value reflects an estimated residual value or estimated sales price less selling costs and is generally estimated based on aircraft type, condition, and contractual terms.

For flight equipment held for lease, net measured at fair value on a non-recurring basis using Level 3 inputs during the six months ended June 30, 2021, the following table presents the fair value as of the measurement date, the valuation technique and the related unobservable inputs *(In Thousands):*

	Fair Value	Valuation Technique	Unobservable Input	Weighted Average Discount Rate	Remaining Holding Period
Flight equipment held for lease, net	$6,887	Market Approach	Maintenance Adjusted Estimated Values	N/A	N/A

FINANCIAL ASSETS AND LIABILITIES

Our financial assets and liabilities include cash and cash equivalents, restricted cash, investment in finance leases, net, operating lease receivables, securities held in trust, notes and other receivables, foreign currency swap, accounts payable, accrued expenses and other liabilities, and debt financings, net. Our financial assets and liabilities are carried at amortized cost with the exception of our securities held in trust and foreign currency swap which are carried at fair value.

8. DERIVATIVE FINANCIAL INSTRUMENTS

Our operating lease revenue is generated in USD. In general, foreign currency exposure arises with respect to periodic payments made on borrowings denominated in foreign currencies. We manage the foreign currency exposure with foreign currency swaps.

From time to time, we enter into foreign currency swaps that limit our exposure to foreign currency fluctuations in connection with the issuance of term loans denominated in Japanese Yen (JPY) (Note 9). As of June 30, 2021, we had one foreign currency swap not designated as hedging that exchanges the three-month JPY LIBOR for the three-month USD LIBOR. This swap has a notional value of $97.4 million and matures in July 2023. As of June 30, 2021 and December 31, 2020, our foreign currency swap had a fair value of ($1.0) million and $6.5 million, respectively. For the six months ended June 30, 2021 and 2020, we recognized an unrealized loss of $7.5 million and an unrealized gain of $0.5 million, respectively, due to market adjustments.

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 when reported as an asset. Neither we nor our counterparty require collateral to support our current derivative contracts with credit risk. As of June 30, 2021, the counterparty to our foreign currency swap was rated investment grade by Standard and Poor's, Moody's, and Fitch Ratings. A credit valuation analysis was performed for our derivative position 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 June 30, 2021.

Our foreign currency swap contains a termination event clause, whereby, if there is a change in ownership and our financial strength ratings as assigned by certain independent rating agencies fall below a specified level, the counterparty could terminate the swap contract with payment due based on the fair value of the underlying derivative. As of June 30, 2021, no events have occurred that would trigger the termination event clause.

9. DEBT FINANCINGS, NET

The following tables present the components of debt financings, net *(Dollars in Thousands)*:

	June 30, 2021					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$5,550,000	July 2021 - November 2027	0.9% - 5.5%	Fixed and Floating	Semi-Annual and Quarterly	USD
NEXI Term Loan	500,000	December 2023	1.5%	Floating	Quarterly	USD
JBIC Term Loan	450,000	September 2025	1.2%	Floating	Quarterly	USD
Commercial paper	406,000	July 2021	0.2% - 0.4%	Fixed	Various	USD
2018 Term loan	294,640	July 2023	0.3% - 1.2%	Floating	Quarterly	USD and JPY
Secured debt obligations:						
Secured loans	520,750	October 2021 - April 2033	0.3% - 3.4%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(52,757)					
Original issuance discounts	(29,439)					
Debt financings, net	$7,639,194					

	December 31, 2020					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$6,050,000	April 2021 - November 2027	0.9% - 6.8%	Fixed and Floating	Semi-Annual and Quarterly	USD
NEXI Term Loan	500,000	December 2023	1.6%	Floating	Quarterly	USD
JBIC Term Loan	450,000	September 2025	1.3%	Floating	Quarterly	USD
2018 Term loan	301,328	July 2023	0.3% - 1.2%	Floating	Quarterly	USD and JPY
Secured debt obligations:						
Secured loans	476,959	April 2021 - June 2028	0.4% - 3.6%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(55,565)					
Original issuance discounts	(26,460)					
Debt financings, net	$7,696,262					

UNSECURED DEBT OBLIGATIONS

We enter into various unsecured financings with third parties. These financings are primarily comprised of senior notes issued in reliance on Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended (Senior Notes). In January 2021, we issued $750.0 million of senior unsecured notes due January 2026 with a fixed interest rate of 1.95%. In February 2021, we redeemed the full $750.0 million principal amount outstanding of our 6.75% senior unsecured notes due April 2021. The notes were redeemed at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, as well as a make-whole amount.

In June 2019, we entered into a senior unsecured revolving credit agreement with a syndicate of lenders (the 2019 Revolving Credit Facility). In June 2021, we extended the final maturity date of the 2019 Revolving Credit Facility from June 2024 to June 2025. As of June 30, 2021, the aggregate borrowing capacity under the 2019 Revolving Credit Facility was $2.0 billion, with revolving commitments totaling approximately $1.7 billion that mature in June 2025 and approximately $0.3 billion that mature in June 2024. As of June 30, 2021 and December 31, 2020, no amounts were outstanding under the 2019 Revolving Credit Facility. The 2019 Revolving Credit Facility serves as a backstop for our commercial paper program.

We have a $1.5 billion commercial paper program under which we may issue notes in minimum denominations of $250.0 thousand for periods ranging from one to 397 days. As of June 30, 2021 and December 31, 2020, we had commercial paper outstanding in the amount of $406.0 million and zero, respectively.

In June 2020, we established a revolving line of credit with Tokyo Century (the 2020 Revolving Credit Facility), which has a borrowing capacity of $600.0 million (or its equivalent in JPY) and an initial maturity of June 2023 (Note 13). Thereafter, the 2020 Revolving Credit Facility will automatically renew for additional one-year periods unless terminated by either party at least 60 days prior to the maturity date or then-current renewal date. As of June 30, 2021 and December 31, 2020, we had not drawn any amounts available under the 2020 Revolving Credit Facility.

In June 2018, we entered into a dual tranche senior unsecured term loan (2018 Term Loan). The 2018 Term Loan includes a $197.0 million USD tranche and a 10.8 billion JPY tranche. The USD tranche bears interest at a floating rate based on three-month USD LIBOR (with a floor of 0%) plus 1.0% per annum, and the JPY tranche bears interest at a floating rate based on three-month JPY LIBOR (with a floor of 0%) plus 0.30% per annum.

In September 2020, we entered into an unsecured term loan with Tokyo Century (JBIC Term Loan) (Note 13). Tokyo Century, with the support of the Japan Bank for International Cooperation (JBIC) and other Japanese financial institutions, borrowed this debt capital on behalf of ACG and lent the proceeds to ACG via an intercompany loan. Principal amounts due under the JBIC Term Loan will be payable in installments beginning in December 2022.

In December 2020, we entered into an unsecured term loan with Mizuho Bank, Ltd. that is guaranteed by Tokyo Century and insured by Nippon Export and Investment Insurance (the NEXI Term Loan) (Note 13).

SECURED DEBT OBLIGATIONS

We enter into various secured loans guaranteed by Export Credit Agencies, some of which are financed through VIEs (Note 6). These loans are secured by our aircraft and are also guaranteed by ACG. As of June 30, 2021 and December 31, 2020, we had $230.5 million and $293.3 million, respectively, of secured loans guaranteed by Export Credit Agencies.

In March 2020, we entered into the $650.0 million AFS Facility in support of our AFS business. The AFS Facility includes an accordion option, which, if exercised, could increase the size of the AFS Facility to up to $1.0 billion. The AFS Facility contains an 18-month drawdown period, during which we can draw on the facility to fund AFS Notes Receivable (Note 6). The AFS Notes Receivable will be secured by aircraft owned by the AFS Borrowers and amortized over a period not to exceed 12 years from the date of drawing. The AFS Borrowers will be able to elect either a fixed or floating interest rate, based on a benchmark rate. As of June 30, 2021 and December 31, 2020, $290.3 million and $183.7 million, respectively, was outstanding under the AFS facility. As of June 30, 2021, $332.2 million was available under the AFS Facility.

In August 2021, we extended the drawdown period on the AFS Facility by 12 months.

Except for the NEXI Term Loan, our outstanding debt as of June 30, 2021 is recourse only to ACG, and is not guaranteed by Tokyo Century.

As of June 30, 2021 and December 31, 2020, we were in compliance with all applicable debt covenants.

10. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

We lease office facilities in Newport Beach, California; Bellevue, Washington; Dublin, Ireland; and Singapore under non-cancelable operating leases.

We have commitments relating to aircraft we sold to third parties then leased back under operating leases.

CAPITAL COMMITMENTS

As of June 30, 2021, we have unconditional purchase commitments for 67 aircraft scheduled for delivery through 2025. All of these commitments arise from fixed price purchase agreements with Boeing, Airbus and other third parties, and may include escalation provisions. Under certain circumstances, we have the right to alter the mix of aircraft types ultimately acquired. The manufacturers have informed us of expected delivery delays relating to certain aircraft and engines, including as a result of the COVID-19 pandemic, which has impacted aircraft manufacturers due to temporary closures of certain assembly and supplier facilities. We remain in active discussions with Boeing and Airbus to determine the estimated impact and duration of continued delivery delays given the recent adjustments to their production systems. Our leases contain lessee cancellation clauses related to aircraft delivery delays, typically for delays greater than one year. Our purchase agreements with Boeing and Airbus contain similar clauses.

In March 2019, the Federal Aviation Administration (FAA) issued an order to suspend operations of all Boeing 737 MAX aircraft in the U.S. and by U.S. aircraft operators. Non-U.S. civil aviation authorities also issued directives to similar effect. In November 2020, the FAA ungrounded the Boeing 737 MAX and in January 2021, the European Union Aviation Safety Agency ungrounded the Boeing 737 MAX. Accordingly, Boeing resumed deliveries of the Boeing 737 MAX to certain aircraft operators. However, even after clearances were granted, Boeing's ability to deliver Boeing 737 MAX aircraft remains impacted by various factors. Prior to the grounding, we had delivered seven Boeing 737 MAX aircraft that are currently on lease to four airline customers and we are currently committed to take delivery of an additional 21 Boeing 737 MAX aircraft. The commitment schedule below reflects our estimate of when the Boeing 737 MAX deliveries will occur.

The following table presents the estimated remaining payments for the purchase of aircraft as of June 30, 2021 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2021	$711,849
2022	794,232
2023	563,876
2024	491,421
2025	212,082
Total	$2,773,460

As of June 30, 2021, deposits made related to our purchase agreements totaled $944.6 million and are included in prepayments on flight equipment.

GUARANTEES

In connection with our AFS program, we provide repayment guarantees for loans borrowed by airlines to finance new aircraft deliveries or to finance aircraft already owned by the airlines. These guarantees are limited to the borrower's failure to timely repay principal and interest on the amortizing senior secured loans to the lenders. The loans are collateralized by the financed aircraft and typically have a term of 12 years or less with a maximum term of up to 15 years. The loans are denominated in USD or Euros. In order to manage risk, we developed an internal credit rating model for airlines in our portfolio. Internal credit ratings are based on both quantitative and qualitative factors of the airlines and the environment in which they operate. These ratings may change, as new events occur and additional information is obtained. As of June 30, 2021 and December 31, 2020, the guarantee liability on our consolidated balance sheet was $7.8 million and $6.3 million, respectively, and is included in accounts payable, accrued expenses and other liabilities. As of June 30, 2021, if all of the airline borrowers under our AFS program defaulted on their loans, our obligation and the estimated potential amount of future principal payments we could be required to make under the guarantees was $784.1 million. However, the loans are collateralized by the financed aircraft and, to the extent possible, the loans are cross-defaulted and cross-collateralized with other guaranteed aircraft loans and/or operating leases in our portfolio with that airline.

As of June 30, 2021, ACG, a borrower and lender under one of the loans guaranteed within our AFS program entered into a deferral agreement whereby the principal payments on the loan are being deferred through 2021 and repaid in the subsequent four years. The borrower is current on its payments under the terms of the deferral plan.

GENERAL

In the ordinary course of business, as part of contractual agreements, we provide certain indemnifications related to debt financings, aircraft acquisitions, aircraft dispositions, and other transactions. Historically we have not made payments for these types of indemnifications. There are currently no indemnifications from which a probable and reasonably estimable loss could arise. Therefore, as of June 30, 2021 and December 31, 2020, we had no related liabilities to disclose.

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

11. INCOME TAXES

For the six months ended June 30, 2021 and 2020, our effective tax rates were (1.2%) and 4.3%, respectively. The effective tax rates for the respective periods are based upon our expected annual tax expense and projected income for 2021 and 2020, as adjusted for discrete tax items. We are a disregarded entity for U.S. tax purposes and not subject to federal income tax. Instead, our sole member, TCSA, is responsible for income taxes on our U.S. federal and state taxable income. Therefore, our annual effective tax rate is primarily driven by the operations of our foreign entities that remain subject to tax in their local jurisdiction.

The effective tax rates for the six months ended June 30, 2021 and 2020 differ from the statutory rates due to our status as an entity disregarded as separate from our owner, permanent differences and the impact of expected annual foreign income or loss subject to lower statutory rates.

12. EMPLOYEE BENEFITS

We have defined contribution plans for our employees, including a retirement incentive savings plan, a deferred compensation plan and a supplemental executive retirement plan. As of June 30, 2021 and December 31, 2020, we had a liability associated with these plans of $14.9 million and $26.8 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

13. RELATED PARTY TRANSACTIONS

We have a servicing agreement with Tokyo Century to provide certain aircraft related management services for specified aircraft in Tokyo Century's fleet which expires in 2024. For the six months ended June 30, 2021 and 2020, we received $1.3 million and $1.5 million, respectively, in fees for these services, which is included in other income.

In December 2019, TCSA purchased all of PLAH's and ACGHI's outstanding limited liability company interests in ACG LLC (Note 1). As a result of the purchase, certain liabilities were incurred, resulting in an adjustment to our member's equity of $29.4 million in 2019. Pacific Life also provided certain services to ACG through the transaction closing date and we had an agreement with Pacific Life for related transition services, whereby Pacific Life agreed to provide certain support services for us for up to 18 months following the transaction closing date. In April 2021, we terminated the transition services agreement with Pacific Life. Pacific Life also provides subleased office space to ACG. For the six months ended June 30, 2021 and 2020, we paid Pacific Life $3.2 million and $1.2 million, respectively, for these transition services and subleased office space.

In June 2020 and September 2020, we entered into the 2020 Revolving Credit Facility and the JBIC Term Loan, respectively, with Tokyo Century (Note 9). In December 2020, we entered into the NEXI Term Loan, which is guaranteed by Tokyo Century (Note 9). In the ordinary course of business, we have engaged with a Tokyo Century affiliate to provide aircraft maintenance related services. All transactions with the affiliate are entered into at arm's length.

14. SUBSEQUENT EVENTS

We have evaluated events subsequent to June 30, 2021 and through August 9, 2021, the date these consolidated financial statements were available to be issued, and have concluded that, except for the event noted in Note 9, no events or transactions have occurred subsequent to June 30, 2021 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.