AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES

Consolidated Financial Statements
as of December 31, 2019 and 2018 and
for the years ended December 31, 2019, 2018 and 2017
and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Aviation Capital Group LLC and Subsidiaries

We have audited the accompanying consolidated financial statements of Aviation Capital Group LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019 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, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 25, 2020

CONSOLIDATED BALANCE SHEETS

(In Thousands)	December 31, 2019	2018
ASSETS		
Cash and cash equivalents	$341,234	$460,944
Restricted cash	196,754	199,262
Flight equipment held for lease, net	9,348,825	8,781,577
Assets held for sale	289,353	234,784
Prepayments on flight equipment	1,254,170	1,284,305
Investment in finance leases, net	246,896	233,765
Other assets, net	221,597	122,178
TOTAL ASSETS	$11,898,829	$11,316,815
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$225,717	$171,375
Debt financings, net	7,127,842	7,029,642
Maintenance reserves	705,912	683,538
Security deposits	163,129	144,317
Deferred income	62,497	63,253
TOTAL LIABILITIES	8,285,097	8,092,125
Commitments and contingencies (Note 12)		
Equity:		
Members' equity	3,613,732	3,227,146
Accumulated other comprehensive loss	—	(2,456)
TOTAL EQUITY	3,613,732	3,224,690
TOTAL LIABILITIES AND EQUITY	$11,898,829	$11,316,815

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands)	Years Ended December 31, 2019	2018	2017
REVENUES			
Operating lease revenue	$1,006,417	$942,866	$874,161
Amortization of lease incentives and premiums, net	(20,312)	(20,385)	(20,892)
Gain on sale of flight equipment, net	70,200	32,848	18,925
Maintenance revenue	52,004	31,126	44,760
Other income	86,032	65,945	38,382
TOTAL REVENUES	1,194,341	1,052,400	955,336
EXPENSES			
Depreciation	405,788	352,002	322,264
Interest, net	297,216	249,199	225,615
Asset impairment	135,130	74,680	156,109
Selling, general and administrative	139,930	107,258	105,194
TOTAL EXPENSES	978,064	783,139	809,182
Income before provision for (benefit from) income taxes	216,277	269,261	146,154
Provision for (benefit from) income taxes (Note 13)	295	3,330	(898,120)
NET INCOME	$215,982	$265,931	$1,044,274

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)	Years Ended December 31, 2019	2018	2017
NET INCOME	$215,982	$265,931	$1,044,274
Other comprehensive income:			
Amortization into earnings from accumulated other comprehensive loss for terminated cash flow hedges, net of taxes of $192, $0 and $0 (included in interest, net)	2,249	—	—
Amortization into earnings from accumulated other comprehensive loss for de-designated hedges (included in interest, net)	477	635	778
Unrealized (loss) gain on interest rate swap contracts, net of taxes of $42, $86 and $629 (included in interest, net)	(270)	1,915	3,221
COMPREHENSIVE INCOME	$218,438	$268,481	$1,048,273

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF EQUITY

(In Thousands)	Members' Equity	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity
BALANCES, JANUARY 1, 2017	**—**	**$1**	**$773,385**	**$1,143,556**	**($9,005)**	**$1,907,937**
Net loss prior to organizational transactions	—	—	—	(61,050)	—	(61,050)
Effect of organizational transactions	$2,746,797	(1)	(773,385)	(1,082,506)	—	890,905
Capital contribution from TCSA	610,064	—	—	—	—	610,064
Capital distribution to PLAH	(610,064)	—	—	—	—	(610,064)
Net income subsequent to organizational transactions	214,418	—	—	—	—	214,418
Other comprehensive income	—	—	—	—	3,999	3,999
BALANCES, DECEMBER 31, 2017	**2,961,215**	**—**	**—**	**—**	**(5,006)**	**2,956,209**
Net income	265,931	—	—	—	—	265,931
Other comprehensive income	—	—	—	—	2,550	2,550
BALANCES, DECEMBER 31, 2018	**3,227,146**	**—**	**—**	**—**	**(2,456)**	**3,224,690**
Capital contribution from TCSA	200,000	—	—	—	—	200,000
Net income	215,982	—	—	—	—	215,982
Effect of TCSA acquisition (Note 17)	(29,396)	—	—	—	—	(29,396)
Other comprehensive income	—	—	—	—	2,456	2,456
BALANCES, DECEMBER 31, 2019	**$3,613,732**	**—**	**—**	**—**	**—**	**$3,613,732**

See Notes to Consolidated Financial Statements

The abbreviation TCSA means TC Skyward Aviation U.S., Inc.
The abbreviation PLAH means Pacific Life Aviation Holdings LLC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Years Ended December 31, 2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$215,982	$265,931	$1,044,274
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	405,788	352,002	322,264
Asset impairment	135,130	74,680	156,109
Gain on sale of flight equipment, net	(70,200)	(32,848)	(18,925)
Maintenance reserves, security deposits and lease incentives included in earnings	(48,111)	(33,916)	(46,413)
Amortization of debt acquisition costs and original issuance discounts	21,663	19,076	18,611
Amortization of lease incentives and premiums, net	20,312	20,385	20,892
Deferred income taxes, net	(523)	2,505	(868,767)
Other operating activities, net	3,643	205	(4,135)
Change in operating assets and liabilities	(73,958)	(37,945)	(53,292)
NET CASH PROVIDED BY OPERATING ACTIVITIES	609,726	630,075	570,618
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of flight equipment and related assets	(1,401,262)	(1,469,775)	(1,290,548)
Proceeds from sale of flight equipment and related assets	607,264	501,160	723,756
Prepayments on flight equipment	(342,736)	(618,547)	(808,407)
Payments on non-hedging derivative financial instruments	(209,999)	(8,691)	(6,582)
Receipts from non-hedging derivative financial instruments	209,425	1,455	1,408
Capitalized interest on prepayments on flight equipment	(37,071)	(40,913)	(34,980)
Other investing activities, net	(15,756)	34,083	71,622
NET CASH USED IN INVESTING ACTIVITIES	(1,190,135)	(1,601,228)	(1,343,731)

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Years Ended December 31, 2019	2018	2017
(Continued)			
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt financings	$4,851	$2,527,003	$1,731,937
Repayment of debt financings	(612,565)	(1,298,370)	(271,705)
Proceeds from (repayment of) revolving credit facilities and commercial paper, net	688,000	(119,000)	(785,000)
Receipts of maintenance reserves	213,808	180,563	175,124
Payments of maintenance reserves	(56,541)	(48,120)	(34,029)
Receipts of security deposits	42,576	37,210	36,300
Payments of security deposits	(12,823)	(15,240)	(15,330)
Capital contribution from TCSA	200,000	—	610,064
Capital distribution to PLAH	—	—	(610,064)
Other financing activities, net	(9,115)	(5,730)	(4,568)
NET CASH PROVIDED BY FINANCING ACTIVITIES	458,191	1,258,316	832,729
Net change in cash and cash equivalents and restricted cash	(122,218)	287,163	59,616
Cash and cash equivalents and restricted cash, beginning of year	660,206	373,043	313,427
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$537,988	$660,206	$373,043
RECONCILIATION TO CONSOLIDATED BALANCE SHEETS			
Cash and cash equivalents	$341,234	$460,944	$166,875
Restricted cash	196,754	199,262	206,168
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$537,988	$660,206	$373,043
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid, net of capitalized interest	$265,913	$215,616	$178,406
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	$411,113	$551,463	$210,977

See Notes to Consolidated Financial Statements

The abbreviation TCSA means TC Skyward Aviation U.S., Inc.
The abbreviation PLAH means Pacific Life Aviation Holdings LLC.

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 (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 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Our consolidated financial statements include the accounts of all entities in which we have a controlling financial interest, including the accounts of any variable interest entity (VIE) 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 or combined in the presentation of the 2018 and 2017 consolidated statements of income, consolidated statements of cash flows, and footnotes to conform to the 2019 presentation.

We have evaluated events subsequent to December 31, 2019 and through February 25, 2020, the date these consolidated financial statements were available to be issued, and have concluded that no events or transactions have occurred subsequent to December 31, 2019 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.

RISK AND UNCERTAINTIES

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

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

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

FLIGHT EQUIPMENT HELD FOR LEASE, NET AND DEPRECIATION

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

We test for potential impairment whenever events or changes in circumstances indicate that the carrying value of our flight equipment may not be recoverable. We test for potential impairment utilizing a two-step process. Step one is a review of the recoverability which includes an assessment of the estimated future undiscounted cash flows associated with the use of the flight equipment and its eventual disposal. The assets are grouped at the lowest level for which identifiable cash flows are largely independent of other groups of assets, which includes the individual aircraft and the lease-related assets and liabilities of that aircraft (the Asset Group). Under step two, if the future undiscounted cash flows of the flight equipment are less than the Asset Group's carrying value, the Asset Group is deemed impaired and re-measured to fair value. We measure the impairment, if any, as the excess of the carrying value of the Asset Group over its fair value on the measurement date. An impairment loss for an Asset Group reduces the carrying value of the long-lived assets related to that Asset Group.

ASSETS HELD FOR SALE

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

PREPAYMENTS ON FLIGHT EQUIPMENT AND CAPITALIZED INTEREST

Prepayments on flight equipment represent progress payments, and capitalized interest thereon, associated with aircraft order positions we hold with various aircraft manufacturers and deposits paid for aircraft purchases with other third parties.

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

Prepayments on flight equipment, deposits paid on third party aircraft purchases and capitalized interest are capitalized to the aircraft's cost upon delivery.

ACQUIRED AIRCRAFT CONTRACTUAL RIGHTS

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

Lease Premium or Discount represents the present value of the difference in cash flows specified in an acquired lease agreement and the estimated cash flows the subject aircraft would command in market transactions at the acquisition date. We record Lease Premium or Discounts in other assets, net.

Amortization of Lease Premiums are recognized as a reduction to revenues on a straight-line basis over the life of the lease. Amortization of Lease Discounts are recognized as an increase to revenues on a straight-line basis over the life of the lease.

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

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

EOL Leases

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

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

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

When we have recorded maintenance right liabilities for EOL Leases, the following accounting scenarios exist at the end of the lease: (i) the aircraft is returned in the contractually specified maintenance condition without any cash payment by us to the lessee and the maintenance right liability is eliminated and recognized as maintenance revenue; (ii) we remit a cash payment to the lessee that is less than the value of the maintenance right liability, the maintenance right liability is eliminated and any difference is recognized as maintenance revenue; or (iii) we pay 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 the lease, we are entitled to retain any cash receipts in excess of the required reimbursements to the lessee.

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

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

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

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

DEBT FINANCINGS, NET

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

SECURITY DEPOSITS

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

MAINTENANCE RESERVES AND MAINTENANCE REVENUE

Factors we consider when deciding if a lessee will make periodic maintenance payments, rather than making maintenance payments at the end of the lease term, include the creditworthiness of the lessee, the level of security deposit provided by the lessee and market conditions at the time we enter into the lease.

Under MR Leases, maintenance payments made to us in excess of the required reimbursements to the lessee are recognized as maintenance revenue at the end of the lease.

Under EOL Leases, maintenance payments made to us at the end of the lease term are recognized as maintenance revenue when received. Maintenance payments we make to the lessee are capitalized and depreciated on a straight-line basis until the next estimated scheduled maintenance or overhaul event.

LEASE INCENTIVES AND LEASE ACQUISITION COSTS

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

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

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

VARIABLE INTEREST ENTITIES

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

CONTINGENCIES

We evaluate each contingent matter separately. We record a loss when it is probable and reasonably estimable (Note 12). 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 and related assets on a non-recurring basis.

DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative financial instruments such as interest rate swaps and foreign currency swap contracts (collectively Derivative Financial Instruments) to manage exposure to changes in interest rates and foreign currencies. Our Derivative Financial Instruments are not held or issued for trading or speculative purposes. If certain conditions are met, a Derivative Financial Instrument may be specifically designated as a hedge. All Derivative Financial Instruments, whether designated as a hedging relationship or not, are required to be recorded at fair value. If a Derivative Financial Instrument is designated as a cash flow hedge, the effective portion of changes in the 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 fair value of the derivative is recognized in interest, net. Changes in the fair value of Derivative Financial Instruments that are not designated as hedges or do not qualify as hedges are included in interest, net.

We designate a Derivative Financial Instrument contract as a hedge of the identified exposure if it qualifies on the inception date of the hedging relationship. 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. The periodic cashflows for all Derivative Financial Instruments that are hedging current or future interest payments are included in interest, net. The periodic cashflows for all Derivative Financial Instruments that hedged lease cash flows are included in selling, general and administrative.

We record Derivative Financial Instruments at fair value. Derivative Financial Instruments in an asset position are recorded in other assets, net and Derivative Financial Instruments in a liability position are recorded in accounts payable, accrued expenses and other liabilities.

RELATED PARTY TRANSACTIONS

We disclose all material related party transactions (Note 17). Because the requisite conditions of a competitive free-market may not exist, these transactions may differ from those available to us in the open market.

INCOME TAXES

Prior to March 31, 2017, we applied Accounting Standards Codification (ASC) 740 Income Tax (ASC 740) to the financial reporting of our U.S. and taxable foreign subsidiaries; after March 31, 2017, we continued to apply ASC 740 to the financial reporting of income taxes for our taxable foreign subsidiaries. Effective March 31, 2017, we changed our tax status from a corporation to a limited liability company taxed as a partnership for U.S. federal and state income tax purposes. Effective December 5, 2019, TCSA owns all of the outstanding limited liability company interests in ACG LLC, and our tax status for U.S. income tax purposes changed from a partnership to a single member limited liability company, disregarded by its owner. Therefore, for periods between April 1, 2017 through December 5, 2019, we were a partnership for U.S. tax purposes and not subject to federal income tax at the partnership level. Instead, our members were responsible for income taxes on our U.S. federal and state taxable income. For periods after December 5, 2019, 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. As such, no recognition of U.S. federal or state income taxes has been provided for in the accompanying consolidated financial statements for the periods after March 31, 2017.

OPERATING LEASE REVENUE

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

Lease payments received under the terms of the lease agreements, but unearned, are recorded as deferred income until earned. We evaluate the collectability of operating lease receivables 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. We cease revenue recognition if collection of the scheduled lease payment is not reasonably assured. Based on our findings, we did not establish an allowance for doubtful accounts for our operating leases as of December 31, 2019 or 2018.

FINANCE LEASE REVENUE

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

Our investment in finance leases, net consists of future minimum lease payments, less the unearned income, plus the estimated unguaranteed residual value of the leased aircraft. We recognize the unearned income over the lease term in a manner that produces a constant rate of return on our net investment in finance leases; finance lease revenue is included in other income. We evaluate the collectability of finance leases at an individual customer level. We monitor all lessees with past due lease payments and consider relevant operational and financial issues facing those lessees in order to determine an appropriate allowance for doubtful accounts. Based on our findings, we did not establish an allowance for doubtful accounts for our finance leases as of December 31, 2019 or 2018.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-12, which, together with all subsequent amendments, targets improvements to accounting for hedging activities. The objective of the amended guidance is to improve the financial reporting of hedging relationships to better portray the economic results of a company's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance. Upon adoption, cash flow and net investment hedges will require a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive loss (AOCL) with a corresponding adjustment to the beginning balance of members' equity. We adopted this standard on January 1, 2019. The amendments in this guidance did not have a material impact on our consolidated financial statements.

In 2014, the FASB issued ASU 2014-09, which, together with all subsequent amendments, supersedes most of the current revenue recognition guidance. The guidance does not apply to lease contracts with customers. The guidance requires entities to recognize revenue when it transfers control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. As the guidance did not apply to lease contracts within the scope of ASC 840 Leases, we evaluated the recognition of gains on sale of flight equipment and components of other income under the scope of the new guidance. Based on our evaluation, the timing and nature of how we recognize revenue related to gain on sale of flight equipment as well as components of other income is consistent under the new guidance. We adopted this standard on January 1, 2019 using the modified retrospective method. The amendments in this guidance did not have a material impact on our consolidated financial statements.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

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 members' 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 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, 2020 and interim periods within fiscal years beginning after December 15, 2021. 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)*:

	December 31,	
	2019	2018
Cost of flight equipment held for lease	$11,358,190	$10,765,060
Less: accumulated depreciation	(2,009,365)	(1,983,483)
Flight equipment held for lease, net	$9,348,825	$8,781,577

As of December 31, 2019 and 2018, maintenance right assets of $149.9 million and $166.6 million, respectively, were included in flight equipment held for lease, net.

As of December 31, 2019 and 2018, flight equipment held for lease, net, assets held for sale and investment in finance leases, net with aggregate carrying values of $1,165.4 million and $1,422.3 million, respectively, were pledged as collateral for our secured debt obligations (Note 11).

For the years ended December 31, 2019, 2018 and 2017, impairments related to flight equipment held for lease, net and lease acquisition costs were $120.5 million, $70.4 million and $17.3 million, respectively, and impairments related to assets held for sale were $14.6 million, $4.3 million and $138.8 million, respectively. Impairment amounts may be derived from maintenance adjusted estimated values, estimated sale prices, or a reduction of estimated future cash flows (Note 8).

The following table presents the future minimum lease rentals we are due under operating leases as of December 31, 2019 *(In Thousands)*:

Years Ended December 31:	
2020	$977,455
2021	900,460
2022	818,945
2023	712,905
2024	615,136
Thereafter	2,313,735
Total	$6,338,636

Included in the table above are lease rentals we are due relating to four aircraft that we sold to third parties, then leased back under operating leases (the Head Leases), and subsequently leased to airlines (the Sub Leases). During the year ended December 31, 2019, the operating lease revenue we received from the Sub Leases was $26.0 million. During each of the years ended December 31, 2018 and 2017, the operating lease revenue we received from the Sub Leases was $27.1 million. The table above includes future minimum lease rentals related to the Sub Leases of $55.8 million. The Sub Leases have maturity dates ranging from 2021 to 2024.

During 2019, we held fixed price purchase options under the Head Leases for six aircraft and exercised the fixed price purchase option on four of the six aircraft. The purchase of one aircraft closed in September 2019 and the purchase of a second aircraft closed in December 2019. The purchases of the other two aircraft are expected to close in 2020. The remaining commitments related to the four exercised purchase options is $66.1 million, which is scheduled to be paid in 2020, and is included in the table below. The remaining two Head Leases have maturity dates ranging from 2023 to 2024. The following table includes our aggregate minimum future lease commitments on the six Head Leases as of December 31, 2019 *(In Thousands)*:

Years Ended December 31:	
2020	$74,216
2021	8,276
2022	8,398
2023	7,498
2024	211
Total	$98,599

4. INVESTMENT IN FINANCE LEASES, NET

As of December 31, 2019, our investment in finance leases, net, represents 18 aircraft on lease to three customers. As of December 31, 2019 and 2018, 88% and 100%, respectively, 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)*:

	December 31,	
	2019	2018
Total future minimum lease payments	$258,802	$255,981
Less: unearned income	(85,778)	(89,743)
Estimated unguaranteed residual value	73,872	67,527
Investment in finance leases, net	$246,896	$233,765

The following table presents the future minimum lease payments that we are due under finance leases as of December 31, 2019 *(In Thousands)*:

Years Ended December 31:	
2020	$36,092
2021	35,942
2022	35,842
2023	35,782
2024	35,722
Thereafter	79,422
Total	$258,802

5. GEOGRAPHIC CONCENTRATION

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

	December 31,			
	2019		2018	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$2,441,932	25.3%	$1,918,546	21.3%
Europe	1,803,514	18.7%	1,591,421	17.7%
China	1,373,991	14.3%	1,219,641	13.5%
Central America, South America and Mexico	1,209,625	12.6%	1,345,297	14.9%
United States and Canada	1,113,665	11.6%	1,201,315	13.3%
Middle East and Africa	727,436	7.5%	629,532	7.0%
South Asia	536,150	5.6%	629,893	7.0%
Sub-total	9,206,313	95.6%	8,535,645	94.7%
Aircraft off-lease subject to a signed lease or sales commitment	380,452	3.9%	175,153	1.9%
Aircraft off-lease not subject to a signed lease or sales commitment	51,413	0.5%	305,563	3.4%
Total	$9,638,178	100.0%	$9,016,361	100.0%

As of December 31, 2019 and 2018, no individual lessee accounted for more than 10% of our aircraft portfolio. As of December 31, 2019, no country accounted for more than 10% of our aircraft portfolio, except China. As of December 31, 2018, no country accounted for more than 10% of our aircraft portfolio, except the U.S. and 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)*:

	Years Ended December 31,					
	2019		2018		2017	
	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total
Region:						
Asia Pacific (excluding China and South Asia)	$238,773	23.7%	$207,747	22.0%	$201,418	23.0%
Europe	207,846	20.7%	189,629	20.2%	186,381	21.3%
United States and Canada	157,664	15.7%	155,088	16.4%	155,412	17.8%
China	143,956	14.3%	114,878	12.2%	103,264	11.8%
Central America, South America and Mexico	138,360	13.7%	172,420	18.3%	140,380	16.1%
Middle East and Africa	62,236	6.2%	43,300	4.6%	34,047	3.9%
South Asia	57,582	5.7%	59,804	6.3%	53,259	6.1%
Operating lease revenue	$1,006,417	100.0%	$942,866	100.0%	$874,161	100.0%

For the years ended December 31, 2019, 2018 and 2017, no individual lessee accounted for more than 10% of our operating lease revenue. For the years ended December 31, 2019, 2018 and 2017, 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 loans with various third parties and financial institutions that are primarily guaranteed by ACG and supported by secondary guarantees from either the Export-Import Bank of the United States or the export credit agencies of the United Kingdom, France and/or Germany (collectively Export Credit Agencies). These legal entities use the proceeds from these loans to purchase aircraft. The aircraft secure the loans and are leased, pursuant to capital leases, to us. The loans are recourse to our general credit through the ACG 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.

The net book value of the aircraft owned by legal entities that are considered VIEs as of December 31, 2019 and 2018 totaled $976.9 million and $1,227.1 million, respectively, and is included in flight equipment held for lease, net, assets held for sale and investment in finance leases, net (Note 3). In addition, as of December 31, 2019 and 2018, the debt financings associated with these legal entities totaled $339.1 million and $534.4 million, respectively, and are included in debt financings, net (Note 11).

7. OTHER ASSETS, NET

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

	December 31,	
	2019	2018
Operating lease receivables	$62,351	$15,373
Lease premium, net	49,220	55,483
Securities held in trust	42,453	—
Notes and other receivables	25,030	12,902
Other, net	42,543	38,420
Other assets, net	$221,597	$122,178

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

	December 31,	
	2019	2018
Gross carrying amount	$70,986	$70,207
Less: accumulated amortization	(21,766)	(14,724)
Lease premium, net	$49,220	$55,483

8. 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

During 2019, in connection with TCSA's acquisition of ACG LLC, we funded 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 Derivative Financial Instruments (Note 9) to manage exposure to changes in interest rates and foreign currencies. We record Derivative Financial Instruments at fair value. Certain of our Derivative Financial Instruments were subject to master netting agreements, which allowed for the netting of derivative assets and liabilities by counterparty in the event of a default under any one contract. Derivative Financial Instruments in a net asset position by counterparty are recorded in other assets, net. Derivative Financial Instruments in a net liability position by counterparty are 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 Level 1 and Level 2 Derivative Financial Instrument assets and liabilities measured at fair value on a recurring basis, grouped by counterparty *(In Thousands)*:

	December 31, 2019					
	Level 1			Level 2		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Securities held in trust	$42,453	—	$42,453	—	—	—
Third party financial institution	—	—	—	$1,511	—	$1,511

	December 31, 2018					
	Level 1			Level 2		
	Assets	Liabilities	Total	Assets	Liabilities	Total
LifeCorp	—	—	—	$7,406	($2,862)	$4,544
Third party financial institution	—	—	—	1,040	—	1,040

As of December 31, 2019 and 2018, we did not have any Level 3 assets or liabilities that we measured at fair value on a recurring basis.

The fair value of our Derivative Financial Instruments 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, 2019 and 2018. The pricing models utilize, among other things, interest swap rates, interest rate volatility, and foreign currency forward and spot rates, as applicable. Analysis of the derivative valuations is performed, which includes both quantitative and qualitative analyses. Examples of procedures performed include, but are not limited to, obtaining third party valuations and reviewing internal calculations for reasonableness, review of pricing statistics and trends, analysis of the impacts of changes in the market environment and review of changes in the market value for each derivative by risk managers and accountants.

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 years ended December 31, 2019 and 2018 and still held at year end *(In Thousands)*:

	December 31,			
	2019		2018	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	$265,150	—	$243,680
Assets held for sale	$13,250	—	$72,139	—
Total	$13,250	$265,150	$72,139	$243,680

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 for the years ended December 31, 2019 and 2018.

For the years ended December 31, 2019, 2018 and 2017, impairments related to maintenance right assets and lease acquisition costs were $9.2 million, zero and $8.6 million, respectively. These maintenance right assets and lease acquisition costs 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. 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. The estimated cash flows are then discounted to present value.

For flight equipment held for lease, net measured at fair value on a non-recurring basis using Level 3 inputs during the year ended December 31, 2019, the following table presents the fair value as of the measurement dates, the valuation technique and the related unobservable inputs *(In Thousands)*:

	Fair Value	Valuation Technique	Unobservable Input
Flight equipment held for lease, net	$265,150	Market Approach	Maintenance Adjusted Estimated Values

FINANCIAL ASSETS AND LIABILITIES

Our financial assets and liabilities include cash and cash equivalents, restricted cash, investment in finance leases, net, operating lease receivables, notes and other receivables, Derivative Financial Instruments, 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 Derivative Financial Instruments which are carried at fair value.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The objective of our hedging policy is to mitigate risk with respect to changes in interest rates and foreign currencies.

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

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 11). The JPY swap exchanges the three-month JPY London Interbank Offered Rate (LIBOR) for the three-month USD LIBOR.

At times, we enter into interest rate derivatives to hedge the current and future interest rate payments on our floating rate debt financings. Interest rate derivatives are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. The notional amount on an interest rate derivative is not exchanged. Our interest rate derivatives typically allow us to pay fixed amounts based on fixed interest rates and receive floating amounts based on one-month and three-month LIBOR to convert our floating rate debt to fixed rate obligations to better match the largely fixed rate cash flows from rental payments. We terminated all of our outstanding interest rate swaps in September 2019.

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 were recorded in AOCL. For the years ended December 31, 2019, 2018 and 2017, we recorded a pre-tax unrealized loss of $0.2 million, gain of $2.0 million and gain of $3.9 million, respectively.

For the year ended December 31, 2019, $2.5 million was amortized from AOCL to earnings for terminated and de-designated cash flow hedges. For the years ended December 31, 2018 and 2017, no amounts were amortized from AOCL to earnings for terminated and de-designated cash flow hedges. For the years ended December 31, 2019, 2018 and 2017, no amounts were 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. We had no deferred realized gains or losses in AOCL for the year ended December 31, 2019.

We did not record any ineffectiveness for cash flow hedges for the years ended December 31, 2019, 2018 and 2017.

CONSOLIDATED FINANCIAL STATEMENT IMPACT

We determine the fair values (Note 8) of our Derivative Financial Instruments using pricing models and inputs that are observable in the market or can be derived principally from or corroborated by observable market data (Level 2 in the fair value hierarchy) available to us as of December 31, 2019 and 2018.

The following tables present our Derivative Financial Instruments *(Dollars in Thousands)*:

	December 31, 2019				
	Fair Value	Maturity Date	Pay Rate	Receive Rate	Notional
Foreign currency swaps not designated as hedging	$1,511	July 2023	3M USD LIBOR	3M JPY LIBOR	$97,367

	December 31, 2018				
	Fair Value	Maturity Date	Pay Rate	Receive Rate	Notional
Interest rate swaps designated as hedging	($849)	October 2019 - September 2021	2.7% - 3.5%	1M LIBOR or 3M LIBOR	$94,822
Interest rate swaps not designated as hedging	(2,013)	September 2019 - July 2033	4.9% - 5.5%	1M LIBOR	20,000
Foreign currency swaps not designated as hedging	8,446	February 2019 - July 2023	3M USD LIBOR	3M JPY LIBOR	300,795

The following tables present the pre-tax effect of our Derivative Financial Instruments *(In Thousands)*:

	Year Ended December 31, 2019		
	Unrealized Loss Recognized In AOCL	Loss Amortized From AOCL Into Income (a)	Unrealized Loss Recognized In Income Due To Market Adjustments
Interest rate swaps designated as hedging	($228)	($1,077)	—
Interest rate swaps not designated as hedging	—	(1,457)	($448) (b)
Foreign currency swaps not designated as hedging	—	—	(6,935)
Unrealized loss on hedging and non-hedging Derivative Financial Instruments	($228)	($2,534)	($7,383)

	Year Ended December 31, 2018			
	Unrealized Gain Recognized In AOCL	Loss Amortized From AOCL Into Income (a)	Unrealized Gain Recognized In Income Due To Market Adjustments	
Interest rate swaps designated as hedging	$2,001	—	—	
Interest rate swaps not designated as hedging	—	($635)	$827	(b)
Foreign currency swaps not designated as hedging	—	—	7,439	
Unrealized gain (loss) on hedging and non-hedging Derivative Financial Instruments	$2,001	($635)	$8,266	

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

(a) Represents the amortization of the loss of de-designated interest rate swaps from AOCL to income and the amortization into earnings from AOCL for terminated and de-designated cash flow hedges.

(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. Neither we nor our counterparty requires collateral to support our current derivative contracts with credit risk. As of December 31, 2019, the counterparty to our derivative contracts 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 December 31, 2019.

As of December 31, 2019 and 2018, we had a foreign currency swap not designated as hedging with a fair value asset of $1.5 million and $1.0 million, respectively, which contained a termination event clause. Pursuant to the termination event clause, if there is a change in ownership and our financial strength ratings as assigned by certain independent rating agencies fall below a specified level, as defined within the International Swaps and Derivative Association (ISDA) master agreement, the counterparty could terminate the ISDA master agreement with payment due based on the fair value of the underlying derivative. In December 2019, we experienced a downgrade in our financial strength ratings in connection with a change in ownership, however, the termination event clause was not triggered as our financial strength ratings remained investment grade.

10. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

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

	December 31,	
	2019	2018
Accrued interest	$66,525	$67,656
Employee compensation and benefits	62,776	41,806
Accounts payable and accrued expenses	40,155	27,042
Lease incentives	16,223	14,511
Other liabilities	40,038	20,360
Accounts payable, accrued expenses and other liabilities	$225,717	$171,375

11. DEBT FINANCINGS, NET

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

	December 31, 2019					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$5,650,000	October 2020 - November 2027	2.6% - 7.1%	Fixed and Floating	Semi-Annual and Quarterly	USD
Commercial paper	704,000	January 2020 - February 2020	2.0% - 2.4%	Fixed	Various	USD
Term loans	295,585	July 2023	0.3% - 3.0%	Floating	Quarterly	USD and JPY
Revolving Credit Facility	100,000	June 2024	2.7%	Floating	Monthly	USD
Secured debt obligations:						
Export Credit Facilities	447,535	August 2020 - November 2024	1.5% - 3.6%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(46,569)					
Original issuance discounts	(22,709)					
Debt financings, net	$7,127,842					

	December 31, 2018					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$5,832,000	April 2020 - November 2027	2.9% - 7.2%	Fixed and Floating	Semi-Annual and Quarterly	USD
Term loans	506,509	February 2019 - July 2023	0.3% - 3.4%	Floating	Quarterly	USD and JPY
Commercial paper	96,000	January 2019	2.8% - 2.9%	Fixed	Various	USD
Revolving credit facilities	20,000	December 2019 - April 2023	3.6%	Floating	Monthly	USD
Secured debt obligations:						
Export Credit Facilities	664,105	September 2019 - November 2024	1.5% - 4.2%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(61,490)					
Original issuance discounts	(27,482)					
Debt financings, net	$7,029,642					

We enter into various senior unsecured financings with third parties. These financings are primarily comprised of notes issued in reliance on Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended (Senior Notes).

We are party to a senior unsecured revolving credit facility (the Revolving Credit Facility). In June 2019, we amended and restated the Revolving Credit Facility, which increased the capacity from $1,640.0 million to $2,010.0 million and extended the maturity date from April 2023 to June 2024. As of December 31, 2019, we had drawn $100.0 million of the $2,010.0 million available under the Revolving Credit Facility. As of December 31, 2018, we had drawn $20.0 million of the $1,860.0 million aggregate capacity available under the Revolving Credit Facility and a second senior unsecured revolving credit facility that we terminated in November 2019.

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. The Revolving Credit Facility serves as a backstop facility for our commercial paper program. As of December 31, 2019 and 2018, we had issued $704.0 million and $96.0 million, respectively, of commercial paper.

We enter into various secured loans guaranteed by Export Credit Agencies and ACG (Export Credit Facilities), some of which are financed through VIEs (Note 6).

All of our outstanding debt as of December 31, 2019 is recourse only to ACG, and is not guaranteed by Tokyo Century.

The following table presents the aggregate estimated scheduled principal repayments of our debt financing obligations as of December 31, 2019 *(In Thousands)*:

Years Ended December 31:	
2020	$1,451,287
2021	1,671,842
2022	1,082,982
2023	1,005,636
2024	435,373
Thereafter	1,550,000
Total	$7,197,120

As of December 31, 2019 and 2018, we were in compliance with all applicable debt covenants.

12. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

We lease office facilities in Newport Beach, California; Bellevue, Washington; Dublin, Ireland; and Singapore under non-cancelable operating leases. For the years ended December 31, 2019, 2018 and 2017, rent expense, included in selling, general and administrative, was $1.5 million, $1.6 million and $1.6 million, respectively. The following table presents our future minimum office lease payments as of December 31, 2019 *(In Thousands)*:

Years Ended December 31:	
2020	$2,373
2021	1,235
2022	178
2023	184
2024	189
Total	$4,159

Included in the table above are lease payments due to Pacific Life for the sublease of our Newport Beach, California office facilities through June 2021.

We have commitments relating to aircraft we sold to third parties then leased back under operating leases (Note 3).

CAPITAL COMMITMENTS

As of December 31, 2019, we had commitments to purchase 165 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 delivery delays relating to certain aircraft and engines, including as a result of the Boeing MAX situation described below. These delays have been reflected in our commitment schedule below; however, there remains potential of further delivery delays not currently reflected in the schedule below. 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 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 have also issued directives to similar effect. Boeing has suspended deliveries of the Boeing 737 MAX until clearance is granted by the appropriate regulatory authorities. Prior to the grounding, we had delivered seven Boeing 737 MAX aircraft that are currently on lease to four airline customers, and we currently have 97 Boeing 737 MAX aircraft on order. As a result, we have incurred delays and expect to incur future delays on our scheduled Boeing 737 MAX deliveries. The commitment schedule below reflects our estimate of when the Boeing 737 MAX deliveries will resume.

The following table presents the estimated remaining payments for the purchase of aircraft (including adjustments for certain contractual escalation provisions) as of December 31, 2019 *(In Thousands)*:

Years Ended December 31:	
2020	$1,231,152
2021	2,562,355
2022	2,270,370
2023	818,924
2024	561,504
Thereafter	286,518
Total	$7,730,823

As of December 31, 2019, non-refundable deposits made related to our purchase agreements totaled $1.1 billion and are included in prepayments on flight equipment.

GUARANTEES

In 2019, we began providing repayment guarantees for loans borrowed by airlines to finance new aircraft deliveries. These guarantees are limited to the borrower's failure to timely repay principal and interest on the fully amortizing 12 to 15 year senior secured loans to the lender. In order to manage risk, we developed an internal credit rating for airlines in our portfolio. Internal credit ratings are based on both quantitative and qualitative factors of the airline and the environment in which it operates. As of December 31, 2019, there has been no significant changes to the internally developed credit ratings of the airlines for which we provide guarantees. As of December 31, 2019, the guarantee liability on our consolidated balance sheet is $5.8 million. As of December 31, 2019, if the borrowers default on the loans, our obligation and the estimated potential amount of future payments we could be required to make under the guarantees is $496.9 million; however, the loans are collateralized by the financed aircraft. Additionally, to the extent possible, the loans are cross-defaulted and/or cross-collateralized with other guaranteed aircraft loans and/or operating leases in our portfolio with that airline.

GENERAL

In the ordinary course of business, as part of contractual agreements, we provide certain indemnifications related to debt financings, aircraft acquisitions, aircraft dispositions, and other transactions. Historically we have not made payments for these types of indemnifications. There are currently no indemnifications from which a probable and reasonably estimable loss could arise. Therefore, as of December 31, 2019 and 2018, we have no related liabilities to disclose.

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

13. INCOME TAXES

Effective March 31, 2017, we changed our tax status from a corporation to a limited liability company, which is taxed as a partnership for U.S. federal and state income tax purposes. Effective December 5, 2019, TCSA owns all of the outstanding limited liability company interests in ACG, and our tax status for U.S. income tax purposes changed from a partnership to a single member limited liability company, disregarded by its owner. Therefore, for periods between April 1, 2017 through December 5, 2019, we are a partnership for U.S. tax purposes and not subject to federal income tax at the partnership level. Instead, our members are responsible for income taxes on our U.S. federal and state taxable income. As a result of the change in tax status, we recorded a tax benefit of $890.9 million as of March 31, 2017, and an additional tax expense during the year ended December 31, 2017 of $7.0 million relating to deferred tax true-up adjustments, in order to eliminate our U.S. federal and state net deferred tax liability. For periods after December 5, 2019, we are a disregarded entity for U.S. tax purposes and are 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. Our foreign subsidiaries continue to be subject to income tax.

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

Prior to March 31, 2017, we were included in the consolidated federal income tax return of Pacific Mutual Holding Company (PMHC) as well as certain state tax returns where PMHC filed on a combined/unitary basis. Consistent with a modified separate-return approach, our provision for federal income taxes was calculated on a systematic, rational, and consistent method, based on our income or loss, and giving recognition to the effects of net operating losses to the extent we estimated that they would be realizable in PMHC's consolidated federal income tax return, and reflecting the state apportionment factors in the combined/unitary state tax returns. Under a tax sharing arrangement PMHC credited us to the extent our net operating losses were used in PMHC's consolidated tax return and charged us to the extent of our tax liability. Our provision for state income taxes included California, in which we filed with PMHC using the unitary apportionment factors, and certain other states, in which we filed separate tax returns. As part of the tax sharing arrangement, we paid $14.6 million during the year ended December 31, 2017. As a result of our conversion to a limited liability company in 2017, the tax sharing agreement with PMHC was terminated. There is no tax sharing agreement in place with TCSA as of December 31, 2019.

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

	Years Ended December 31,		
	2019	2018	2017
Domestic	$198,010	$254,092	$144,215
Foreign	18,267	15,169	1,939
Total	$216,277	$269,261	$146,154

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

	Years Ended December 31,		
	2019	2018	2017
Current:			
Federal	$27	$708	($31,087)
State and local	158	85	(937)
Foreign	191	(10,931)	2,671
Total current	376	(10,138)	(29,353)
Deferred:			
Federal	(2,341)	—	(841,368)
State and local	—	—	(25,124)
Foreign	2,260	13,468	(2,275)
Total deferred	(81)	13,468	(868,767)
Provision for (benefit from) income taxes	$295	$3,330	($898,120)

The following table presents deferred income taxes, net of our foreign operations, which includes the following deferred tax liabilities (assets). These amounts are recorded in accounts payable, accrued expenses and other liabilities *(In Thousands)*:

	December 31,	
	2019	2018
Deferred tax liabilities:		
Aircraft basis difference	$54,095	$24,014
Other	(655)	(355)
Deferred tax liabilities from operations	53,440	23,659
Deferred tax assets:		
Net operating loss carryforwards	(49,570)	(21,607)
Deferred tax assets from operations	(49,570)	(21,607)
Net deferred tax liabilities from operations	3,870	2,052
Unrealized comprehensive loss	—	2,492
Deferred income taxes, net	$3,870	$4,544

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

	Years Ended December 31,		
	2019	2018	2017
Singapore Tax Loss Carryforwards:			
No expiration date	$277	$22,900	$33,179
Ireland Tax Loss Carryforwards:			
No expiration date	396,182	141,712	54,875
Total	$396,459	$164,612	$88,054

Our U.S. federal tax loss carryforwards were utilized in the PMHC consolidated return that includes our final corporate tax period ending March 31, 2017.

A reconciliation of the income taxes based on the prevailing corporate statutory tax rate of 21% for the years ended December 31, 2019 and 2018 and 35% for the year ended December 31, 2017 to the provision for (benefit from) income taxes reflected on the consolidated statements of income is as follows *(In Thousands)*:

	Years Ended December 31,		
	2019	2018	2017
Provision for income taxes at the federal statutory rate	$41,582	$53,359	$51,635
Nontaxable income due to flow-through status	(41,582)	(53,359)	(65,838)
Conversion to LLC	—	—	(883,864)
Singapore operations	(2,213)	1,734	397
Ireland operations	4,571	1,475	—
OCI reversal of U.S. stranded taxes	(2,341)	—	—
State income taxes provision, net of federal benefit	150	85	(450)
Other	128	36	—
Provision for (benefit from) income taxes	$295	$3,330	($898,120)
Effective Tax Rate	0.1%	1.2%	(614.5)%

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

Balance as of January 1, 2017	$52,050
Decreases related to prior period positions	(52,050)
Balance as of December 31, 2017, 2018 and 2019	—

Our policy is to recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes in the consolidated statements of income and any accrued interest and penalties related to unrecognized tax benefits within accounts payable, accrued expenses and other liabilities in the consolidated statements of financial condition. During the years ended December 31, 2019, 2018 and 2017, we did not record any interest and penalties related to unrecognized tax benefits.

For the year ended March 31, 2017, we were subject to taxation in the U.S. and various state jurisdictions. PMHC is under continuous audit by the IRS and is audited periodically by various state taxing authorities. The IRS has completed audits of PMHC's federal returns through the tax year ended December 31, 2012. PMHC is currently participating in the appeals process with the IRS for certain tax issues unrelated to us. The PMHC federal return for tax years 2013 onwards are open for examination. The IRS is currently auditing PMHC's federal returns for the tax years ended December 31, 2015 and 2016 and the exam for December 31, 2013 and 2014 is anticipated to close by March 15, 2020. The State of California is currently auditing the PMHC combined return for the tax year ended December 31, 2009. Various state returns are open for examination from 2015 onwards. We do not expect the federal and state audits to result in any relevant material assessments.

14. OTHER INCOME

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

	Years Ended December 31,		
	2019	2018	2017
Interest income	$22,740	$20,028	$1,438
Finance lease revenue	17,296	20,427	18,568
AFS fee income and guarantee liability amortization	15,862	—	—
Lease termination settlements	6,115	6,197	5,694
Management, transaction and advisory fees	6,006	5,475	2,560
Other	18,013	13,818	10,122
Other income	$86,032	$65,945	$38,382

15. SELLING, GENERAL AND ADMINISTRATIVE

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

	Years Ended December 31,		
	2019	2018	2017
Maintenance and transition expense	$43,200	$6,018	$17,695
Employee compensation and benefits	43,064	48,670	41,507
Operating lease expense	21,953	23,321	23,323
Professional services	7,044	8,835	4,579
Other	24,669	20,414	18,090
Selling, general and administrative	$139,930	$107,258	$105,194

16. INTEREST, NET

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

	Years Ended December 31,		
	2019	2018	2017
Interest on debt financings, premiums paid and net settlements on interest rate derivatives	$307,036	$269,022	$239,228
Amortization of debt acquisition costs and original issuance discounts	21,663	19,076	18,611
Change in value on non-hedging derivatives	4,200	(7,631)	(6,527)
Fees paid to service providers	3,169	3,008	2,262
Foreign currency adjustments	(1,781)	6,637	7,021
Gross interest expense	334,287	290,112	260,595
Capitalized interest	(37,071)	(40,913)	(34,980)
Interest, net	$297,216	$249,199	$225,615

17. RELATED PARTY TRANSACTIONS

In December 2019, TCSA purchased all of PLAH's and ACGHI's outstanding limited liability company interests in ACG LLC. Pacific Life provided certain services to ACG LLC through the transaction closing date and we have an agreement with Pacific Life for transition related services, whereby Pacific Life will continue to provide certain support services for us for up to 18 months following the transaction closing date. As a result of the purchase, certain liabilities were incurred, resulting in an adjustment to our members' equity of $29.4 million.

For the years ended December 31, 2019, 2018 and 2017, we reimbursed Pacific Life $57.0 million, $48.7 million and $50.2 million, respectively, for expenses Pacific Life incurred on our behalf, primarily for the payment of employee compensation and benefits, and other services.

We have defined contribution plans for our employees, including a retirement incentive savings plan, a deferred compensation plan and a supplemental executive retirement plan. These plans were sponsored by Pacific Life until the TCSA acquisition in December 2019. In December 2019, we began sponsoring these plans. As of December 31, 2019, we had a liability associated with these plans of $23.8 million, which is included in accounts payable, accrued expenses and other liabilities.

We had derivative contracts with LifeCorp as the counterparty. The majority of the settlement payments with LifeCorp are included in receipts from non-hedging Derivative Financial Instruments and payments on non-hedging Derivative Financial Instruments within our consolidated statements of cash flows. During September 2019, we terminated all of our derivative contracts with LifeCorp.

In February 2018, we entered into a three-year servicing agreement with Tokyo Century to provide certain aircraft related management services for specified aircraft in Tokyo Century's fleet. For the years ended December 31, 2019 and 2018, we received $3.8 million and $3.4 million, respectively, in fees for these services, which is included in other income.