

**AVIATION CAPITAL GROUP LLC  
AND SUBSIDIARIES**

Consolidated Financial Statements  
as of December 31, 2020 and 2019 and  
for the years ended December 31, 2020, 2019 and 2018  
and Independent Auditors' Report

## 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, 2020 and 2019, and the related consolidated statements of income and comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2020 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, 2020 and 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

February 24, 2021

Aviation Capital Group LLC and Subsidiaries

CONSOLIDATED BALANCE SHEETS

<i>(In Thousands)</i>	December 31,	
	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$595,500	\$341,234
Restricted cash	135,711	196,754
Flight equipment held for lease, net	9,747,329	9,348,825
Assets held for sale	156,761	289,353
Prepayments on flight equipment	1,007,199	1,254,170
Investment in finance leases, net	198,433	246,896
Other assets, net	548,519	221,597
<b>TOTAL ASSETS</b>	<b>\$12,389,452</b>	<b>\$11,898,829</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$258,334	\$288,214
Debt financings, net	7,696,262	7,127,842
Maintenance reserves	588,062	705,912
Security deposits	129,054	163,129
<b>TOTAL LIABILITIES</b>	<b>8,671,712</b>	<b>8,285,097</b>
Commitments and contingencies (Note 12)		
Equity:		
Member's equity	3,717,740	3,613,732
<b>TOTAL EQUITY</b>	<b>3,717,740</b>	<b>3,613,732</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$12,389,452</b>	<b>\$11,898,829</b>

See Notes to Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

<i>(In Thousands)</i>	Years Ended December 31,		
	2020	2019	2018
<b>REVENUES</b>			
Operating lease revenue	\$900,856	\$1,006,417	\$942,866
Amortization of lease incentives and premiums, net	(24,162)	(20,312)	(20,385)
Maintenance revenue	56,793	52,004	31,126
Gain on sale of flight equipment, net	11,871	70,200	32,848
Other income	65,430	86,032	65,945
<b>TOTAL REVENUES</b>	<b>1,010,788</b>	<b>1,194,341</b>	<b>1,052,400</b>
<b>EXPENSES</b>			
Depreciation	406,355	405,788	352,002
Interest, net	281,134	297,216	249,199
Asset impairment	83,829	135,130	74,680
Selling, general and administrative, net	134,381	139,930	107,258
<b>TOTAL EXPENSES</b>	<b>905,699</b>	<b>978,064</b>	<b>783,139</b>
Income before provision for income taxes	105,089	216,277	269,261
Provision for income taxes	1,081	295	3,330
<b>NET INCOME</b>	<b>104,008</b>	<b>215,982</b>	<b>265,931</b>
Other comprehensive income	—	2,456	2,550
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$104,008</b>	<b>\$218,438</b>	<b>\$268,481</b>

See Notes to Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONSOLIDATED STATEMENTS OF EQUITY

<i>(In Thousands)</i>	Member's Equity	Accumulated Other Comprehensive (Loss) Income	Total Equity
<b>BALANCES, JANUARY 1, 2018</b>	<b>\$2,961,215</b>	<b>(\$5,006)</b>	<b>\$2,956,209</b>
Net Income	265,931	—	265,931
Other comprehensive income	—	2,550	2,550
<b>BALANCES, DECEMBER 31, 2018</b>	<b>3,227,146</b>	<b>(2,456)</b>	<b>3,224,690</b>
Capital contribution from TCSA	200,000	—	200,000
Net income	215,982	—	215,982
Effect of TCSA acquisition (Note 18)	(29,396)	—	(29,396)
Other comprehensive income	—	2,456	2,456
<b>BALANCES, DECEMBER 31, 2019</b>	<b>3,613,732</b>	<b>—</b>	<b>3,613,732</b>
Net income	104,008	—	104,008
<b>BALANCES, DECEMBER 31, 2020</b>	<b>\$3,717,740</b>	<b>—</b>	<b>\$3,717,740</b>

See Notes to Consolidated Financial Statements

The abbreviation TCSA means TC Skyward Aviation U.S., Inc.

Aviation Capital Group LLC and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In Thousands)</i>	Years Ended December 31,		
	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$104,008	\$215,982	\$265,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	406,355	405,788	352,002
Asset impairment	83,829	135,130	74,680
Gain on sale of flight equipment, net	(11,871)	(70,200)	(32,848)
Maintenance reserves, security deposits and lease incentives included in earnings	(35,544)	(48,111)	(33,916)
Amortization of debt acquisition costs and original issuance discounts	22,189	21,663	19,076
Amortization of lease incentives and premiums, net	24,162	20,312	20,385
Other operating activities, net	6,981	3,120	2,710
Change in operating assets and liabilities	(268,957)	(73,958)	(37,945)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>331,152</b>	<b>609,726</b>	<b>630,075</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of flight equipment and related assets	(768,560)	(1,401,262)	(1,469,775)
Proceeds from sale of flight equipment and related assets	258,777	607,264	501,160
Issuance of AFS Notes Receivable	(195,800)	—	—
Prepayments on flight equipment	(298,614)	(342,736)	(618,547)
Refunded prepayments on flight equipment	263,298	—	—
Payments on non-hedging derivative financial instruments	(1,505)	(209,999)	(8,691)
Receipts from non-hedging derivative financial instruments	197	209,425	1,455
Capitalized interest on prepayments on flight equipment	(22,612)	(37,071)	(40,913)
Other investing activities, net	56,368	(15,756)	34,083
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(708,451)</b>	<b>(1,190,135)</b>	<b>(1,601,228)</b>

*(Continued)*

See Notes to Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In Thousands)</i>	Years Ended December 31,		
<i>(Continued)</i>	2020	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from debt financings	\$2,131,385	\$4,851	\$2,527,003
Repayment of debt financings	(769,048)	(612,565)	(1,298,370)
Proceeds from (repayment of) revolving credit facilities and commercial paper, net	(804,000)	688,000	(119,000)
Receipts of maintenance reserves	60,781	213,808	180,563
Payments of maintenance reserves	(45,057)	(56,541)	(48,120)
Receipts of security deposits	16,845	42,576	37,210
Payments of security deposits	(11,032)	(12,823)	(15,240)
Capital contribution from TCSA	—	200,000	—
Other financing activities, net	(9,352)	(9,115)	(5,730)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>570,522</b>	<b>458,191</b>	<b>1,258,316</b>
Net change in cash and cash equivalents and restricted cash	193,223	(122,218)	287,163
Cash and cash equivalents and restricted cash, beginning of year	537,988	660,206	373,043
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR</b>	<b>\$731,211</b>	<b>\$537,988</b>	<b>\$660,206</b>
<b>RECONCILIATION TO CONSOLIDATED BALANCE SHEETS</b>			
Cash and cash equivalents	\$595,500	\$341,234	\$460,944
Restricted cash	135,711	196,754	199,262
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>\$731,211</b>	<b>\$537,988</b>	<b>\$660,206</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Interest paid, net of capitalized interest	\$258,912	\$265,913	\$215,616
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	\$303,484	\$411,113	\$551,463

See Notes to Consolidated Financial Statements

The abbreviation TCSA means TC Skyward Aviation U.S., Inc.

NOTES TO 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 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 2019 and 2018 consolidated statements of income, consolidated statements of cash flows, and footnotes to conform to the 2020 presentation.

**RISK AND UNCERTAINTIES**

In the normal course of business, we encounter several significant types of economic risk including, but not limited to, credit, market, aviation industry and capital market risks. Credit risk is the risk of a lessee's inability or unwillingness to make contractually required payments and to fulfill its other contractual obligations. Market risk reflects the change in the value of 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.

**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 has decreased significantly due to the COVID-19 pandemic and has adversely impacted the operations of nearly all of our lessees. Governmental authorities around the world have 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. 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 has led to declines in aircraft values and lease rental rates.

As of December 31, 2020, most of the lessees of our owned aircraft have requested some form of payment 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. To date, the accommodations granted have generally involved partial rent deferrals with interest due on the deferred amounts. In select cases, lease extensions or other concessions from the lessee were also negotiated and agreed as part of the deferral accommodations. As of December 31, 2020, we have worked out accommodation arrangements with certain lessees, with whom we have either executed payment reprofiling agreements or agreed to terms that are currently being documented, and we have received accommodation requests from other lessees with whom we are currently in active negotiations.

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 lessees have initiated bankruptcy proceedings or otherwise ceased operations and are seeking to restructure or liquidate. 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, 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 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.

#### 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.

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 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 earn interest on certain prepayments on flight equipment, which is included in other income.

We use debt financings to fund these payments during the period it is under production. 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.

#### NOTES RECEIVABLE

Notes receivable consist of loans made by us to third-party airlines. The loans are carried at amortized cost on the balance sheet and are included in other assets, net. Fees generated are deferred and amortized over the life of the notes and included in other income. Interest income on performing notes is accrued and recognized as interest income at the contractual rate of interest and included in other income.

#### 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 acquired 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 to us that is equal to, or greater than, the value of the maintenance right asset, the maintenance right asset is eliminated and any excess cash is recognized as maintenance revenue; or (iii) the lessee remits a cash payment to us 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 equal to, or 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 that is greater than 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 recognized 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.

#### 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.

If the lessee fails to perform under the terms of the lease, we may use maintenance reserves to offset any outstanding contractual obligations and/or record them as lease termination settlements which are included in other income.

#### 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.

#### 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 (Note 6), 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 foreign currency swap contracts and interest rate swaps (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 immaterial. 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 cash flows for all Derivative Financial Instruments that are hedging current or future interest payments are included in interest, net. The periodic cash flows for all Derivative Financial Instruments that hedged lease cash flows are included in selling, general and administrative.

#### RELATED PARTY TRANSACTIONS

We disclose all material related party transactions (Note 18). 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 converted from a corporation to a limited liability company that was taxed as a partnership for U.S. federal and state income tax purposes. Effective December 5, 2019, TCSA purchased all of the outstanding limited liability company interests in ACG LLC that it did not already own, and our tax status for U.S. income tax purposes changed from a partnership to a single member limited liability company that is a disregarded entity for U.S. federal and state income tax purposes. 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, as well as collateral held in the form of security deposits, maintenance reserves and letters of credit 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, 2020 and 2019.

#### FINANCE LEASE REVENUE

If a new or modified lease does not 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, 2020 or 2019.

#### 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.

We have elected to apply the relief related to lease concessions effective April 1, 2020. The election did not have a material impact on our consolidated financial statements. We will continue to evaluate the Q&A and may apply other elections as applicable.

#### RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2017, the 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 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 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 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*):

	December 31,	
	2020	2019
Cost of flight equipment held for lease	\$12,129,178	\$11,358,190
Less: accumulated depreciation	(2,381,849)	(2,009,365)
Flight equipment held for lease, net	<u>\$9,747,329</u>	<u>\$9,348,825</u>

As of December 31, 2020 and 2019, maintenance right assets of \$100.7 million and \$149.9 million, respectively, were included in flight equipment held for lease, net.

As of December 31, 2020 and 2019, flight equipment held for lease, net, assets held for sale and investment in finance leases, net with aggregate carrying values of \$1,023.4 million and \$1,165.4 million, respectively, were pledged as collateral for our secured loans guaranteed by Export Credit Agencies (Note 11).

We test for impairment whenever events or changes in circumstances indicate that the carrying value of our flight equipment may not be recoverable. Factors we consider, whether as a result of the COVID-19 pandemic (Note 2), the Boeing 737 MAX grounding (Note 12) or otherwise, 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 in the future 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 years ended December 31, 2020, 2019 and 2018, impairments related to flight equipment held for lease, net and lease acquisition costs were \$83.8 million, \$120.5 million and \$70.4 million, respectively, and impairments related to assets held for sale were zero, \$14.6 million and \$4.3 million, respectively. Impairment amounts may be derived from maintenance adjusted estimated values, estimated sale prices, or present value of estimated future cash flows (Note 8).

We evaluate the collectability of operating lease receivables at an individual customer level. We monitor lessees with past due lease payments and consider all relevant operational and financial issues facing those lessees 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 years ended December 31, 2020, 2019 and 2018, we recorded bad debt expense, net of recoveries, of \$4.3 million, zero and zero, respectively, which is included in selling, general and administrative, net.

The following table presents the future minimum lease rentals we are due under operating leases as of December 31, 2020 (*In Thousands*):

Years Ended December 31:	
2021	\$930,508
2022	850,583
2023	749,337
2024	656,111
2025	579,567
Thereafter	2,048,112
Total	<u>\$5,814,218</u>

At the beginning of 2020, there were four aircraft we had previously sold to third parties, leased back under operating leases (the Head Leases), and subsequently leased to airlines (the Sub Leases). We hold fixed price purchase options under the Head Leases and we exercised the fixed price purchase option on two of the four aircraft. The purchase of the two aircraft closed in July 2020. For the years ended December 31, 2020, 2019 and 2018, the operating lease revenue we recorded from the Sub Leases was \$14.6 million, \$26.0 million and \$27.1 million, respectively.

The two remaining Head Leases mature in 2023 and 2024. The following table presents our aggregate minimum future lease commitments on the Head Leases as of December 31, 2020 (*In Thousands*):

Years Ended December 31:	
2021	\$8,276
2022	8,398
2023	7,498
2024	211
Total	<u>\$24,383</u>

#### 4. INVESTMENT IN FINANCE LEASES, NET

As of December 31, 2020, our investment in finance leases, net, represents 17 aircraft on lease to two customers. As of December 31, 2020 and 2019, 100% and 88%, 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,	
	2020	2019
Total future minimum lease payments	<u>\$189,806</u>	<u>\$258,802</u>
Less: unearned income	(58,934)	(85,778)
Estimated unguaranteed residual value	<u>67,561</u>	<u>73,872</u>
Investment in finance leases, net	<u>\$198,433</u>	<u>\$246,896</u>

The following table presents the future minimum lease payments that we are due under finance leases as of December 31, 2020 (*In Thousands*):

Years Ended December 31:	
2021	\$32,882
2022	32,782
2023	32,722
2024	32,662
2025	30,315
Thereafter	28,443
Total	<u>\$189,806</u>

## 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,			
	2020		2019	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	\$2,308,633	23.3 %	\$2,441,932	25.3 %
Europe	1,906,039	19.2 %	1,803,514	18.7 %
China	1,288,606	13.0 %	1,373,991	14.3 %
United States and Canada	1,198,465	12.1 %	1,113,665	11.6 %
Central America, South America and Mexico	963,797	9.7 %	1,209,625	12.6 %
Middle East and Africa	738,128	7.5 %	727,436	7.5 %
South Asia	515,179	5.3 %	536,150	5.6 %
Sub-total	8,918,847	90.1 %	9,206,313	95.6 %
Aircraft off-lease not subject to a signed lease or sales commitment	764,149	7.7 %	51,413	0.5 %
Aircraft off-lease subject to a signed lease or sales commitment	221,094	2.2 %	380,452	3.9 %
Total	\$9,904,090	100.0 %	\$9,638,178	100.0 %

As of December 31, 2020 and 2019, no individual lessee accounted for more than 10% of our aircraft portfolio. As of December 31, 2020 and 2019, 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*):

	Years Ended December 31,					
	2020		2019		2018	
	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total
Region:						
Asia Pacific (excluding China and South Asia)	\$249,269	27.7 %	\$238,773	23.7 %	\$207,747	22.0 %
Europe	191,903	21.3 %	207,846	20.7 %	189,629	20.2 %
United States and Canada	145,486	16.1 %	157,664	15.7 %	155,088	16.4 %
China	100,707	11.2 %	143,956	14.3 %	114,878	12.2 %
Central America, South America and Mexico	83,063	9.2 %	138,360	13.7 %	172,420	18.3 %
Middle East and Africa	70,820	7.9 %	62,236	6.2 %	43,300	4.6 %
South Asia	59,608	6.6 %	57,582	5.7 %	59,804	6.3 %
Operating lease revenue	\$900,856	100.0%	\$1,006,417	100.0%	\$942,866	100.0%

For the years ended December 31, 2020, 2019 and 2018, no individual lessee accounted for more than 10% of our operating lease revenue. For the years ended December 31, 2020, 2019 and 2018, 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 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 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 December 31, 2020 and 2019 totaled \$844.2 million and \$976.9 million, respectively, and is included in flight equipment held for lease, net, assets held for sale and investment in finance leases, net (Note 3 and Note 4). In addition, as of December 31, 2020 and 2019, the debt financings associated with these legal entities totaled \$206.9 million and \$339.1 million, respectively, and are included in debt financings, net (Note 11).

### AFS NOTES RECEIVABLE, NET

In March 2020, we entered into a secured credit facility (AFS Facility) (Note 11), 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 and amortized over a period not to exceed 12 years from the date of the draw. As of December 31, 2020, the carrying value of the AFS Notes Receivable, net of deferred fees, was \$177.1 million and is included in other assets, net. The AFS Notes Receivable mature in June 2028.

Fees generated from the AFS Notes Receivable are deferred and amortized over the life of the notes and included in other assets as an offset to the AFS Notes Receivable. Interest income on performing notes is accrued and recognized as interest income at the contractual rate of interest and included in other income.

In connection with the financing of aircraft owned by the AFS Borrower, we participated in the design and formation of certain special purpose vehicles (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 Borrower. The aircraft secure our notes payable under the AFS Facility and are leased, pursuant to capital leases, to the AFS Borrower. 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.

## 7. OTHER ASSETS, NET

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

	December 31,	
	2020	2019
Operating lease receivables	\$209,955	\$62,351
AFS Notes Receivable, net	177,056	—
Notes and other receivables, net	74,992	41,826
Securities held in trust	37,862	42,453
Lease premium, net	35,686	49,220
Other, net	12,968	25,747
Other assets, net	<u>\$548,519</u>	<u>\$221,597</u>

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

	December 31,	
	2020	2019
Gross carrying amount	\$61,838	\$70,986
Less: accumulated amortization	(26,152)	(21,766)
Lease premium, net	<u>\$35,686</u>	<u>\$49,220</u>

## 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 such as foreign currency swap contracts and interest rate swaps (Note 9) to manage exposure to changes in foreign currencies and interest rates. We record Derivative Financial Instruments at fair value. Derivative Financial Instruments in a net asset position are recorded in other assets, net and Derivative Financial Instruments in a net liability position 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 assets and liabilities measured at fair value on a recurring basis (*In Thousands*):

	December 31, 2020					
	Level 1			Level 2		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Securities held in trust	\$37,862	—	\$37,862	—	—	—
Derivative Financial Instruments	—	—	—	\$6,492	—	\$6,492

  

	December 31, 2019					
	Level 1			Level 2		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Securities held in trust	\$42,453	—	\$42,453	—	—	—
Derivative Financial Instruments	—	—	—	\$1,511	—	\$1,511

As of December 31, 2020 and 2019, 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, 2020 and 2019. The pricing models may 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, reviewing internal calculations for reasonableness and review of changes in the market value for each derivative by 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, 2020 and 2019 and still held at year end (*In Thousands*):

	December 31,			
	2020		2019	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	\$93,050	—	\$265,150
Assets held for sale	—	—	\$13,250	—
Total	—	\$93,050	\$13,250	\$265,150

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, 2020 and 2019.

For the years ended December 31, 2020, 2019 and 2018, impairments related to maintenance right assets and lease acquisition costs were \$13.2 million, \$9.2 million and zero, 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. 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 year ended December 31, 2020, 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	\$53,050	Market Approach	Maintenance Adjusted Estimated Values	N/A	N/A
Flight equipment held for lease, net	\$40,000	Income Approach	Discounted Future Cash Flow	7.0%	13 Years

#### 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, 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 our securities held in trust and Derivative Financial Instruments which are carried at fair value.

#### 9. DERIVATIVE FINANCIAL INSTRUMENTS

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). As of December 31, 2020, we have one foreign currency swap that exchanges the three-month JPY LIBOR for the three-month USD LIBOR.

From time to time, 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. As of December 31, 2020, we do not have any outstanding interest rate swaps.

## CASH FLOW HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

As required for all qualifying and highly effective cash flow hedges, changes in the fair value of our interest rate swap contracts were recorded in accumulated other comprehensive loss (AOCL). For the years ended December 31, 2019 and 2018, we recorded a pre-tax unrealized loss of \$0.2 million and gain of \$2.0 million, respectively. We terminated all of our cash flow hedges in September 2019.

## 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, 2020 and 2019.

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

	December 31, 2020				
	Fair Value	Maturity Date	Pay Rate	Receive Rate	Notional
Foreign currency swap not designated as hedging	\$6,492	July 2023	3M USD LIBOR	3M JPY LIBOR	\$97,367

  

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

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

	Year Ended December 31, 2020		
	Unrealized	Gain (Loss) Amortized	Unrealized
	Gain (Loss) Recognized In AOCL	From AOCL Into Income (a)	Gain Recognized In Income Due To Market Adjustments
Foreign currency swap not designated as hedging	—	—	\$4,981

  

	Year Ended December 31, 2019		
	Unrealized	Loss Amortized	Unrealized
	Loss Recognized In AOCL	From AOCL Into Income (a)	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

(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 an asset. Neither we nor our counterparty require collateral to support our current derivative contracts with credit risk. As of December 31, 2020, 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, 2020.

As of December 31, 2020 and 2019, we had a foreign currency swap not designated as hedging with a fair value asset of \$6.5 million and \$1.5 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. As of December 31, 2020, no events have occurred that would trigger the termination event clause.

#### 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,	
	2020	2019
Employee compensation and benefits	\$64,755	\$62,776
Accrued interest	57,374	66,525
Deferred income	48,035	62,497
Accounts payable and accrued expenses	46,157	53,129
Lease incentives	23,287	16,223
Other liabilities	18,726	27,064
Accounts payable, accrued expenses and other liabilities	\$258,334	\$288,214

## 11. DEBT FINANCINGS, NET

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

	Carrying Amount	Maturity Date	December 31, 2020			
			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	<u>\$7,696,262</u>					

	Carrying Amount	Maturity Date	December 31, 2019			
			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
2018 Term loan	295,585	July 2023	0.3% - 3.0%	Floating	Quarterly	USD and JPY
2019 Revolving Credit Facility	100,000	June 2024	2.7%	Floating	Monthly	USD
Secured debt obligations:						
Secured loans	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	<u>\$7,127,842</u>					

### 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 July 2020, we issued \$1.0 billion of senior unsecured notes due December 2024 with a fixed interest rate of 5.50%. 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). The 2019 Revolving Credit Facility matures in June 2024 and has a total borrowing capacity of \$2.0 billion. As of December 31, 2020 and 2019, zero and \$100.0 million, respectively, was outstanding under the 2019 Revolving Credit Facility.

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 2019 Revolving Credit Facility serves as a backstop facility for our commercial paper program. As of December 31, 2020 and 2019, we had issued zero and \$704.0 million, respectively, of commercial paper.

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. 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 December 31, 2020, we had not drawn any amounts available under the 2020 Revolving Credit Facility.

In September 2020, we entered into a \$450.0 million unsecured term loan with Tokyo Century (JBIC Term Loan). 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. Interest on the JBIC Term Loan accrues at Tokyo Century's cost of funds under the underlying loan agreements plus 0.42% per annum. Principal amounts due under the JBIC Term Loan will be payable in installments beginning in December 2022, with the final maturity in September 2025. As of December 31, 2020, \$450.0 million was outstanding.

In December 2020, we entered into a \$500.0 million 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). The NEXI Term Loan accrues interest at a floating rate calculated quarterly. The NEXI Term Loan will mature in December 2023. As of December 31, 2020, \$500.0 million was outstanding.

#### 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 December 31, 2020 and 2019, we had \$293.3 million and \$447.5 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 our AFS Notes Receivable (Note 6). The AFS Notes Receivable will be secured by aircraft owned by the Borrowers and amortized over a period not to exceed 12 years from the date of drawing. The Borrowers will be able to elect either a fixed or floating interest rate, based on a benchmark rate. As of December 31, 2020, \$183.7 million was outstanding and \$452.7 million was available under the AFS Facility.

Except for the NEXI Term Loan, our outstanding debt as of December 31, 2020 is recourse only to ACG, and is not guaranteed by Tokyo Century.

As of December 31, 2020 and 2019, we were in compliance with all applicable debt covenants.

The following table presents the aggregate estimated scheduled principal repayments of our debt financing obligations as of December 31, 2020 (*In Thousands*):

Years Ended December 31:	
2021	\$1,692,397
2022	1,141,946
2023	1,685,869
2024	1,509,861
2025	936,990
Thereafter	811,224
Total	<u>\$7,778,287</u>

## 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, 2020, 2019 and 2018, rent expense, included in selling, general and administrative, was \$2.4 million, \$1.5 million and \$1.6 million, respectively. The following table presents our future minimum office lease payments as of December 31, 2020 (*In Thousands*):

Years Ended December 31:	
2021	\$2,301
2022	2,107
2023	2,157
2024	1,888
2025	69
Thereafter	684
Total	<u>\$9,206</u>

Included in the table above are lease payments due to Pacific Life for the sublease of our Newport Beach, California office facilities through October 2024.

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

### CAPITAL COMMITMENTS

We currently have unconditional purchase commitments for 73 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 (Note 2). We are in active discussions with Boeing and Airbus to determine the estimated impact and duration of 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 aircraft operators. However, even after clearances were granted, Boeing's ability to deliver Boeing 737 MAX aircraft remains impacted by the COVID-19 pandemic (Note 2). There remains a possibility that we will experience future delays on our scheduled Boeing 737 MAX aircraft deliveries. 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 21 Boeing 737 MAX aircraft. 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 as of December 31, 2020 (*In Thousands*):

Years Ended December 31:	
2021	\$1,030,148
2022	788,986
2023	549,052
2024	492,588
2025	216,152
Total	<u>\$3,076,926</u>

As of December 31, 2020, deposits made related to our purchase agreements totaled \$956.9 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 typically have a term of 12 years or less and may have 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 December 31, 2020 and 2019, the guarantee liability on our consolidated balance sheet was \$6.3 million and \$5.8 million, respectively, and is included in accounts payable, accrued expenses and other liabilities. As of December 31, 2020, if the borrowers default on the loans, our obligation and the estimated potential amount of future principal payments we could be required to make under the guarantees was \$720.3 million; however, the loans are collateralized by the financed aircraft. Additionally, 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 December 31, 2020, a borrower and lender under one of the loans guaranteed within our AFS program have entered into a deferral agreement whereby a portion of the principal payments on the loan are being deferred through 2021 and repaid in the subsequent four years. The borrower under this loan is current on its payments.

## 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, 2020 and 2019, 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 converted from a corporation to a limited liability company that was taxed as a partnership for U.S. federal and state income tax purposes. Effective December 5, 2019, TCSA owned 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 that is a disregarded entity for U.S. federal and state income tax purposes. 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 are responsible for income taxes on our U.S. federal and state taxable income during the years we were taxed as a partnership. 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 in their local jurisdiction.

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

	Years Ended December 31,		
	2020	2019	2018
Domestic	\$90,408	\$198,010	\$254,092
Foreign	14,681	18,267	15,169
Total	<u>\$105,089</u>	<u>\$216,277</u>	<u>\$269,261</u>

The following table presents the provision for income taxes (*In Thousands*):

	Years Ended December 31,		
	2020	2019	2018
Total current	207	376	(10,138)
Total deferred	874	(81)	13,468
Provision for income taxes	<u>\$1,081</u>	<u>\$295</u>	<u>\$3,330</u>

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,	
	2020	2019
Deferred tax liabilities:		
Aircraft basis difference, net	\$95,481	\$54,095
Other	(1,399)	(655)
Deferred tax liabilities from operations	<u>94,082</u>	<u>53,440</u>
Deferred tax assets:		
Net operating loss carryforwards	(89,017)	(49,570)
Deferred tax assets from operations	<u>(89,017)</u>	<u>(49,570)</u>
Net deferred tax liabilities from operations	5,065	3,870
Deferred income taxes, net	<u>\$5,065</u>	<u>\$3,870</u>

We have net operating losses as of December 31, 2020 of \$7.9 million and \$701.4 million, in Singapore and Ireland, respectively, which have no expiration date.

A reconciliation of the income taxes based on the prevailing corporate statutory tax rate of 21% for the years ended December 31, 2020, 2019 and 2018 to the provision for income taxes reflected on the consolidated statements of income is as follows (*In Thousands*):

	Years Ended December 31,		
	2020	2019	2018
Provision for income taxes at the federal statutory rate	\$18,986	\$41,582	\$53,359
Nontaxable income due to flow-through status	(18,986)	(41,582)	(53,359)
Foreign operations	961	2,358	3,209
State income taxes provision, net of federal benefit	69	150	85
Other	51	(2,213)	36
Provision for income taxes	<u>\$1,081</u>	<u>\$295</u>	<u>\$3,330</u>
Effective Tax Rate	1.0 %	0.1 %	1.2 %

ACG has no liability for uncertain tax positions.

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, 2020, 2019 and 2018, we did not record any interest and penalties related to unrecognized tax benefits.

Our U.S. tax returns for periods after March 31, 2017 remain open to examination. For periods prior to April 1, 2017, we were included in a U.S. federal consolidated tax return with Pacific Mutual Holding Company (PMHC). The IRS has completed audits of PMHC's consolidated tax returns through 2012, and its U.S. consolidated tax returns for years 2013 onwards are open for examination. The State

of California is currently auditing the PMHC combined tax return for the tax year ended December 31, 2009. We do not expect the federal or state audits to result in any relevant, material assessments. Our Irish tax returns for years beginning in 2017 remain open to examination. Our Singapore tax returns for years beginning in 2016 remain open to examination.

#### 14. OTHER INCOME

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

	Years Ended December 31,		
	2020	2019	2018
Interest income	\$25,907	\$24,391	\$20,028
Finance lease revenue	15,924	17,296	20,427
AFS fee income and amortization	8,767	15,862	—
Management, transaction and advisory fees	5,792	6,006	5,475
Lease termination settlements	888	6,115	6,197
Other	8,152	16,362	13,818
Other income	\$65,430	\$86,032	\$65,945

#### 15. SELLING, GENERAL AND ADMINISTRATIVE

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

	Years Ended December 31,		
	2020	2019	2018
Employee compensation and benefits	\$57,766	\$43,064	\$48,670
Maintenance and transition expense	35,519	43,200	6,018
Professional services	8,171	7,044	8,835
Other	32,925	46,622	43,735
Selling, general and administrative	\$134,381	\$139,930	\$107,258

#### 16. INTEREST, NET

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

	Years Ended December 31,		
	2020	2019	2018
Interest on debt financings, premiums paid and net settlements on interest rate derivatives	\$275,641	\$307,036	\$269,022
Amortization of debt acquisition costs and original issuance discounts	22,189	21,663	19,076
Foreign currency adjustments	5,743	(1,781)	6,637
Fees paid to service providers	5,154	3,169	3,008
Change in value on non-hedging derivatives	(4,981)	4,200	(7,631)
Gross interest expense	303,746	334,287	290,112
Capitalized interest	(22,612)	(37,071)	(40,913)
Interest, net	\$281,134	\$297,216	\$249,199

#### 17. 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 December 31, 2020 and 2019, we had a liability associated with these plans of \$26.8 million and \$23.8 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

## **18. RELATED PARTY TRANSACTIONS**

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, 2020, 2019 and 2018, we received \$3.3 million, \$3.8 million and \$3.4 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). Pacific Life provided certain services and subleased office space to ACG through the transaction closing date and we have an agreement with Pacific Life for related transition services, whereby Pacific Life will continue to provide certain support services for us for up to 18 months following the transaction closing date. For the year ended December 31, 2020, we paid Pacific Life \$3.6 million for these transition services and subleased office space. For the years ended December 31, 2019 and 2018, we reimbursed Pacific Life \$57.0 million and \$48.7 million, respectively, for expenses Pacific Life incurred on our behalf, primarily for the payment of employee compensation and benefits, and for other services. 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.

In June 2020 and September 2020, we entered into the 2020 Revolving Credit Facility and the JBIC Term Loan, respectively, with Tokyo Century. In December 2020, we entered into the NEXI Term Loan, which is guaranteed by Tokyo Century (Note 11).

## **19. SUBSEQUENT EVENTS**

We have evaluated events subsequent to December 31, 2020 and through February 24, 2021, the date these consolidated financial statements were available to be issued, and have concluded that, except for the events noted in Note 11, no events or transactions have occurred subsequent to December 31, 2020 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.