AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES

Consolidated Financial Statements
as of December 31, 2021 and 2020 and
for the years ended December 31, 2021, 2020 and 2019
and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

Aviation Capital Group LLC and Subsidiaries

Opinion

We have audited the consolidated financial statements of Aviation Capital Group LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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, 2021, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

February 15, 2022

CONSOLIDATED BALANCE SHEETS

(In Thousands)	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	$458,218	$595,500
Restricted cash	101,845	135,711
Flight equipment held for lease, net	10,328,184	9,747,329
Assets held for sale	27,139	156,761
Prepayments on flight equipment	459,499	1,007,199
Notes receivable, net	229,311	195,584
Investment in finance leases, net	178,911	198,433
Other assets, net	351,573	352,935
TOTAL ASSETS	$12,134,680	$12,389,452
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$190,076	$258,334
Debt financings, net	7,466,938	7,696,262
Maintenance reserves	505,933	588,062
Security deposits	114,032	129,054
TOTAL LIABILITIES	8,276,979	8,671,712
Commitments and contingencies (Note 12)		
Equity:		
Member's equity	3,857,701	3,717,740
TOTAL EQUITY	3,857,701	3,717,740
TOTAL LIABILITIES AND EQUITY	$12,134,680	$12,389,452

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
(In Thousands)	2021	2020	2019
REVENUES			
Operating lease revenue	$878,535	$900,856	$1,006,417
Amortization of lease incentives and premiums, net	(26,062)	(24,162)	(20,312)
Maintenance revenue	71,329	56,793	52,004
Gain on sale of flight equipment, net	18,369	11,871	70,200
Other income	98,623	65,430	86,032
TOTAL REVENUES	1,040,794	1,010,788	1,194,341
EXPENSES			
Depreciation	428,217	406,355	405,788
Interest, net	268,747	281,134	297,216
Asset impairment	83,695	83,829	135,130
Selling, general and administrative, net	125,166	134,381	139,930
TOTAL EXPENSES	905,825	905,699	978,064
Income before (benefit from) provision for income taxes	134,969	105,089	216,277
(Benefit from) provision for income taxes	(4,992)	1,081	295
NET INCOME	$139,961	$104,008	$215,982
Other comprehensive income	—	—	2,456
TOTAL COMPREHENSIVE INCOME	$139,961	$104,008	$218,438

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF EQUITY

(In Thousands)	Total Equity
BALANCES, JANUARY 1, 2019	**$3,224,690**
Capital contribution from TCSA	200,000
Net Income	215,982
Effect of TCSA acquisition (Note 18)	(29,396)
Other comprehensive income	2,456
BALANCES, DECEMBER 31, 2019	**3,613,732**
Net Income	104,008
BALANCES, DECEMBER 31, 2020	**3,717,740**
Net income	139,961
BALANCES, DECEMBER 31, 2021	**$3,857,701**

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(In Thousands)	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$139,961	$104,008	$215,982
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	428,217	406,355	405,788
Asset impairment	83,695	83,829	135,130
Maintenance reserves, security deposits and lease incentives included in earnings	(64,134)	(35,544)	(48,111)
Amortization of debt acquisition costs and original issuance discounts	30,163	22,189	21,663
Amortization of lease incentives and premiums, net	26,062	24,162	20,312
Allowance for doubtful accounts, net	16,477	4,279	—
Gain on sale of flight equipment, net	(18,369)	(11,871)	(70,200)
Other operating activities, net	(21,859)	2,702	3,120
Change in operating assets and liabilities	(185,290)	(268,957)	(73,958)
NET CASH PROVIDED BY OPERATING ACTIVITIES	434,923	331,152	609,726
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of flight equipment and related assets	(1,103,433)	(768,560)	(1,401,262)
Refunded prepayments on flight equipment	508,034	263,298	—
Proceeds from sale of flight equipment and related assets	311,560	258,777	607,264
Prepayments on flight equipment	(243,137)	(298,614)	(342,736)
Receipts of notes receivable	196,559	13,605	—
Issuance of notes receivable	(131,126)	(195,800)	—
Capitalized interest on prepayments on flight equipment	(9,997)	(22,612)	(37,071)
Other investing activities, net	45,310	41,455	(16,330)
NET CASH USED IN INVESTING ACTIVITIES	(426,230)	(708,451)	(1,190,135)

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Years Ended December 31, 2021	2020	2019
(Continued)			
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of debt financings	($2,858,334)	($769,048)	($612,565)
Proceeds from debt financings	1,602,499	2,131,385	4,851
Proceeds from (repayment of) revolving credit facilities and commercial paper, net	1,012,050	(804,000)	688,000
Receipts of maintenance reserves	86,520	60,781	213,808
Payments of maintenance reserves	(25,075)	(45,057)	(56,541)
Receipts of security deposits	21,539	16,845	42,576
Payments of security deposits	(5,659)	(11,032)	(12,823)
Capital contribution from TCSA	—	—	200,000
Other financing activities, net	(13,381)	(9,352)	(9,115)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(179,841)	570,522	458,191
Net change in cash and cash equivalents and restricted cash	(171,148)	193,223	(122,218)
Cash and cash equivalents and restricted cash, beginning of year	731,211	537,988	660,206
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$560,063	$731,211	$537,988
RECONCILIATION TO CONSOLIDATED BALANCE SHEETS			
Cash and cash equivalents	$458,218	$595,500	$341,234
Restricted cash	101,845	135,711	196,754
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$560,063	$731,211	$537,988
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid, net of capitalized interest	$247,402	$258,912	$265,913
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	$291,383	$303,484	$411,113
Non cash transfer from assets held for sale to notes receivable, net	$105,230	—	—

See Notes to Consolidated Financial Statements

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

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 2020 and 2019 consolidated balance sheets, consolidated statements of cash flows, and footnotes to conform to the 2021 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 decreased significantly due to the COVID-19 pandemic, which has adversely impacted the operations of nearly all of our lessees. Governmental authorities around the world implemented measures to try to contain COVID-19, including travel bans and restrictions, border closures, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. While certain countries have begun to loosen some of these restrictions, many of these containment measures remain in effect and additional measures have and could be implemented or reinstated due to new COVID-19 variants emerging around the world. Aircraft manufacturers and suppliers have also been negatively affected, including the temporary closure of Boeing and Airbus' final assembly facilities. The impact of the COVID-19 pandemic and the significant decline in commercial air travel led to declines in aircraft values and lease rental rates.

As a result of the COVID-19 pandemic, most of the lessees of our owned aircraft have requested some form of rental relief. Our marketing, risk management and legal teams jointly manage such requests on a case-by-case basis, with approvals based on various factors including our assessment of the long-term viability of the lessee and its affiliates, our existing security package in place, the strength and history of our relationship with the lessee and its affiliates, and the potential ability to facilitate other commercial transactions or objectives with such lessee in exchange for granting an accommodation. As of December 31, 2021, we have executed agreements to defer $148.3 million in lease rental payments ($146.9 million of which was originally contracted to be paid on or before December 31, 2021). These agreements have generally involved partial rent deferrals with interest due on the deferred amounts. Repayment of $75.0 million of the deferred lease rental payments was due by December 31, 2021. As of December 31, 2021, we have collected $70.8 million of the total deferred lease rental payments. $76.1 million of unpaid deferred lease rental payments have been recorded within other assets, net as of December 31, 2021. In addition, we have entered into lease restructurings with certain lessees that provide rental relief in exchange for lease extensions or other accommodations, which had an insignificant impact on our operating lease revenue for the year ended December 31, 2021. We remain in active discussions with our airline customers and may continue to provide accommodations on a case-by-case basis.

In addition to the deferral arrangements reached with certain of our lessees, since the start of the COVID-19 pandemic, we have seen a significant increase in delinquent rental payments, and some of our lessees have initiated bankruptcy proceedings or otherwise ceased operations and are seeking to restructure or liquidate. If collection is not reasonably assured, we will not recognize operating lease revenue for amounts due under the terms of the lease agreements and will recognize operating lease revenue on a cash basis. For the years ended December 31, 2021 and 2020, we did not recognize operating lease revenue of $68.9 million and $59.2 million, respectively, because collection was not reasonably assured for certain of our leases. Additionally, as of December 31, 2021 and 2020, we established an allowance for doubtful accounts for our operating leases, net of $16.5 million and $4.3 million, respectively. We believe it is likely that additional lessees could default on payments, experience insolvency or initiate bankruptcy, reorganization, liquidation, restructuring or similar proceedings. If this occurs and our aircraft are returned to us, we may not be able to lease such aircraft with other lessees for some time, or at comparable lease rates, which could adversely affect our revenue and cash position. Operating leases place a greater risk of realization of residual values on aircraft lessors because only a portion of the equipment's value is covered by current contractual cash flows. These events, together with the decrease in commercial air travel demand due to the COVID-19 pandemic, could adversely affect our business and results of operations in a material manner.

USE OF ESTIMATES

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

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, NET

Notes receivable, net consist of loans made by us to third-party airlines. The loans are carried at amortized cost on the balance sheet. Fees generated are deferred and amortized over the life of the notes and included as offsets to notes receivable, net. Interest income on performing notes is accrued and recognized at the contractual rate 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. When we no longer have the obligation to reimburse maintenance reserves, 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 when we no longer have the obligation to reimburse maintenance reserves.

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 other comprehensive income (OCI) 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

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.

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 existing 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. We resume revenue recognition of the scheduled lease payments when we believe collectability is reasonably assured.

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, 2021 or 2020.

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 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.

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. We do not expect this standard to have a material impact on our consolidated financial statements. We will adopt the standard on January 1, 2022.

3. FLIGHT EQUIPMENT HELD FOR LEASE, NET

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

	December 31,	
	2021	2020
Cost of flight equipment held for lease	$12,989,489	$12,129,178
Less: accumulated depreciation	(2,661,305)	(2,381,849)
Flight equipment held for lease, net	$10,328,184	$9,747,329

As of December 31, 2021 and 2020, maintenance right assets of $74.6 million and $100.7 million, respectively, were included in flight equipment held for lease, net.

As of December 31, 2021 and 2020, flight equipment held for lease, net, with carrying values of $757.2 million and $1,023.4 million, respectively, were pledged as collateral for our secured loans guaranteed by either the Export-Import Bank of the United States or the export credit agencies of the United Kingdom, France and/or Germany (collectively Export Credit Agencies) (Note 11).

We test for impairment whenever events or changes in circumstances, such as the COVID-19 pandemic (Note 2) and the Boeing 737 MAX grounding (Note 12), indicate that the carrying value of our flight equipment may not be recoverable. Factors we consider include significant under-performance relative to historic results or projected future operating results, significant negative industry or economic trends, reductions to our future minimum lease rentals, a decline in the market values of our aircraft, the maintenance condition and intended use of our aircraft. We may be required to record a significant charge to earnings during the period in which any impairment is determined. Such charges could have a material adverse effect on our business, financial condition, results of operations and cash flows.

For the years ended December 31, 2021, 2020, and 2019, impairments related to flight equipment held for lease, net, assets held for sale, lease related assets and notes receivable, net were $83.7 million, $83.8 million and $135.1 million, respectively. Impairment amounts may be derived from maintenance adjusted estimated values, estimated sale prices, and/or present value of estimated future cash flows (Note 8).

We evaluate the collectability of operating lease receivables and deferral and restructuring 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, as well as our existing security packages in place with such lessees, in order to determine an appropriate allowance for doubtful accounts or whether to shift such lessee to 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, 2021, 2020, and 2019, we recorded bad debt expense, net of recoveries, of $16.5 million, $4.3 million and zero, respectively, which is included in selling, general and administrative, net.

The following table presents the future minimum lease rentals (inclusive of executed deferral and restructuring agreements) we are due under operating leases as of December 31, 2021 *(In Thousands)*:

Years Ended December 31:	
2022	$916,303
2023	860,176
2024	773,145
2025	664,814
2026	576,755
Thereafter	2,161,110
Total	$5,952,303

4. INVESTMENT IN FINANCE LEASES, NET

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

	December 31,	
	2021	2020
Total future minimum lease payments	$156,925	$189,806
Less: unearned income	(45,575)	(58,934)
Estimated unguaranteed residual value	67,561	67,561
Investment in finance leases, net	$178,911	$198,433

The following table presents the future minimum lease payments that we are due under finance leases as of December 31, 2021 *(In Thousands)*:

Years Ended December 31:	
2022	$32,782
2023	32,722
2024	32,662
2025	30,315
2026	21,075
Thereafter	7,369
Total	$156,925

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,			
	2021		2020	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$2,018,408	19.5 %	$2,308,633	23.3 %
Europe	1,915,950	18.5 %	1,906,039	19.2 %
Central America, South America and Mexico	1,832,443	17.7 %	963,797	9.7 %
China	1,447,572	14.0 %	1,288,606	13.0 %
United States and Canada	1,104,663	10.7 %	1,198,465	12.1 %
Middle East and Africa	708,585	6.8 %	738,128	7.5 %
South Asia	464,016	4.5 %	515,179	5.3 %
Sub-total	9,491,637	91.7 %	8,918,847	90.1 %
Aircraft off-lease not subject to a signed lease or sales commitment	465,064	4.5 %	764,149	7.7 %
Aircraft off-lease subject to a signed lease or sales commitment	398,622	3.8 %	221,094	2.2 %
Total	$10,355,323	100.0 %	$9,904,090	100.0 %

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

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

	Years Ended December 31,					
	2021		2020		2019	
	Operating Lease Revenue	Percent of Total	Operating Lease Revenue	Percent of Total	Operating Lease Revenue	Percent of Total
Region:						
Asia Pacific (excluding China and South Asia)	$202,357	23.0 %	$249,269	27.7 %	$238,773	23.7 %
Central America, South America and Mexico	148,315	16.9 %	83,063	9.2 %	138,360	13.7 %
Europe	142,409	16.2 %	191,903	21.3 %	207,846	20.7 %
United States and Canada	138,236	15.7 %	145,486	16.1 %	157,664	15.7 %
China	117,144	13.3 %	100,707	11.2 %	143,956	14.3 %
Middle East and Africa	69,200	8.0 %	70,820	7.9 %	62,236	6.2 %
South Asia	60,874	6.9 %	59,608	6.6 %	57,582	5.7 %
Operating lease revenue	$878,535	100.0 %	$900,856	100.0 %	$1,006,417	100.0 %

For the years ended December 31, 2021, 2020, and 2019, no individual lessee accounted for more than 10% of our operating lease revenue. For the years ended December 31, 2021, 2020, and 2019, 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 an Export Credit Agency. 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, 2021 and 2020 was $587.2 million and $844.2 million, respectively, and is included in flight equipment held for lease, net (Note 3). In addition, as of December 31, 2021 and 2020, there was $111.7 million and $206.9 million, respectively, outstanding under the debt financings associated with these legal entities, which is included in debt financings, net (Note 11).

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. As of December 31, 2021 and 2020, the carrying value of the AFS Notes Receivable, net of deferred fees, was $109.1 million and $177.1 million, respectively, and is included in notes receivable, net. The AFS Notes Receivable mature in 2033.

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

In January 2021, we sold an aircraft to a third party airline (Borrower) and financed a portion of the purchase price for the airline (Airline Note Receivable). The Airline Note Receivable is secured by the aircraft and another aircraft which is financed with guaranteed debt that is amortizing over a 10 year period and matures in January 2031. As of December 31, 2021, the carrying value of the Airline Note Receivable was $99.1 million and is included in notes receivable, net.

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

7. OTHER ASSETS, NET

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

	December 31, 2021	December 31, 2020
Operating lease receivables, net	147,750	209,955
Deferral and restructuring receivables	121,984	35,151
Lease premium, net	21,006	35,686
Securities held in trust	19,384	37,862
Other, net	41,449	34,281
Other assets, net	$351,573	$352,935

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

	December 31, 2021	December 31, 2020
Gross carrying amount	$41,929	$61,838
Less: accumulated amortization	(20,923)	(26,152)
Lease premium, net	$21,006	$35,686

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

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

We use foreign currency swap contracts to manage exposure to changes in foreign currencies (Note 9). We record our foreign currency swap at fair value. When the fair value is in an asset position, it is recorded in other assets, net and when it is in a liability position, it is recorded in accounts payable, accrued expenses and other liabilities.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. The following table presents our Level 1 and Level 2 assets and (liabilities) measured at fair value on a recurring basis *(In Thousands)*:

		December 31,	
	Level	2021	2020
Securities held in trust	1	$19,384	$37,862
Foreign currency swap	2	($4,271)	$6,492

As of December 31, 2021 and 2020, 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 foreign currency swap is 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, 2021 and 2020. The pricing models may utilize, among other things, foreign currency forward and spot rates. Analysis of the swap valuation 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, 2021 and 2020 and still held at period end *(In Thousands):*

	December 31,			
	2021		2020	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	$38,683	—	$93,050
Assets held for sale	$16,339	—	—	—
Notes receivable, net	—	10,528	—	—
Total	$16,339	$49,211	—	$93,050

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

For the years ended December 31, 2021, 2020, and 2019, impairments related to lease related assets were $9.3 million, $13.2 million and $9.2 million, respectively. These lease related assets were measured at a fair value of zero as there were no future contractual cash flows because of the termination of the related leases, with one exception. As of December 31, 2021, an impaired maintenance right asset was measured at a fair value of $0.3 million based on expected future maintenance costs.

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, maintenance related reimbursement rights from a third party other than lessees, 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. Contractual lease payments are based on future payments that third parties are contractually obligated to pay us. 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, 2021, the following table presents the fair value as of the measurement date, the valuation technique and the related unobservable inputs *(In Thousands):*

	Fair Value	Valuation Technique	Unobservable Input	Weighted Average Discount Rate	Remaining Holding Period
Flight equipment held for lease, net	$22,000	Market Approach	Maintenance Adjusted Estimated Values	N/A	N/A
Flight equipment held for lease, net	$16,683	Income Approach	Discounted Future Cash Flow	4.0%	7 years
Notes receivable, net	$10,528	Income Approach	Discounted Future Cash Flow	12.6%	4 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, foreign currency swap, accounts payable, accrued expenses and other liabilities, and debt financings, net. Our financial assets and liabilities are carried at amortized cost with the exception of our securities held in trust and foreign currency swap, which are carried at fair value.

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. All of our current leases are denominated in USD. In general, an interest rate or foreign currency exposure with respect to the financed 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 and the currencies of such rental payments 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, 2021, we had one foreign currency swap not designated as hedging that exchanges the three-month JPY LIBOR for the three-month USD LIBOR. This swap has a notional value of $97.4 million and matures in July 2023. As of December 31, 2021 and 2020, our foreign currency swap had a fair value of ($4.3) million and $6.5 million, respectively. For the years ended December 31, 2021, 2020, and 2019, we recognized an unrealized loss of $10.8 million, an unrealized gain of $5.0 million and an unrealized loss of $6.9 million, respectively, due to market adjustments.

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.

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 OCI. For the year ended December 31, 2019, we recorded a pre-tax unrealized loss of $0.2 million. 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, 2021 and 2020.

As of December 31, 2021 and 2020, we do not have any outstanding interest rate swaps. The following table presents the pre-tax effect of our interest rate swaps as of December 31, 2019 *(In Thousands)*:

	Year Ended December 31, 2019			
	Unrealized Loss Recognized In OCI	Loss Amortized From OCI Into Income (a)	Unrealized Loss Recognized In Income Due To Market Adjustments	
Interest rate swaps designated as hedging	($228)	($1,077)	—	
Interest rate swaps not designated as hedging	—	(1,457)	($448)	(b)
Unrealized loss on hedging and non-hedging interest rate swaps	($228)	($2,534)	($448)	

(a) Represents the amortization of the loss of de-designated interest rate swaps from OCI to income and the amortization into earnings from OCI 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 when reported as an asset. Neither we nor our counterparty require collateral to support our current derivative contracts with credit risk. As of December 31, 2021, the counterparty to our foreign currency swap was rated investment grade by Standard and Poor’s, Moody's, and Fitch Ratings. A credit valuation analysis was performed for our derivative position to measure the risk that the counterparty to the transaction will be unable to perform under the contractual terms (nonperformance risk) and the risk was determined to be immaterial as of December 31, 2021.

Our foreign currency swap contains a termination event clause, whereby, if there is a change in ownership and our financial strength ratings as assigned by certain independent rating agencies fall below a specified level, the counterparty could terminate the swap contract with payment due based on the fair value of the underlying derivative. As of December 31, 2021, 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,	
	2021	2020
Deferred income	$42,179	$48,035
Employee compensation and benefits	42,101	64,755
Accrued interest	40,911	57,374
Lease incentives	29,614	23,287
Accounts payable and accrued expenses	21,291	46,157
Other liabilities	13,980	18,726
Accounts payable, accrued expenses and other liabilities	$190,076	$258,334

11. DEBT FINANCINGS, NET

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

	December 31, 2021					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$5,000,000	May 2023 - November 2027	2.0% - 5.5%	Fixed	Semi-Annual	USD
Commercial paper	712,050	January 2022 - February 2022	0.4% - 0.6%	Fixed	Various	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
2019 Revolving Credit Facility	300,000	June 2024 - June 2025	1.4%	Floating	Monthly	USD
2018 Term Loan	290,897	July 2023	0.3% - 1.1%	Floating	Quarterly	USD and JPY
Secured debt obligations:						
Secured loans	289,176	June 2022 - April 2033	0.4% - 3.4%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(48,255)					
Original issuance discounts	(26,930)					
Debt financings, net	$7,466,938					

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

UNSECURED DEBT OBLIGATIONS

We enter into various unsecured financings with third parties. These financings are primarily comprised of senior notes issued in reliance on Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended (Senior Notes). In January 2021, we issued $750.0 million of senior unsecured notes due January 2026 with a fixed interest rate of 1.95%. In September 2021, we issued $750.0 million of senior unsecured notes due September 2026 with a fixed interest rate of 1.95%. In December 2021, we redeemed the full $1.0 billion principal amount outstanding of our 2.875% senior unsecured notes due January 2022. The notes were redeemed at 100% of the principal amount, plus accrued and unpaid interest to the redemption date.

In June 2019, we entered into a senior unsecured revolving credit agreement with a syndicate of lenders (the 2019 Revolving Credit Facility). In June 2021, we extended the final maturity date of the 2019 Revolving Credit Facility from June 2024 to June 2025. In September 2021, we added a new lender to the 2019 Revolving Credit Facility, which increased the borrowing capacity from $2.0 billion to $2.1 billion. As of December 31, 2021, the aggregate borrowing capacity under the 2019 Revolving Credit Facility was $2.1 billion, with revolving commitments totaling approximately $1.8 billion that mature in June 2025 and approximately $0.3 billion that mature in June 2024. As of December 31, 2021 and 2020, $300.0 million and zero, respectively, was outstanding under the 2019 Revolving Credit Facility. The 2019 Revolving Credit Facility serves as a backstop for our commercial paper program.

We have a $1.5 billion commercial paper program under which we may issue notes in minimum denominations of $250.0 thousand for periods ranging from one to 397 days. As of December 31, 2021 and 2020, we had commercial paper outstanding in the amount of $712.1 million and zero, respectively.

In June 2020, we established a revolving line of credit with Tokyo Century (the 2020 Revolving Credit Facility), which has a borrowing capacity of $600.0 million (or its equivalent in JPY) and an initial maturity of June 2023 (Note 18). 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, 2021 and 2020, we had not drawn any amounts available under the 2020 Revolving Credit Facility.

In June 2018, we entered into a dual tranche senior unsecured term loan (2018 Term Loan). The 2018 Term Loan includes a $197.0 million USD tranche and a 10.8 billion JPY tranche. The USD tranche bears interest at a floating rate based on three-month USD LIBOR (with a floor of 0%) plus 1.0% per annum, and the JPY tranche bears interest at a floating rate based on three-month JPY LIBOR (with a floor of 0%) plus 0.30% per annum. In December 2021, we entered into an amendment to transition the JPY LIBOR benchmark rate to the Tokyo Overnight Average (TONA) benchmark rate, with such change to become effective in the first quarter of 2022.

In September 2020, we entered into a $450.0 million unsecured term loan with Tokyo Century (JBIC Term Loan) (Note 18). Tokyo Century, with the support of the Japan Bank for International Cooperation (JBIC) and other Japanese financial institutions, borrowed this debt capital on behalf of ACG and lent the proceeds to ACG via an intercompany loan. Principal amounts due under the JBIC Term Loan will be payable in installments beginning in December 2022.

In December 2020, we entered into 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) (Note 18).

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 the financed aircraft and are also guaranteed by ACG. As of December 31, 2021 and 2020, we had $175.4 million and $293.3 million, respectively, of secured loans guaranteed by Export Credit Agencies.

In March 2020, we entered into the $650.0 million AFS Facility in support of our AFS business. The AFS Facility includes an accordion option, which, if exercised during the drawdown period, could increase the size of the AFS Facility to up to $1.0 billion. In August 2021, we extended the drawdown period on the AFS Facility to September 2022. During this drawdown period, we can draw on the facility to fund AFS Notes Receivable (Note 6). The AFS Notes Receivable will be secured by aircraft owned by the AFS Borrowers and amortized over a period not to exceed 12 years from the date of drawing. The AFS Borrowers will be able to elect either a fixed or floating interest rate, based on a benchmark rate. As of December 31, 2021 and 2020, $113.8 million and $183.7 million, respectively, was outstanding under the AFS Facility. As of December 31, 2021, $332.2 million was available under the AFS Facility.

Except for the NEXI Term Loan, our outstanding debt as of December 31, 2021 is recourse only to ACG, and is not guaranteed by Tokyo Century.

As of December 31, 2021 and 2020, 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, 2021 *(In Thousands)*:

Years Ended December 31:	
2022	$839,552
2023	1,660,994
2024	1,495,418
2025	1,222,546
2026	1,510,046
Thereafter	813,567
Total	$7,542,123

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, 2021, 2020, and 2019, rent expense, included in selling, general and administrative, was $2.1 million, $2.4 million and $1.5 million, respectively. The following table presents our future minimum office lease payments as of December 31, 2021 *(In Thousands)*:

Years Ended December 31:	
2022	$2,203
2023	2,262
2024	1,993
2025	85
2026	67
Thereafter	595
Total	$7,205

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 previously sold two aircraft to third parties and leased them back under operating leases (Head Leases). The two Head Leases mature in 2023 and 2024. We hold fixed price purchase options under the Head Leases that we plan to exercise in 2022. If we do not exercise the purchase options, our aggregate minimum future lease commitments on the head leases are $16.1 million as of December 31, 2021.

CAPITAL COMMITMENTS

As of December 31, 2021, we have unconditional purchase commitments for 90 aircraft scheduled for delivery through 2028. 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, including as a result of disruption in their production systems. We remain in active discussions with Boeing and Airbus to determine the estimated impact and duration of continued delivery delays given the recent adjustments to their production systems. The commitment schedule below reflects our estimate of when the Boeing 737 MAX and Airbus deliveries will occur. 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. Starting in 2020, aviation authorities around the world began to unground the Boeing 737 MAX. Accordingly, Boeing resumed deliveries of the Boeing 737 MAX to certain aircraft operators. However, even after clearances were granted, Boeing's ability to deliver Boeing 737 MAX aircraft remains impacted by various factors. We have delivered seven Boeing 737 MAX aircraft that are currently on lease to four airline customers, and we are committed to take delivery of an additional 15 Boeing 737 MAX aircraft as of December 31, 2021.

The following table presents the estimated remaining payments for the purchase of aircraft as of December 31, 2021 *(In Thousands)*:

December 31:	
2022	$1,021,449
2023	795,444
2024	516,579
2025	326,704
2026	638,960
Thereafter	1,702,501
Total	$5,001,637

As of December 31, 2021, deposits made related to our purchase agreements totaled $402.0 million and are included in prepayments on flight equipment.

In February 2022, we executed an agreement with Airbus to purchase 20 A220 family aircraft with expected delivery dates ranging from 2024 to 2026.

In September 2021, we entered into agreements to fund $160 million for two AFS Borrowers between January and March 2022 in connection with our AFS program.

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 third-party lenders. The loans are collateralized by the financed aircraft and typically have a term of 12 years or less with a maximum term of up to 15 years. The loans are denominated in USD or Euros. In order to manage risk, we developed an internal credit rating model for airlines in our portfolio. Internal credit ratings are based on both quantitative and qualitative factors of the airlines and the environment in which they operate. These ratings may change, as new events occur and additional information is obtained. As of December 31, 2021 and 2020, the guarantee liability on our consolidated balance sheet was $8.2 million and $6.3 million, respectively, and is included in accounts payable, accrued expenses and other liabilities. As of December 31, 2021, if all of the airline borrowers under our AFS program defaulted on their loans, our obligation and the estimated potential amount of future principal payments we could be required to make to third party lenders under the guarantees was $692.7 million. However, the loans are collateralized by the financed aircraft and, to the extent possible, the loans are cross-defaulted and cross-collateralized with other guaranteed aircraft loans and/or operating leases in our portfolio with that airline.

During 2020, ACG, the borrower, and the lender under one of the loans guaranteed within our AFS program entered into a deferral agreement whereby the principal payments on the loan were scheduled to be deferred through 2021 and repaid in the subsequent four years. The borrower is current under the terms of this agreement.

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, 2021 and 2020, we had no related liabilities to disclose.

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

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

	Years Ended December 31,		
	2021	2020	2019
Domestic	$198,005	$90,408	$198,010
Foreign	(63,036)	14,681	18,267
Total	$134,969	$105,089	$216,277

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

	Years Ended December 31,		
	2021	2020	2019
Total current	$73	$207	$376
Total deferred	(5,065)	874	(81)
(Benefit from) provision for income taxes	($4,992)	$1,081	$295

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,	
	2021	2020
Deferred tax liabilities:		
Aircraft basis difference, net	$125,296	$95,481
Deferred tax liabilities from operations	125,296	95,481
Deferred tax assets:		
Net operating loss carryforwards	(128,587)	(89,017)
Other	(796)	(1,399)
Deferred tax assets before valuation allowance	(129,383)	(90,416)
Valuation allowance	4,087	—
Deferred tax assets from operations	($125,296)	(90,416)
Net deferred tax liabilities from operations	—	5,065
Deferred income taxes, net	—	$5,065

We have recorded valuation allowances to reduce deferred tax assets in Ireland and Singapore to the extent we believe it is more likely than not that a portion of such assets will not be realized. In making such determinations, we considered all available positive and negative evidence and determined that a valuation allowance should be recorded against our deferred tax assets, net of deferred tax liabilities based on our three-year cumulative loss incurred in those tax jurisdictions.

We have net operating losses as of December 31, 2021 of $15.2 million and $1.0 billion 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, 2021, 2020, and 2019 to the (benefit from) provision for income taxes reflected on the consolidated statements of income is as follows *(In Thousands)*:

	Years Ended December 31,		
	2021	2020	2019
Provision for income taxes at the federal statutory rate	$41,581	$18,986	$41,582
Nontaxable income due to flow-through status	(41,581)	(18,986)	(41,582)
Foreign operations	(9,139)	961	2,358
Valuation allowance	4,087	—	—
State income taxes provision, net of federal benefit	43	69	150
Other	17	51	(2,213)
(Benefit from) provision for income taxes	($4,992)	$1,081	$295
Effective Tax Rate	(3.7)%	1.0 %	0.1 %

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, 2021, 2020, and 2019, 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 2014, and its U.S. consolidated tax returns for years 2015 onwards are open for examination. The PMHC combined tax return for the tax year ended December 31, 2009 is under examination by the State of California. We do not expect the federal or state audits to result in any relevant, material assessments. Our Irish and Singapore tax returns for years beginning in 2017 remain open to examination.

14. OTHER INCOME

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

	Years Ended December 31,		
	2021	2020	2019
Interest income	$45,935	$25,907	$24,391
Finance lease revenue	13,360	15,924	17,296
AFS fee income and amortization	10,224	8,767	15,862
Lease termination settlements	7,897	888	6,115
Management, transaction and advisory fees	4,646	5,792	6,006
Other	16,561	8,152	16,362
Other income	$98,623	$65,430	$86,032

15. SELLING, GENERAL AND ADMINISTRATIVE

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

	Years Ended December 31,		
	2021	2020	2019
Employee compensation and benefits	$42,182	$57,766	$43,064
Maintenance and transition expense	34,156	35,519	43,200
Bad debt expense	16,477	4,279	—
Professional services	9,931	8,171	7,044
Other	22,420	28,646	46,622
Selling, general and administrative	$125,166	$134,381	$139,930

16. INTEREST, NET

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

	Years Ended December 31,		
	2021	2020	2019
Interest on debt financings, premiums paid and net settlements on Derivative Financial Instruments	$243,378	$275,641	$307,036
Amortization of debt acquisition costs and original issuance discounts	30,163	22,189	21,663
Foreign currency adjustments	(10,431)	5,743	(1,781)
Fees paid to service providers	4,871	5,154	3,169
Change in value on non-hedging derivatives	10,763	(4,981)	4,200
Gross interest expense	278,744	303,746	334,287
Capitalized interest	(9,997)	(22,612)	(37,071)
Interest, net	$268,747	$281,134	$297,216

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, 2021 and 2020, we had a liability associated with these plans of $16.0 million and $26.8 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

18. RELATED PARTY TRANSACTIONS

We have a servicing agreement with Tokyo Century to provide certain aircraft related management services for specified aircraft in Tokyo Century's fleet which expires in 2024. For the years ended December 31, 2021, 2020, and 2019, we received $2.4 million, $3.3 million and $3.8 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 also provided certain services to ACG through the transaction closing date and we had an agreement with Pacific Life for related transition services, whereby Pacific Life agreed to provide certain support services for us for up to 18 months following the transaction closing date. In April 2021, we terminated the transition services agreement with Pacific Life. Pacific Life also provides subleased office space to ACG. For the years ended December 31, 2021 and 2020, we paid Pacific Life $4.1 million and $3.6 million, respectively, for these transition services and subleased office space. For the year ended December 31, 2019, we reimbursed Pacific Life $57.0 million for expenses Pacific Life incurred on our behalf, primarily for the payment of employee compensation and benefits, and for other services.

In June 2020 and September 2020, we entered into the 2020 Revolving Credit Facility and the JBIC Term Loan, respectively, with Tokyo Century (Note 11). In December 2020, we entered into the NEXI Term Loan, which is guaranteed by Tokyo Century (Note 11). In the ordinary course of business, we have entered into certain transactions with an affiliate of Tokyo Century, including engaging with the affiliate to provide certain aircraft maintenance and related services to us. All transactions with the affiliate are entered into at arm's length.

19. SUBSEQUENT EVENTS

We have evaluated events subsequent to December 31, 2021 and through February 15, 2022, the date these consolidated financial statements were available to be issued, and have concluded that, except for the event noted in Note 12, no events or transactions have occurred subsequent to December 31, 2021 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.