

**AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES**

Unaudited Condensed Consolidated Financial Statements
as of March 31, 2022 and December 31, 2021 and
for the three months ended March 31, 2022 and 2021

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(In Thousands)</i>	March 31, 2022	December 31 2021
ASSETS		
Cash and cash equivalents	\$196,915	\$458,218
Restricted cash	88,821	101,845
Flight equipment held for lease, net	9,996,210	10,328,184
Assets held for sale	78,637	27,139
Prepayments on flight equipment	541,548	459,499
Notes receivable, net	352,364	229,311
Investment in finance leases, net	173,827	178,911
Other assets, net	344,965	351,573
TOTAL ASSETS	\$11,773,287	\$12,134,680
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$198,447	\$190,076
Debt financings, net	7,556,215	7,466,938
Maintenance reserves	506,466	505,933
Security deposits	113,582	114,032
TOTAL LIABILITIES	8,374,710	8,276,979
Commitments and contingencies (Note 9)		
Equity:		
Member's equity	3,398,577	3,857,701
TOTAL EQUITY	3,398,577	3,857,701
TOTAL LIABILITIES AND EQUITY	\$11,773,287	\$12,134,680

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME

(Unaudited)

<i>(In Thousands)</i>	Three Months Ended March 31,	
	2022	2021
Operating lease revenue	\$211,777	\$216,453
Amortization of lease incentives and premiums, net	(5,777)	(6,362)
Maintenance revenue	26,477	—
Gain on sale of flight equipment, net	1,236	12,488
Other income	13,790	17,528
TOTAL REVENUES	247,503	240,107
EXPENSES		
Depreciation	113,443	102,396
Interest, net	57,870	75,564
Asset impairment	500,723	—
Selling, general and administrative, net	34,460	24,222
TOTAL EXPENSES	706,496	202,182
Income (loss) before provision for income taxes	(458,993)	37,925
Provision for income taxes	131	711
NET (LOSS) INCOME	(\$459,124)	\$37,214

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

<i>(In Thousands)</i>		Total Equity
BALANCES, JANUARY 1, 2021	\$	3,717,740
Net income		37,214
BALANCES, MARCH 31, 2021	\$	3,754,954
BALANCES, JANUARY 1, 2022	\$	3,857,701
Net loss		(459,124)
BALANCES, MARCH 31, 2022	\$	3,398,577

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<i>(In Thousands)</i>	Three Months Ended March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	(\$459,124)	\$37,214
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	113,443	102,396
Asset impairment	500,723	—
Maintenance reserves, security deposits and lease incentives included in earnings	(18,124)	—
Amortization of debt acquisition costs and original issuance discounts	5,959	7,239
Amortization of lease incentives and premiums, net	5,777	6,362
Gain on sale of flight equipment, net	(1,236)	(12,488)
Other operating activities, net	(2,605)	(4,067)
Change in operating assets and liabilities	(678)	(81,179)
NET CASH PROVIDED BY OPERATING ACTIVITIES	144,135	55,477
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of flight equipment and related assets	(320,446)	(198,055)
Issuance of notes receivable	(133,889)	(2,156)
Prepayments on flight equipment	(126,518)	(95,711)
Proceeds from sale of flight equipment and related assets	31,229	71,743
Capitalized interest on prepayments on flight equipment	(2,597)	(2,761)
Other investing activities, net	25,679	28,974
NET CASH USED IN INVESTING ACTIVITIES	(526,542)	(197,966)

(Continued)

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<i>(In Thousands)</i>	Three Months Ended March 31,	
<i>(Continued)</i>	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt financings	\$132,782	\$738,330
Repayment of debt financings	(27,333)	(786,462)
Receipts of maintenance reserves	17,131	12,531
Repayment of revolving credit facilities and commercial paper, net	(16,463)	—
Receipts of security deposits	5,165	4,645
Payments of security deposits	(1,848)	(577)
Payments of maintenance reserves	(1,354)	(6,641)
Other financing activities, net	—	(9,321)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	108,080	(47,495)
Net change in cash and cash equivalents and restricted cash	(274,327)	(189,984)
Cash and cash equivalents and restricted cash, beginning of year	560,063	731,211
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	\$285,736	\$541,227
RECONCILIATION TO CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	\$196,915	\$404,439
Restricted cash	88,821	136,788
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	\$285,736	\$541,227
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	\$35,728	\$61,230
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	\$44,144	\$35,756
Non cash transfer from assets held for sale to notes receivable, net	\$—	\$105,230

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements (consolidated financial statements) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim reporting. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The information presented reflects all adjustments, consisting of normal recurring adjustments, that in the opinion of management, are necessary to fairly state the consolidated financial statements for the periods indicated. Statements of income for the interim periods presented are not necessarily indicative of the results of operations for the full year. The condensed consolidated balance sheet as of December 31, 2021 was derived from the audited consolidated financial statements as of December 31, 2021. Therefore, the information included in these consolidated financial statements should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2021.

Our consolidated financial statements include the accounts of all entities in which we have a controlling financial interest, including the accounts of any variable interest entity (VIE) where we are the primary beneficiary.

All intercompany transactions and balances have been eliminated in consolidation.

We manage, operate and present our business as a single segment.

Certain line items have been expanded in the presentation of the 2021 condensed consolidated statements of cash flows and footnotes to conform to the 2022 presentation.

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.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In 2020, the Financial Accounting Standards Board (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 condensed 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 condensed consolidated financial statements.

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

3. FLIGHT EQUIPMENT HELD FOR LEASE, NET

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

	March 31, 2022	December 31, 2021
Cost of flight equipment held for lease	\$12,699,098	\$12,989,489
Less: accumulated depreciation	(2,702,888)	(2,661,305)
Flight equipment held for lease, net	<u>\$9,996,210</u>	<u>\$10,328,184</u>

As of March 31, 2022 and December 31, 2021, maintenance right assets of \$51.4 million and \$74.6 million, respectively, were included in flight equipment held for lease, net.

As of March 31, 2022 and December 31, 2021, flight equipment held for lease, net, with carrying values of \$713.5 million and \$757.2 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 8).

The following table presents the future minimum lease rentals (inclusive of executed deferral and restructuring agreements) we are due under operating leases as of March 31, 2022 (*In Thousands*):

Years Ended December 31:	
Remainder of 2022	\$675,144
2023	847,979
2024	760,814
2025	654,327
2026	570,451
Thereafter	<u>2,160,456</u>
Total	<u>\$5,669,171</u>

RUSSIA - UKRAINE CONFLICT

In February 2022, Russia launched a large-scale military invasion of Ukraine (Russia - Ukraine Conflict). In response, many countries, including the United States, the European Union, and the United Kingdom, have imposed far-reaching sanctions against Russia, certain Russian persons and certain activities involving Russia or Russian entities. These sanctions include prohibitions regarding the supply of aircraft to Russian entities or for use in Russia, including the leasing of aircraft. We have and will continue to fully comply with all applicable sanctions. We have terminated the leasing of all of our aircraft with Russian airlines and have sought to repossess the aircraft and remove the aircraft from Russia.

Prior to the start of the Russia - Ukraine Conflict, we had eight owned aircraft on lease with two Russian airlines and participated in two AFS transactions with a third Russian airline through a repayment guarantee (Note 9) and a note receivable (Note 6). It is unclear whether we will be able to recover our aircraft and technical records/documentation from the Russian airline customers. If we are able to repossess such assets, it is unclear what the condition of the assets will be and if we will be able re-lease or sell the aircraft.

A Russian airline has continued to fly our owned aircraft notwithstanding the leasing terminations and our repeated demands for the return of our owned aircraft. While we maintain title to the aircraft, we determined that it is unlikely we will regain possession of the aircraft that remain in Russia. As a result, we recorded a write-off of our interest in our owned aircraft in Russia which have not been returned to us totaling \$388.5 million. We had letters of credit related to our owned aircraft leased to Russian airlines totaling \$14.7 million. We presented requests for payment for all letters of credit to the financial institutions, and as of March 31, 2022, we had received payments on all letters of credit.

Our lessees are required to provide insurance coverage with respect to leased aircraft and we are named as insureds under those policies in the event of a total loss of an aircraft. We also purchase insurance which provides us with coverage when our aircraft are not subject to a lease or where a lessee's policy fails to indemnify us. We have submitted insurance claims for the full net book value with respect to all aircraft remaining in Russia and intend to vigorously pursue these claims. Insurance recoveries are generally recognized when they are realized or realizable, which typically occurs at the time cash proceeds are received or a claim agreement is executed, while taking into consideration the counterparty's ability to pay the claim amount.

Additionally, we had four aircraft on lease to a Ukrainian airline prior to the Russia – Ukraine Conflict. We have terminated the related leases with the airline, successfully repossessed the aircraft and have removed these aircraft from Ukraine. As of March 31, 2022, the aggregate carrying value of these aircraft was \$51.0 million.

We test for impairment whenever events or changes in circumstances, such as the Russia - Ukraine conflict, indicate that the carrying value of our flight equipment may not be recoverable. Factors we consider include significant world events, 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 three months ended March 31, 2022 and 2021, impairments related to flight equipment held for lease, net, and lease related assets, net were \$500.7 million and zero, respectively. Impairment amounts may be derived from maintenance adjusted estimated values, estimated sale prices, and/or present value of estimated future cash flows (Note 7).

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 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.

4. INVESTMENT IN FINANCE LEASES, NET

As of March 31, 2022, our investment in finance leases, net, represents 17 aircraft on lease to two customers. As of March 31, 2022 and December 31, 2021, 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*):

	March 31, 2022	December 31, 2021
Total future minimum lease payments	\$148,729	\$156,925
Less: unearned income	(42,463)	(45,575)
Estimated unguaranteed residual value	67,561	67,561
Investment in finance leases, net	<u>\$173,827</u>	<u>\$178,911</u>

The following table presents the future minimum lease payments that we are due under finance leases as of March 31, 2022 (*In Thousands*):

Years Ended December 31:	
Remainder of 2022	\$24,587
2023	32,722
2024	32,662
2025	30,315
2026	21,075
Thereafter	7,368
Total	<u>\$148,729</u>

5. GEOGRAPHIC CONCENTRATION

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

	March 31, 2022		December 31, 2021	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	\$2,068,714	20.5 %	\$2,018,408	19.5 %
Central America, South America and Mexico	1,812,035	18.0 %	1,832,443	17.7 %
Europe	1,563,553	15.5 %	1,915,950	18.5 %
China	1,433,568	14.2 %	1,447,572	14.0 %
United States and Canada	1,157,279	11.5 %	1,104,663	10.7 %
Middle East and Africa	701,199	7.0 %	708,585	6.8 %
South Asia	429,874	4.3 %	464,016	4.5 %
Sub-total	<u>9,166,222</u>	<u>91.0 %</u>	<u>9,491,637</u>	<u>91.7 %</u>
Aircraft in transition subject to a signed lease or sales commitment	465,037	4.6 %	398,622	3.8 %
Aircraft on ground not subject to a signed lease or sales commitment	443,588	4.4 %	465,064	4.5 %
Total	<u>\$10,074,847</u>	<u>100.0 %</u>	<u>\$10,355,323</u>	<u>100.0 %</u>

As of March 31, 2022 and December 31, 2021, no individual lessee accounted for more than 10% of our aircraft portfolio. As of March 31, 2022 and December 31, 2021, 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*):

	Three Months Ended March 31,			
	2022		2021	
Region:	Operating Lease Revenue	Percent of Total	Operating Lease Revenue	Percent of Total
Asia Pacific (excluding China and South Asia)	\$39,936	18.9 %	\$59,331	27.4 %
China	39,703	18.7 %	19,295	8.9 %
Central America, South America and Mexico	36,740	17.3 %	34,706	16.0 %
Europe	32,938	15.6 %	35,195	16.3 %
United States and Canada	32,904	15.5 %	35,493	16.4 %
Middle East and Africa	16,331	7.8 %	17,485	8.1 %
South Asia	13,225	6.2 %	14,948	6.9 %
Operating lease revenue	<u>\$211,777</u>	<u>100.0 %</u>	<u>\$216,453</u>	<u>100.0 %</u>

For the three months ended March 31, 2022 and 2021, no individual lessee accounted for more than 10% of our operating lease revenue after taking into account deferred lease rental payments from cash-basis lessees. For the three months ended March 31, 2022 and 2021, 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 (ECA). 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 related to these ECA financing structures and considered VIEs as of March 31, 2022 and December 31, 2021 was \$545.6 million and \$587.2 million, respectively, and is included in flight equipment held for lease, net (Note 3). In addition, as of March 31, 2022 and December 31, 2021, there was \$94.0 million and \$111.7 million, respectively, outstanding under the debt financings associated with these legal entities, which is included in debt financings, net (Note 8).

AFS FACILITY

In March 2020, we entered into a secured credit facility (AFS Facility) (Note 8), which we can draw on to provide loans (AFS Notes Receivable) for the benefit of airlines (AFS Finance Lessees) in connection with our AFS program. The AFS Notes Receivable are secured by aircraft purchased with proceeds of such loans. As of March 31, 2022 and December 31, 2021, the carrying value of the AFS Notes Receivable, net of deferred fees, was \$234.4 million and \$109.1 million, which approximated its fair value, respectively, and is included in notes receivable, net. The AFS Notes Receivable mature in 2033.

In connection with the financing of aircraft for the AFS Finance Lessees, 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 for the use of the AFS Finance Lessees.

The aircraft secure our notes payable to the lender under the AFS Facility and are leased from the SPVs, pursuant to capital leases, to the AFS Finance Lessees. 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.

NOTE RECEIVABLE

In January 2021, we sold an aircraft to a SPV (as more fully described below) which then finance leased the aircraft to a third party airline. We financed a portion of the SPV's aircraft purchase price (2021 Note Receivable). The 2021 Note Receivable is secured by the aircraft (and another aircraft finance leased to such airline which is financed with ACG guaranteed debt), amortizes over a 10-year period and matures in January 2031. As of March 31, 2022 and December 31, 2021, the carrying value of the 2021 Note Receivable was \$97.0 million and \$99.1 million, which approximated its fair value, respectively, and is included in notes receivable, net.

In connection with the financing of the 2021 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 a loan agreement 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 2021 Note Receivable.

7. FAIR VALUE

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

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

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

The valuation approaches that may be used to measure fair value are as follows:

Market	Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
Income	Uses valuation techniques to convert future amounts to a single current amount based on current market expectation about those future amounts.
Cost	Based on the amount that would be required currently to replace the service capacity of an asset (current replacement cost).

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

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

Our operating lease revenue is generated in USD. In general, foreign currency exposure arises with respect to foreign currency fluctuations in connection with the issuance of term loans denominated in Japanese Yen (JPY) (Note 8). We use a foreign currency swap contract (Swap) not designated as hedging that exchanges the three-month JPY LIBOR for the three-month USD LIBOR to manage exposure to changes in JPY. We record the 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. The unrealized gains and losses related to the Swap are recorded in interest, net.

The Swap has a notional value of \$97.4 million and matures in July 2023. As of March 31, 2022 and December 31, 2021, the Swap had a fair value of (\$9.2) million and \$(4.3) million, respectively. For the three months ended March 31, 2022 and 2021, we recognized an unrealized loss of \$4.9 million and \$7.1 million, respectively, due to market adjustments.

The fair value of the 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 March 31, 2022 and December 31, 2021. 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 of the derivative by accountants.

Credit risk arises from the potential failure of the counterparty to perform according to the terms of the Swap contract. Our exposure to credit risk at any point in time is represented by the fair value of the Swap when reported as an asset. Neither we nor our counterparty require collateral to support the Swap with credit risk. As of March 31, 2022, the counterparty to the Swap was rated investment grade by Standard and Poor's, Moody's, and Fitch Ratings. A credit valuation analysis was performed for our 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 March 31, 2022.

The 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 March 31, 2022, no events have occurred that would trigger the termination event clause.

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

	Level	March 31, 2022	December 31, 2021
Securities held in trust	1	\$13,764	\$19,384
Foreign currency swap	2	(\$9,194)	(\$4,271)

As of March 31, 2022 and December 31, 2021, we did not have any Level 3 assets or liabilities that we measured at fair value on a recurring basis.

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

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

The following table presents assets measured at fair value (at the relevant measurement date) on a non-recurring basis during the three months ended March 31, 2022 and the year ended December 31, 2021 and still held at period end (*In Thousands*):

	March 31, 2022		December 31, 2021	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	\$133,501	—	\$38,683
Assets held for sale	\$—	—	16,339	—
Notes receivable, net	—	—	—	10,528
Total	\$—	\$133,501	16,339	\$49,211

The fair value measurements of our aircraft and related assets may be based on the estimated sales price less selling costs (i.e., a market approach) based on Level 2 inputs, maintenance adjusted estimated values (i.e., a market approach) based on Level 3 inputs, or the present value of estimated future cash flows (i.e., an income approach) based on Level 3 inputs. We used the market or income approach for all assets measured at fair value on a non-recurring basis during the three months ended March 31, 2022 and the year ended December 31, 2021.

For the three months ended both March 31, 2022 and 2021, impairments related to lease related assets were zero. 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 three months ended March 31, 2022, 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	\$70,880	Market Approach	Maintenance Adjusted Estimated Values	N/A	N/A
Flight equipment held for lease, net	\$62,621	Income Approach	Discounted Future Cash Flow	6%	13 years

FINANCIAL ASSETS AND LIABILITIES

Our financial assets and liabilities include cash and cash equivalents, restricted cash, investment in finance leases, net, operating lease receivables, securities held in trust, notes and other receivables, 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 our Swap, which are carried at fair value.

8. DEBT FINANCINGS, NET

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

	March 31, 2022					
	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	695,587	April 2022	0.9% - 1.3%	Fixed	Various	USD
NEXI Term Loan	500,000	December 2023	2.4%	Floating	Quarterly	USD
JBIC Term Loan	450,000	September 2025	2.0%	Floating	Quarterly	USD
2019 Revolving Credit Facility	300,000	June 2024 - June 2025	1.4% - 1.6%	Floating	Monthly	USD
2018 Term Loan	285,228	July 2023	0.3% - 1.2%	Floating	Quarterly	USD and JPY
Secured debt obligations:						
Secured loans	394,627	June 2022 - January 2034	0.7% - 3.4%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(44,168)					
Original issuance discounts	(25,059)					
Debt financings, net	<u>\$7,556,215</u>					

	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	<u>\$7,466,938</u>					

UNSECURED DEBT OBLIGATIONS

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

In June 2019, we entered into a senior unsecured revolving credit agreement with a syndicate of lenders (the 2019 Revolving Credit Facility). As of March 31, 2022, 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

both March 31, 2022 and December 31, 2021, \$300.0 million 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 March 31, 2022 and December 31, 2021, we had commercial paper outstanding in the amount of \$695.6 million and \$712.1 million, 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 12). 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 March 31, 2022 and December 31, 2021, we had not drawn any amounts available under the 2020 Revolving Credit Facility.

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

In September 2020, we entered into a \$450.0 million unsecured term loan with Tokyo Century (JBIC Term Loan) (Note 12). 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 12).

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 March 31, 2022 and December 31, 2021, we had \$151.9 million and \$175.4 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 March 31, 2022 and December 31, 2021, \$242.7 million and \$113.8 million, respectively, was outstanding under the AFS Facility. As of March 31, 2022, \$198.3 million was available under the AFS Facility.

Except for the NEXI Term Loan, our outstanding debt as of March 31, 2022 is recourse only to ACG, and is not guaranteed by Tokyo Century.

As of March 31, 2022 and December 31, 2021, we were in compliance with all applicable debt covenants.

9. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

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

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

CAPITAL COMMITMENTS

As of March 31, 2022, we have unconditional purchase commitments for 109 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.

The following table presents the estimated remaining payments for the purchase of aircraft as of March 31, 2022 (*In Thousands*):

December 31:	
Remainder of 2022	\$685,775
2023	902,007
2024	857,950
2025	599,822
2026	827,377
Thereafter	1,702,501
Total	<u>\$5,575,432</u>

As of March 31, 2022, deposits made related to our purchase agreements totaled \$492.4 million and are included in prepayments on flight equipment.

In addition, as of March 31, 2022, we had the right to purchase additional aircraft by confirming our order positions with the OEM prior to delivery. The potential commitment associated with these order positions is approximately \$1.9 billion with scheduled deliveries through 2026. Since March 31, 2022, we have confirmed several order positions which increased our estimated future commitments by approximately \$496 million as these positions are now unconditional purchase commitments.

We have committed to fund \$130.5 million for AFS Borrowers through April 2022 in connection with our AFS program.

GUARANTEES

In connection with our AFS program, we provide repayment guarantees for loans for the benefit of 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 guaranteed 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 guaranteed loans are denominated in USD or Euros. As of March 31, 2022 and December 31, 2021, the guarantee liability on our consolidated balance sheet was \$8.0 million and \$8.2 million, respectively, and is included in accounts payable, accrued expenses and other liabilities. As of March 31, 2022, if all of the airlines under our AFS program defaulted on their ACG guaranteed 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 \$678.0 million. However, the guaranteed loans are collateralized by the financed aircraft and, to the extent possible, the guaranteed loans are cross-defaulted and cross-collateralized with other guaranteed aircraft loans and/or operating leases in our portfolio with that airline.

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.

During 2020, ACG, an airline, 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 airline 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 March 31, 2022 and December 31, 2021, 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.

10. INCOME TAXES

For the three months ended March 31, 2022 and 2021, our effective tax rates were (0.03%) and 1.9%, respectively, respectively. The effective tax rates for the respective periods are based upon our expected annual tax expense and projected income for 2021 and 2020, as adjusted for discrete tax items. We are a disregarded entity for U.S. tax purposes and not subject to federal income tax. Instead, our sole member, TCSA, is responsible for income taxes on our U.S. federal and state taxable income. Therefore, our annual effective tax rate is primarily driven by the operations of our foreign entities that remain subject to tax in their local jurisdiction.

The effective tax rates for the three months ended March 31, 2022 and 2021 differ from the statutory rates due to our status as an entity disregarded as separate from our owner, permanent differences and the impact of expected annual foreign income or loss subject to lower statutory rates.

11. 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 March 31, 2022 and December 31, 2021, we had a liability associated with these plans of \$15.7 million and \$16.0 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

12. 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 three months ended March 31, 2022 and 2021, we received \$0.5 million and \$1.8 million, respectively, in fees for these services, which is included in other income.

In June 2020 and September 2020, we entered into the 2020 Revolving Credit Facility and the JBIC Term Loan, respectively, with Tokyo Century (Note 8). In December 2020, we entered into the NEXI Term Loan, which is guaranteed by Tokyo Century (Note 8). 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.

13. SUBSEQUENT EVENTS

We have evaluated events subsequent to March 31, 2022 and through May 16, 2022, the date these consolidated financial statements were available to be issued, and have concluded that, except for the event noted in Note 9, no events or transactions have occurred subsequent to March 31, 2022 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.