AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements
as of September 30, 2022 and December 31, 2021 and
for the nine months ended September 30, 2022 and 2021

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands)	September 30, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	$185,116	$458,218
Restricted cash	62,202	101,845
Flight equipment held for lease, net	10,325,180	10,328,184
Assets held for sale	79,887	27,139
Notes receivable, net	535,863	229,311
Prepayments on flight equipment	517,614	459,499
Investment in finance leases, net	163,366	178,911
Other assets, net	283,791	351,573
TOTAL ASSETS	$12,153,019	$12,134,680
LIABILITIES AND EQUITY		
Liabilities:		
Debt financings, net	$ 7,840,717	$ 7,466,938
Maintenance reserves	514,711	505,933
Accounts payable, accrued expenses and other liabilities	255,712	190,076
Security deposits	127,568	114,032
TOTAL LIABILITIES	8,738,708	8,276,979
Commitments and contingencies (Note 9)		
Equity:		
Member's equity	3,414,311	3,857,701
TOTAL EQUITY	3,414,311	3,857,701
TOTAL LIABILITIES AND EQUITY	$12,153,019	$12,134,680

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME

(Unaudited)

(In Thousands)	Nine Months Ended September 30, 2022	2021
Operating lease revenue	$631,388	$629,710
Amortization of lease incentives and premiums, net	(19,290)	(18,868)
Maintenance revenue	37,247	42,349
Gain on sale of flight equipment, net	1,236	20,640
Other income	59,380	64,221
TOTAL REVENUES	709,961	738,052
EXPENSES		
Depreciation	334,853	316,303
Interest, net	196,293	201,461
Asset impairment	507,948	27,963
Selling, general and administrative, net	114,209	81,147
TOTAL EXPENSES	1,153,303	626,874
(Loss) Income before provision for (benefit from) income taxes	(443,342)	111,178
Provision for (benefit from) income taxes	48	(4,823)
NET (LOSS) INCOME	$(443,390)	$116,001

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In Thousands)	Equity
BALANCES, DECEMBER 31, 2020	**$3,717,740**
Net income	116,001
BALANCES, SEPTEMBER 30, 2021	**$3,833,741**
BALANCES, DECEMBER 31, 2021	**$3,857,701**
Net loss	(443,390)
BALANCES, SEPTEMBER 30, 2022	**$3,414,311**

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$(443,390)	$116,001
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	334,853	316,303
Asset impairment	507,948	27,963
Maintenance reserves, security deposits and lease incentives included in earnings	(31,073)	(28,018)
Amortization of debt acquisition costs and original issuance discounts	17,953	20,925
Amortization of lease incentives and premiums, net	19,290	18,868
Gain on sale of flight equipment, net	(1,236)	(20,640)
Other operating activities, net	4,486	(12,497)
Change in operating assets and liabilities	16,236	(157,615)
NET CASH PROVIDED BY OPERATING ACTIVITIES	425,067	281,290
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of flight equipment and related assets	(801,716)	(809,137)
Issuance of notes receivable	(344,470)	(128,607)
Prepayments on flight equipment	(162,117)	(175,729)
Proceeds from sale of flight equipment and related assets	36,639	210,984
Capitalized interest on prepayments on flight equipment	(8,792)	(7,484)
Other investing activities, net	61,173	69,717
NET CASH USED IN INVESTING ACTIVITIES	(1,219,283)	(840,256)

(Continued)

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
(In Thousands)	2022	2021
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt financings	$762,033	$1,602,499
(Repayment of) proceeds from revolving credit facilities and commercial paper, net	(300,647)	78,000
Receipts of maintenance reserves	96,503	58,306
Repayment of debt financings	(82,712)	(1,663,277)
Receipts of security deposits	20,070	16,475
Payments of maintenance reserves	(7,977)	(13,885)
Payments of security deposits	(2,268)	(4,660)
Other financing activities, net	(3,531)	(13,055)
NET CASH PROVIDED BY FINANCING ACTIVITIES	481,471	60,403
Net change in cash and cash equivalents and restricted cash	(312,745)	(498,563)
Cash and cash equivalents and restricted cash, beginning of year	560,063	731,211
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$247,318	$232,648
RECONCILIATION TO CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	$185,116	$132,977
Restricted cash	62,202	99,671
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$247,318	$232,648
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	$155,750	$171,512
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	$108,089	$249,971
Non cash transfer from assets held for sale to notes receivable, net	$—	$105,230

See Notes to Condensed Consolidated Financial Statements

1. ORGANIZATION

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

ACG LLC is a wholly owned subsidiary of TC Skyward Aviation U.S., Inc. (TCSA), a Delaware corporation and direct subsidiary of Tokyo Century Corporation (Tokyo Century), a Japanese corporation.

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 combined in the presentation of the 2021 condensed consolidated statements of cash flows 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)*:

	September 30, 2022	December 31, 2021
Cost of flight equipment held for lease	$13,249,464	$12,989,489
Less: accumulated depreciation	(2,924,284)	(2,661,305)
Flight equipment held for lease, net	$10,325,180	$10,328,184

As of September 30, 2022 and December 31, 2021, maintenance right assets of $59.3 million and $74.6 million, respectively, were included in flight equipment held for lease, net.

As of September 30, 2022 and December 31, 2021, flight equipment held for lease, net, with carrying values of $500.2 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 September 30, 2022 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2022	$228,071
2023	960,700
2024	856,129
2025	740,291
2026	663,235
Thereafter	2,725,250
Total	$6,173,676

RUSSIA-UKRAINE CONFLICT

In February 2022, Russia launched a large-scale military invasion of Ukraine and is now engaged in a broad military conflict with Ukraine (Russia-Ukraine Conflict). In response, the United States, European Union, United Kingdom, and other countries have imposed broad, far-reaching sanctions and export controls against Russia, certain Russian persons and certain activities involving Russia or Russian persons. These sanctions include bans on the leasing or sale of aircraft to Russian controlled entities; prohibitions regarding the supply of aircraft and aircraft components to Russian controlled entities or for use in Russia, and corresponding prohibitions on providing technical assistance, brokering services, insurance and reinsurance and financing or financial assistance; and prohibitions restricting aircraft operated by Russian airlines from entering certain airspace. We have complied and will continue to comply with all applicable sanctions.

In March 2022, in compliance with the sanctions, we terminated all of our leasing activities in Russia, including eight aircraft in our owned fleet. In addition, we are a participant in two AFS transactions with a Russian airline, one through a repayment guarantee (Note 9) and one through a note receivable (Note 6) both of which are secured by aircraft collateral. As of September 30, 2022, the outstanding balances on the repayment guarantee and the note receivable are $120.0 million and $92.7 million, respectively. We have sought to repossess all 10 aircraft but have been unsuccessful other than as described below and most of the operators of these aircraft have continued to fly the aircraft notwithstanding the termination of our leasing activities and our repeated demands for the return of our assets. For aircraft that are not being used domestically in Russia, the airlines have sought approval from the Russian government to return the aircraft. During the third quarter, one of the airlines secured approval from the Russian government to return one Boeing 737 MAX to us and we repossessed the aircraft in October 2022. The airline operating the aircraft collateralizing the two AFS transactions is still in the process of seeking approval. It is unclear whether we will be able to recover any of the remaining aircraft, technical records and related documentation. If we are able to repossess these assets, it is unclear what condition they will be in and if we will be able to re-lease or sell the aircraft.

While we maintain title to all of the owned aircraft, the Russian government has generally prohibited Russian controlled entities from cooperating with non-Russian lessors including, among other things, returning aircraft to lessors that have terminated the leasing of such aircraft. Therefore, during the three months ended March 31, 2022, we determined that it was unlikely we would regain possession of our owned aircraft that remained in Russia and we recorded a loss contingency in the amount of $388.5 million, which represented our aggregate interest in these aircraft under Asset impairment. Although we have now regained possession of one aircraft, the reversal of the loss contingency related to this aircraft was not estimable as of September 30, 2022 and through the date of the financial statements, as we have not completed inspections of the aircraft. 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 such letters of credit to the financial institutions and we received payments on all such letters of credit prior to March 31, 2022. As of September 30, 2022 we have not recorded a reserve against the AFS note receivable or a loss contingency on the remaining debt balance related to the AFS repayment guarantee.

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 that provides us with coverage when our aircraft are not subject to a lease or when a lessee's policy fails to indemnify us. We have submitted insurance claims for the full net book value with respect to all of our aircraft that remain in Russia, and we 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.

Prior to the Russia-Ukraine Conflict, we also had four aircraft on lease to a Ukrainian airline. We terminated the related leases with the airline, successfully repossessed the related aircraft and have removed all four of these aircraft from Ukraine. As of September 30, 2022, the aggregate carrying value of these aircraft was $56.9 million.

ASSET IMPAIRMENT

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 nine months ended September 30, 2022 and 2021, impairments related to flight equipment held for lease, net and lease related assets were $119.4 million and $28.0 million, respectively. Also, as noted above, the $388.5 million loss contingency related to the Russian aircraft is included in Asset impairment in the accompanying condensed consolidated statements of (loss) income for the nine months ended September 30, 2022. Impairment amounts may be derived from maintenance adjusted estimated values, estimated sale prices, and/or present value of estimated future cash flows (Note 7).

BAD DEBT EXPENSE

We evaluate the collectability of receivables (operating lease receivables, deferral and restructuring receivables, and notes receivable) at an individual customer level. We monitor customers with past due payments and consider relevant operational and financial issues facing those customers, as well as our existing security packages in place with such customers, in order to determine an appropriate amount of bad debt expense or whether to shift such customers to revenue recognition on a cash basis. Bad debt expense is included in selling, general and administrative, net in the accompanying condensed consolidated statements of (loss) income.

4. INVESTMENT IN FINANCE LEASES, NET

As of September 30, 2022, our investment in finance leases, net, represents 17 aircraft on lease to two customers. As of September 30, 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)*:

	September 30, 2022	December 31, 2021
Total future minimum lease payments	$132,338	$156,925
Less: unearned income	(36,533)	(45,575)
Estimated unguaranteed residual value	67,561	67,561
Investment in finance leases, net	$163,366	$178,911

The following table presents the future minimum lease payments that we are due under finance leases as of September 30, 2022 *(In Thousands)*:

Remainder of 2022	$8,196
2023	32,722
2024	32,662
2025	30,315
2026	21,075
Thereafter	7,368
Total	$132,338

5. GEOGRAPHIC CONCENTRATION

The following table presents the global concentration of our aircraft portfolio, including flight equipment held for lease, net and assets held for sale, based on lessee's location *(in thousands)*:

	September 30, 2022		December 31, 2021	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$2,187,236	21.0 %	$2,018,408	19.5 %
Central America, South America and Mexico	2,034,521	19.6 %	1,832,443	17.7 %
Europe	1,920,043	18.5 %	1,915,950	18.5 %
China	1,519,602	14.6 %	1,447,572	14.0 %
United States and Canada	1,129,283	10.9 %	1,104,663	10.7 %
Middle East and Africa	686,428	6.6 %	708,585	6.8 %
South Asia	354,832	3.4 %	464,016	4.5 %
Sub-total	9,831,945	94.6 %	9,491,637	91.7 %
Aircraft in transition subject to a signed lease or sales commitment	305,186	2.9 %	398,622	3.8 %
Aircraft on ground not subject to a signed lease or sales commitment	267,936	2.5 %	465,064	4.5 %
Total	$ 10,405,067	100.0 %	$ 10,355,323	100.0 %

As of September 30, 2022 and December 31, 2021, no individual lessee accounted for more than 10% of our aircraft portfolio. As of September 30, 2022 and December 31, 2021, China accounted for 15% and 14% of our aircraft portfolio, respectively, while no other country accounted for more than 10%.

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

	Nine Months Ended September 30,			
	2022		2021	
	Operating Lease Revenue	Percent of Total	Operating Lease Revenue	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$127,526	20.2 %	$155,126	24.6 %
Central America, South America, and Mexico	117,735	18.6 %	97,276	15.5 %
Europe	107,282	17.0 %	107,716	17.1 %
United States and Canada	100,872	16.0 %	104,667	16.6 %
China	94,318	14.9 %	66,873	10.6 %
Middle East and Africa	48,965	7.8 %	52,507	8.4 %
South Asia	34,690	5.5 %	45,545	7.2 %
Operating lease revenue	$ 631,388	100.0 %	$ 629,710	100.0 %

For the nine months ended September 30, 2022 and 2021, no individual lessee accounted for more than 10% of our operating lease revenue. For the nine months ended September 30, 2022, China and the U.S. accounted for 15% and 13% of our operating lease revenue, respectively. For the nine months ended September 30, 2021, China and the U.S. accounted for 11% and 14% of our operating lease revenue, respectively. No other individual country accounted for more than 10% of our operating lease revenue for the nine months ended September 30, 2022 or 2021.

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 related to these financing structures and considered VIEs as of September 30, 2022 and December 31, 2021 was $336.7 million and $587.2 million, respectively, and is included in flight equipment held for lease, net (Note 3). In addition, as of September 30, 2022 and December 31, 2021, there was $65.3 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 could 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 the proceeds of such loans. As of September 30, 2022 and December 31, 2021, the carrying value of the AFS Notes Receivable, net of deferred fees, was $422.4 million and $109.1 million, respectively, which approximated its fair value at such dates, and is included in notes receivable, net. The AFS Notes Receivable mature between 2032 and 2034.

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 September 30, 2022 and December 31, 2021, the carrying value of the 2021 Note Receivable was $92.7 million and $99.1 million, respectively, which approximated its fair value, 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.

We received corporate securities as part of a bankruptcy settlement with an airline. The corporate securities are valued using inputs observable in active markets for identical securities. Our corporate securities are included in other assets, net. The realized and unrealized holding gains and losses related to this investment are recorded in other income.

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 TONA 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 September 30, 2022 and December 31, 2021, the Swap had a fair value of $(23.7) million and $(4.3) million, respectively. For the nine months ended September 30, 2022 and 2021, we recognized an unrealized loss of $19.4 million and $7.7 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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	September 30, 2022	December 31, 2021
Securities held in trust	1	$13,274	$19,384
Equity securities	1	$1,017	—
Foreign currency swap	2	($23,689)	($4,271)

As of September 30, 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 nine months ended September 30, 2022 and the year ended December 31, 2021 and still held at period end *(In Thousands):*

	September 30, 2022		December 31, 2021	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	$152,584	—	$38,683
Assets held for sale	$1,250	—	$16,339	—
Notes receivable, net	—	—	—	$10,528
Total	$1,250	$152,584	$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 nine months ended September 30, 2022 and the year ended December 31, 2021.

For the nine months ended both September 30, 2022 and 2021, impairments related to lease related assets were zero and $7.1 million, respectively. 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 nine months ended September 30, 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	$89,963 [(1)]	Market Approach	Maintenance Adjusted Estimated Values	N/A	N/A
Flight equipment held for lease, net	$62,621 [(1)]	Income Approach	Discounted Future Cash Flow	6%	13 years

[(1)] Flight equipment held for lease, net consists of $70,880 measured at fair value as of March, 31, 2022 and $19,083 as of June 30, 2022 under the market approach and $62,621 measured at fair value as of March 31, 2022 under the income approach.

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, corporate securities, Derivative Financial Instruments, accounts payable, accrued expenses and other liabilities, and debt financings, net. Our financial assets and liabilities are carried at amortized cost with the exception of our securities held in trust and our Swap, which are carried at fair value.

8. DEBT FINANCINGS, NET

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

	September 30, 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	611,403	October 2022	3.3%-4.0%	Fixed	Various	USD
NEXI Term Loan	500,000	December 2023	5.0%	Floating	Quarterly	USD
JBIC Term Loan	450,000	September 2025	4.6%	Floating	Quarterly	USD
2022 Term Loan	425,000	July 2025	4.4%	Floating	Quarterly	USD
2018 Term Loan	271,580	July 2023	0.3%-3.3%	Floating	Quarterly	USD and JPY
2019 Revolving Credit Facility	100,000	June 2026	4.2%	Floating	Monthly	USD
Secured debt obligations:						
Secured loans	543,498	November 2022 - January 2034	1.5%-4.9%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(39,448)					
Original issuance discounts	(21,316)					
Debt financings, net	$7,840,717					

	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 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					

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). In June 2022, we extended the final maturity date of the 2019 Revolving Credit Facility from June 2025 to June 2026 and amended the 2019 Revolving Credit Facility through an amendment that, among other things, replaced LIBOR with term SOFR as the benchmark interest rate and made certain conforming changes related thereto. As a result of the amendment, borrowings under the 2019 Revolving Credit Facility bear interest at either (i) adjusted term SOFR or adjusted daily simple SOFR plus a margin determined by reference to the credit ratings for our debt or (ii) an alternative base rate. In the third quarter of 2022, we added four new lenders to the 2019 Revolving Credit Facility, which increased the borrowing capacity to approximately $2.5 billion, and in October 2022, we added one new lender to the 2019 Revolving Credit Facility, which increased the borrowing capacity to approximately $2.7 billion. As of the date hereof, the aggregate borrowing capacity under the 2019 Revolving Credit Facility was approximately $2.7 billion, with revolving commitments totaling approximately $2.2 billion that mature in June 2026, approximately $0.2 billion that mature in June 2025 and $0.3 billion that mature in June 2024. As of September 30, 2022 and December 31, 2021, $100.0 million and $300.0 million, 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 thousand for periods ranging from one to 397 days. As of September 30, 2022 and December 31, 2021, we had commercial paper outstanding in the amount of $611.4 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 September 30, 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 TONA with a spread of 0.31% 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 senior 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).

In July 2022, we entered into a three-year senior unsecured term loan with a syndicate of lenders (2022 Term Loan), with initial commitments of $375.0 million and the ability to increase the commitments by up to an additional $300.0 million in the aggregate. In September 2022, we increased the commitments of the unsecured term loan to $425.0 million. As of September 30, 2022, $425.0 million was outstanding under the 2022 Term Loan.

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 September 30, 2022 and December 31, 2021, we had $111.4 million and $175.4 million, respectively, of secured loans guaranteed by Export Credit Agencies.

In March 2020, we entered into a $650.0 million AFS Facility in support of our AFS business. During the drawdown period, which ended in September 2022, we were able to draw on the facility to fund AFS Notes Receivable (Note 6). The AFS Notes Receivable are 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 were able to elect either a fixed or floating interest rate, based on a benchmark rate. As of September 30, 2022 and December 31, 2021, $432.1 million and $113.8 million, respectively, was outstanding under the AFS Facility. No additional amounts may be borrowed under the AFS Facility.

Except for the NEXI Term Loan, our outstanding debt as of September 30, 2022 is recourse only to ACG, and is not guaranteed by Tokyo Century.

As of September 30, 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 September 30, 2022, we have unconditional purchase commitments for 128 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, 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 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 September 30, 2022 *(In Thousands)*:

Years Ended December 31	
Remainder of 2022	$626,481
2023	1,242,290
2024	1,198,492
2025	602,911
2026	1,267,005
Thereafter	1,702,501
Total	$6,639,680

As of September 30, 2022, deposits made related to our purchase agreements totaled $462.1 million and are included in prepayments on flight equipment.

In addition, as of September 30, 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 $700 million with scheduled deliveries through 2025.

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 September 30, 2022 and December 31, 2021, the guarantee liability on our consolidated balance sheet was $7.2 million and $8.2 million, respectively, and is included in accounts payable, accrued expenses and other liabilities. As of September 30, 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 $567.5 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 September 30, 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 nine months ended September 30, 2022 and 2021, our effective tax rates were (0.01%) and (4.3%), respectively. The effective tax rates for the respective periods are based upon our expected annual tax expense and projected income for 2022 and 2021, 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 nine months ended September 30, 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 September 30, 2022 and December 31, 2021, we had a liability associated with these plans of $15.4 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 nine months ended September 30, 2022 and 2021, we received $1.4 million and $1.9 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 September 30, 2022 and through November 9, 2022, the date these consolidated financial statements were available to be issued, and have concluded that, except for the events noted in Note 3 and Note 8, no events or transactions have occurred subsequent to September 30, 2022 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.