AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES

Consolidated Financial Statements
as of December 31, 2018 and 2017 and
for the years ended December 31, 2018, 2017 and 2016
and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Aviation Capital Group LLC and Subsidiaries

We have audited the accompanying consolidated financial statements of Aviation Capital Group LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018 and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 19, 2019

CONSOLIDATED BALANCE SHEETS

(In Thousands)	December 31, 2018	2017
ASSETS		
Cash and cash equivalents	$460,944	$166,875
Restricted cash	199,262	206,168
Flight equipment held for lease, net	8,781,577	7,424,227
Assets held for sale	234,784	410,073
Prepayments on flight equipment	1,284,305	1,174,046
Investment in finance leases, net	233,765	332,648
Other assets, net	122,178	132,839
TOTAL ASSETS	$11,316,815	$9,846,876
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$171,375	$166,906
Debt financings, net	7,029,642	5,900,839
Maintenance reserves	683,538	638,122
Security deposits	144,317	129,231
Deferred income	63,253	55,569
TOTAL LIABILITIES	8,092,125	6,890,667
Commitments and contingencies (Note 12)		
Equity:		
Members' equity	3,227,146	2,961,215
Accumulated other comprehensive loss	(2,456)	(5,006)
TOTAL EQUITY	3,224,690	2,956,209
TOTAL LIABILITIES AND EQUITY	$11,316,815	$9,846,876

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands)	Years Ended December 31, 2018	2017	2016
REVENUES			
Operating lease revenue	$942,866	$874,161	$866,250
Amortization of lease incentives and premiums, net	(20,385)	(20,892)	(21,883)
Gain on sale of flight equipment, net	32,848	18,925	11,158
Maintenance revenue	31,126	44,760	70,814
Other income	61,616	33,274	36,711
TOTAL REVENUES	1,048,071	950,228	963,050
EXPENSES			
Depreciation	352,002	322,264	330,748
Interest, net	249,199	225,615	237,637
Asset impairment	74,680	156,109	151,509
Selling, general and administrative	107,258	105,194	116,424
TOTAL EXPENSES	783,139	809,182	836,318
Income before provision for (benefit from) income taxes and earnings from equity method investments	264,932	141,046	126,732
Provision for (benefit from) income taxes (Note 14)	3,330	(898,120)	51,532
Earnings from equity method investments	4,329	5,108	2,804
NET INCOME	**$265,931**	**$1,044,274**	**$78,004**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(In Thousands)	2018	2017	2016
NET INCOME	$265,931	$1,044,274	$78,004
Other comprehensive income:			
Reclassification into earnings from accumulated other comprehensive loss for de-designated hedges (included in interest, net)	635	778	1,493
Unrealized gain on interest rate swap contracts, net of taxes of $86, $629 and $2,159	1,915	3,221	3,104
Unrealized loss on securities available for sale, net of a benefit from taxes of $0, $0, and $125	—	—	(222)
COMPREHENSIVE INCOME	**$268,481**	**$1,048,273**	**$82,379**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF EQUITY

(In Thousands)	Members' Equity	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity
BALANCES, JANUARY 1, 2016	**—**	**$1**	**$773,385**	**$1,065,552**	**($13,380)**	**$1,825,558**
Net income	—	—	—	78,004	—	78,004
Other comprehensive income	—	—	—	—	4,375	4,375
BALANCES, DECEMBER 31, 2016	**—**	**1**	**773,385**	**1,143,556**	**(9,005)**	**1,907,937**
Net loss prior to organizational transactions	—	—	—	(61,050)	—	(61,050)
Effect of organizational transactions	$2,746,797	(1)	(773,385)	(1,082,506)	—	890,905
Capital contribution from TCSA	610,064	—	—	—	—	610,064
Capital distribution to PLAH	(610,064)	—	—	—	—	(610,064)
Net income subsequent to organizational transactions	214,418	—	—	—	—	214,418
Other comprehensive income	—	—	—	—	3,999	3,999
BALANCES, DECEMBER 31, 2017	**2,961,215**	**—**	**—**	**—**	**(5,006)**	**2,956,209**
Net income	265,931	—	—	—	—	265,931
Other comprehensive income	—	—	—	—	2,550	2,550
BALANCES, DECEMBER 31, 2018	**$3,227,146**	**—**	**—**	**—**	**($2,456)**	**$3,224,690**

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

The abbreviation PLAH means Pacific Life Aviation Holdings LLC.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Years Ended December 31, 2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$265,931	$1,044,274	$78,004
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	352,002	322,264	330,748
Amortization of lease incentives and premiums, net	20,385	20,892	21,883
Amortization of debt acquisition costs and original issuance discounts	19,076	18,611	23,212
Maintenance reserves, security deposits and lease incentives included in earnings	(33,916)	(46,413)	(73,888)
Asset impairment	74,680	156,109	151,509
Gain on sale of flight equipment, net	(32,848)	(18,925)	(11,158)
Deferred income taxes, net	2,505	(868,767)	172,018
Other operating activities, net	205	(4,135)	6,705
Change in operating assets and liabilities	(37,945)	(53,292)	(897)
NET CASH PROVIDED BY OPERATING ACTIVITIES	630,075	570,618	698,136
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of flight equipment and related assets	(1,469,775)	(1,290,548)	(835,673)
Prepayments on flight equipment	(618,547)	(808,407)	(408,952)
Capitalized interest on prepayments on flight equipment	(40,913)	(34,980)	(17,893)
Proceeds from sale of flight equipment and related assets	501,160	723,756	959,026
Distributions from equity method investments	15,236	40,468	47
Other investing activities, net	11,611	25,980	11,428
NET CASH USED IN INVESTING ACTIVITIES	(1,601,228)	(1,343,731)	(292,017)

(Continued)

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Years Ended December 31, 2018	2017	2016
(Continued)			
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt financings	$2,527,003	$1,731,937	$222,014
Repayment of debt financings	(1,298,370)	(271,705)	(1,296,234)
(Repayment of) proceeds from Revolving Credit Facilities and commercial paper, net	(119,000)	(785,000)	535,000
Capital contribution from TCSA	—	610,064	—
Capital distribution to PLAH	—	(610,064)	—
Receipts of security deposits	37,210	36,300	29,332
Payments of security deposits	(15,240)	(15,330)	(12,929)
Receipts of maintenance reserves	180,563	175,124	184,062
Payments of maintenance reserves	(48,120)	(34,029)	(30,890)
Other financing activities, net	(5,730)	(4,568)	(38,773)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,258,316	832,729	(408,418)
Net change in cash and cash equivalents and restricted cash	287,163	59,616	(2,299)
Cash and cash equivalents and restricted cash, beginning of year	373,043	313,427	315,726
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$660,206	$373,043	$313,427

	2018	2017
RECONCILIATION TO CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	$460,944	$166,875
Restricted cash	199,262	206,168
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$660,206	$373,043

	2018	2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid, net of capitalized interest	$215,616	$178,406	$208,590
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	$551,463	$210,977	$319,188
Non cash transfer from flight equipment held for lease, net and assets held for sale to investment in finance leases, net	—	$88,946	$158,664
Non cash additions to flight equipment held for lease, net	—	$12,753	$115,412
Security deposits and maintenance reserves settled in sale of flight equipment	$49,886	$79,656	$107,162

See Notes to Consolidated Financial Statements

1. ORGANIZATION

Aviation Capital Group LLC, a Delaware limited liability company (ACG LLC), together with its subsidiaries 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 for third parties. Our lessee customers are primarily commercial airlines operating across the globe.

ACG LLC is an indirect subsidiary of Pacific Life Insurance Company (Pacific Life), a wholly owned subsidiary of Pacific LifeCorp (LifeCorp). Pacific Life Aviation Holdings LLC (PLAH), a wholly owned subsidiary of Pacific Life, currently owns 79% of the membership interests in ACG LLC. TC Skyward Aviation U.S., Inc. (TCSA), a Delaware corporation and direct subsidiary of Tokyo Century Corporation (Tokyo Century), a Japanese corporation, owns 20% of the membership interests in ACG LLC. Aviation Capital Group Holdings, Inc. (ACGHI), a wholly owned subsidiary of PLAH, owns 1% of the membership interests in ACG LLC and is the managing member of ACG LLC. TCSA owns one share of the outstanding common stock of ACGHI.

In March 2017, ACG LLC was converted to a Delaware limited liability company from a corporation named Aviation Capital Group Corp. (ACG Corp). The accompanying consolidated financial statements therefore refer to ACG LLC and represent the accounts of ACG Corp and all of ACG LLC's subsidiaries (together ACG, we, us, or our).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

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

All intercompany transactions and balances have been eliminated in consolidation.

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

Certain line items have been expanded or combined in the presentation of the 2017 consolidated balance sheet and the 2017 and 2016 consolidated statements of income, consolidated statements of cash flows, and footnotes to conform to the 2018 presentation.

RISK AND UNCERTAINTIES

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

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

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

FLIGHT EQUIPMENT HELD FOR LEASE, NET AND DEPRECIATION

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

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

ASSETS HELD FOR SALE

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

PREPAYMENTS ON FLIGHT EQUIPMENT AND CAPITALIZED INTEREST

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

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

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

ACQUIRED AIRCRAFT CONTRACTUAL RIGHTS

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

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

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

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

EOL Leases

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

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

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

When we have recorded maintenance right liabilities for EOL Leases, the following accounting scenarios exist at the end of the lease: (i) the aircraft is returned in the contractually specified maintenance condition without any cash payment by us to the lessee and the maintenance right liability is eliminated and recognized as maintenance revenue; (ii) we remit a cash payment to the lessee that is less than the value of the maintenance right liability, the maintenance right liability is eliminated and any difference is recognized as maintenance revenue; or (iii) we pay the lessee a cash payment in excess of the value of the maintenance right liability, the maintenance right liability is eliminated and the excess amount is recorded as an aircraft improvement if it meets our capitalization policy.

MR Leases

Under MR Leases, the lessee is required to make periodic payments to us for maintenance based upon usage of the aircraft and major life-limited components. When qualified major maintenance is performed during the lease term, we are required to reimburse the lessee for the costs associated with such maintenance. At the end of the lease, we are entitled to retain any cash receipts in excess of the required reimbursements to the lessee.

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

When we have recorded maintenance right assets with respect to MR Leases, the following accounting scenarios exist: (i) the aircraft is returned at the end of the lease and no qualified major maintenance has been performed by the lessee since the acquisition date, the maintenance right asset is offset by the amount of the associated maintenance reserve liability and any excess is recognized as

maintenance revenue; or (ii) we have reimbursed the lessee for the performance of some or all of the qualified major maintenance, the maintenance right asset is relieved and an aircraft improvement is recorded and any excess is recognized as maintenance revenue. There are no maintenance right liabilities for MR Leases.

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

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

EQUITY METHOD INVESTMENTS

We account for our interest in entities in which we exert significant influence but do not have a controlling financial interest by the equity method of accounting. Under the equity method, we record our initial investment at cost and adjust the carrying value by our share of the entity's undistributed earnings and losses, and contributions and distributions of capital and dividends, which is included in other assets, net. We evaluate our equity method investments for potential impairment whenever events or circumstances indicate that the carrying value of such investments may not be recoverable.

DEBT FINANCINGS, NET

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

SECURITY DEPOSITS

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

MAINTENANCE RESERVES AND MAINTENANCE REVENUE

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

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

Under EOL Leases, maintenance payments made to us at the end of the lease term are recognized as maintenance revenue when received. Maintenance payments we make to the lessee are recorded as a reduction to maintenance revenue.

LEASE INCENTIVES AND AMORTIZATION OF LEASE INCENTIVES AND PREMIUMS, NET

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

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

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

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

VARIABLE INTEREST ENTITIES

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

CONTINGENCIES

We evaluate each contingent matter separately. We record a loss when it is probable and reasonably estimable (Note 12). Additionally, should we identify a contingency that does not meet our criteria for accrual, but we estimate a reasonably possible chance of occurrence, we will disclose the nature of the contingency and, when possible, provide an estimate of the potential loss.

FAIR VALUE

Fair value is defined as the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We measure the fair value of our derivatives on a recurring basis and measure the fair value of aircraft on a non-recurring basis.

DERIVATIVE FINANCIAL INSTRUMENTS

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

We designate the Derivative Financial Instrument contract as a hedge of the identified exposure if it qualifies on the inception date of the hedging relationship. All relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions, are formally documented at inception. In this documentation, the hedged item is specifically identified and how the hedging instrument is expected to hedge the risks related to the hedged item is stated. We formally assess the effectiveness of all hedging relationships both at inception and on a quarterly basis in accordance with our risk management policy.

Hedge accounting is discontinued prospectively when we determine that the Derivative Financial Instrument is no longer effective in offsetting changes on the cash flows of a hedged item, when the Derivative Financial Instrument expires or is sold or terminated, or when we determine that designation of the Derivative Financial Instrument as a hedge instrument is no longer appropriate.

The periodic cash flows for all Derivative Financial Instruments designated as a hedge are recorded consistent with the hedged item on an accrual basis. The periodic cashflows for all Derivative Financial Instruments that are hedging current or future interest payments are included in interest, net. The periodic cashflows for all Derivative Financial Instruments that are hedging lease cash flows are included in selling, general and administrative.

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

RELATED PARTY TRANSACTIONS

We disclose all material related party transactions (Note 18) other than certain compensation arrangements, expense allowances, and other similar items incurred in the ordinary course of business. Because the requisite conditions of a competitive free-market may not exist, these transactions may differ from those available to us in the open market.

INCOME TAXES

Effective March 31, 2017, we changed our tax status from a corporation to a limited liability company treated as a partnership for U.S. federal and state income tax purposes. Therefore, for periods after March 31, 2017, we are a flow-through entity for U.S. tax purposes with all related U.S. income tax liabilities and/or benefits of us being passed through to its members. As such, no recognition of U.S. federal or state income taxes has been provided for in the accompanying consolidated financial statements for the periods after March 31, 2017. Prior to March 31, 2017, we applied Accounting Standards Codification's (Codification) Income Tax Topic 740 (ASC 740) to the financial reporting of our U.S. and taxable foreign subsidiaries, and continue to apply ASC 740 to the financial reporting of income taxes for our taxable foreign subsidiaries.

OPERATING LEASE REVENUE

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

Lease payments received under the terms of the lease agreements, but unearned, are recorded as deferred income until earned. We evaluate the collectability of operating lease receivables at an individual customer level. We monitor all lessees with past due lease payments and consider relevant operational and financial issues facing those lessees in order to determine an appropriate allowance for doubtful accounts. We cease revenue recognition if collection of the scheduled lease payment is not reasonably assured. Based on our findings, we did not establish an allowance for doubtful accounts for our operating leases as of December 31, 2018 or 2017.

FINANCE LEASE REVENUE

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

Our investment in finance leases, net consists of future minimum lease payments, less the unearned income, plus the estimated unguaranteed residual value of the leased aircraft or the contracted final payment. We recognize the unearned income over the lease term in a manner that produces a constant rate of return on our net investment in finance leases; finance lease revenue is included in other income. We evaluate the collectability of finance leases at an individual customer level. We monitor all lessees with past due lease payments and consider relevant operational and financial issues facing those lessees in order to determine an appropriate allowance for doubtful accounts. Based on our findings, we did not establish an allowance for doubtful accounts for our finance leases as of December 31, 2018 or 2017.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In 2018, the Financial Accounting Standards Board (FASB) issued disclosure framework changes to the disclosure requirements for fair value measurement, Accounting Standards Update (ASU) 2018-13. The objective of this amendment is to modify the disclosure requirements on fair value measurements in the Codification's Fair Value Measurement and Disclosures Topic. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We early adopted this ASU on December 31, 2018 which resulted in presentation changes to our fair value disclosure (Note 8).

In 2017, the FASB issued new guidance on business combinations, ASU 2017-01. The guidance clarifies the definition of a business and provides guidance to determine when a set of assets and activities is a business. We early adopted this ASU on January 1, 2018 and it did not have an impact on our consolidated financial statements.

In 2016, the FASB issued ASU 2016-01, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new guidance changes the current accounting guidance related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. We adopted this ASU on December 31, 2018, which resulted in presentation changes to our fair value disclosure (Note 8).

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In 2017, the FASB issued ASU 2017-12, which, together with all subsequent amendments, targets improvements to accounting for hedging activities. The objective of the amended guidance is to improve the financial reporting of hedging relationships to better portray the economic results of a company's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance. Upon adoption, cash flow and net investment hedges will require a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to AOCL with a corresponding adjustment to the beginning balance of members' equity. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amended presentations and disclosure guidance are required prospectively. We do not expect the amendments in this guidance to have a material impact on our consolidated financial statements.

In 2016, the FASB issued ASU 2016-13, which, together with all subsequent amendments, provides guidance on the measurement of credit losses for certain financial assets. The new guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. The amendments in this guidance are effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years with a cumulative-effect adjustment to members' equity under a modified-retrospective approach. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In 2016, the FASB issued ASU 2016-02, which, together with all subsequent amendments, primarily amends existing leasing guidance related to a lessee's accounting for operating leases. The new guidance requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, leases would be classified as finance or operating leases. However, unlike current guidance, the new guidance will require both types of leases to be recognized on the consolidated balance sheets by the lessee. Lessor accounting will remain largely unchanged from current guidance except for certain targeted changes. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. We are currently evaluating the impact of this guidance on our consolidated financial statements. We do not expect the amendments in this guidance to have a material impact on our consolidated financial statements.

In 2014, the FASB issued ASU 2014-09, which, together with all subsequent amendments, supersedes most of the current revenue recognition requirements. The guidance requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendment should be applied using either a full retrospective or a modified retrospective approach. We have performed an assessment and determined gain/loss on sale of flight equipment and components of other income impact will be within scope of this ASU. Based on our assessment, we do not expect the amendments in this guidance to have a material impact on our consolidated financial statements.

3. FLIGHT EQUIPMENT HELD FOR LEASE, NET

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

	December 31,	
	2018	2017
Cost of flight equipment held for lease	$10,765,060	$9,088,012
Less: accumulated depreciation	(1,983,483)	(1,663,785)
Flight equipment held for lease, net	$8,781,577	$7,424,227

As of December 31, 2018 and 2017, maintenance right assets of $166.6 million and $164.3 million, respectively, were included in flight equipment held for lease, net.

As of December 31, 2018 and 2017, flight equipment held for lease, net with carrying values of $1,422.3 million and $1,627.2 million, respectively, were pledged as collateral for certain secured debt obligations (Note 11).

During the years ended December 31, 2018 and 2017 impairments related to flight equipment held for lease, net were $70.4 million and $17.3 million, respectively, and impairments related to assets held for sale were $4.3 million and $138.8 million, respectively. Impairments resulted from maintenance adjusted appraisal values, estimated sale prices or a reduction of estimated future cash flows (Note 8).

The following table presents the future minimum lease rentals we are due under operating leases *(In Thousands)*:

Years Ended December 31:	
2019	$946,274
2020	875,405
2021	792,930
2022	706,645
2023	586,331
Thereafter	1,857,799
Total	$5,765,384

Included in the table above are lease rentals we are due relating to six aircraft that we sold to third parties, then leased back under operating leases (the Head Leases), and subsequently leased to airlines (the Sub Leases). During each of the years ended December 31, 2018, 2017 and 2016, the operating lease revenue we received from the Sub Leases was $27.1 million. The table above includes future minimum lease rentals related to the Sub Leases of $107.3 million. The Sub Leases have maturity dates ranging from 2021 to 2024.

We hold fixed price purchase options for each of the six Head Leases. The Head Leases have maturity dates ranging from 2023 to 2025. The following table presents our aggregate minimum future lease commitments on the Head Leases *(In Thousands)*:

Years ended December 31:	
2019	$20,663
2020	28,483
2021	27,601
2022	20,410
2023	15,621
Thereafter	7,172
Total	$119,950

4. INVESTMENT IN FINANCE LEASES, NET

As of December 31, 2018, our investment in finance leases, net, represents 17 aircraft on lease to two customers. As of December 31, 2018 and 2017, approximately 100% and 75%, respectively, of our investment in finance leases, net by carrying value were operated in the U.S. The following table presents the components of investment in finance leases, net *(In Thousands)*:

	December 31,	
	2018	2017
Total future minimum lease payments	$255,981	$369,111
Less: unearned income	(89,743)	(133,327)
Estimated unguaranteed residual value or contracted final payment	67,527	96,864
Investment in finance leases, net	$233,765	$332,648

The following table presents the future minimum lease payments we are due under finance leases *(In Thousands)*:

Years Ended December 31:	
2019	$33,142
2020	33,032
2021	32,882
2022	32,782
2023	32,722
Thereafter	91,421
Total	$255,981

5. GEOGRAPHIC CONCENTRATION

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

	December 31,			
	2018		2017	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$1,918,546	21.3%	$1,986,687	25.4%
Europe	1,591,421	17.7%	1,318,133	16.8%
Central and South America	1,345,297	14.9%	1,330,815	17.0%
China	1,219,641	13.5%	1,038,411	13.3%
North America	1,201,315	13.3%	1,184,201	15.1%
South Asia	629,893	7.0%	458,028	5.8%
Middle East and Africa	629,532	7.0%	300,834	3.8%
Sub-total	8,535,645	94.7%	7,617,109	97.2%
Aircraft off-lease not subject to a signed lease or sales commitment	305,563	3.4%	—	0.0%
Aircraft off-lease subject to a signed lease or sales commitment	175,153	1.9%	217,191	2.8%
Total	$9,016,361	100.0%	$7,834,300	100.0%

For the years ended December 31, 2018 and 2017, no country accounted for more than 10% of our aircraft portfolio, which consists of flight equipment held for lease, net and assets held for sale, except the U.S. and China.

The following table presents the global concentration of our operating lease revenue, based on the lessee's location, during the years ended December 31, 2018, 2017 and 2016 *(Dollars in Thousands)*:

	Years Ended December 31,					
	2018		2017		2016	
	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total
Region:						
Asia Pacific (excluding China and South Asia)	$207,747	22.0%	$201,418	23.0%	$174,813	20.2%
Europe	189,629	20.2%	186,381	21.3%	210,152	24.3%
Central and South America	172,420	18.3%	140,380	16.1%	156,468	18.1%
North America	155,088	16.4%	155,412	17.8%	152,152	17.6%
China	114,878	12.2%	103,264	11.8%	86,208	10.0%
South Asia	59,804	6.3%	53,259	6.1%	42,308	4.8%
Middle East and Africa	43,300	4.6%	34,047	3.9%	44,149	5.0%
Operating lease revenue	$942,866	100.0%	$874,161	100.0%	$866,250	100.0%

For the years ended December 31, 2018, 2017 and 2016, no individual lessee accounted for more than 10% of our operating lease revenue. For the years ended December 31, 2018 and 2017, no country accounted for more than 10% of our operating lease revenue except the U.S. and China, and for the year ended December 31, 2016, no country accounted for more than 10% of our operating lease revenue except the U.S.

6. VARIABLE INTEREST ENTITIES

FINANCING STRUCTURES

In connection with certain of our financing structures, we have participated in the design and formation of certain legal entities that we consolidate into our consolidated financial statements. The purpose of these legal entities is to enable our lenders under these financing structures to perfect their security interest in certain aircraft that secure the related debt financings.

These legal entities have entered into loans with various third parties and financial institutions that are primarily guaranteed by ACG and supported by secondary guarantees from either the Export-Import Bank of the United States (Ex-Im) or the export credit agencies (ECA) of the United Kingdom, France and/or Germany (collectively Export Credit Agencies). These legal entities use the proceeds from these loans to purchase aircraft. The aircraft secure the loans and are leased, pursuant to capital leases, to us. The loans are recourse to our general credit through the ACG guarantee that is in place.

These legal entities are considered VIEs because they do not have sufficient equity at risk. Additionally, we bear significant risk of loss and participate in gains through the leases and have the power to direct the activities that most significantly impact the economic performance of these legal entities. Therefore, we have determined we are the primary beneficiary of these VIEs and consolidate them into our consolidated financial statements.

The net book value of the aircraft owned by legal entities that are considered VIEs as of December 31, 2018 and 2017, totaled $1,227.1 million and $1,395.7 million, respectively, and is included in flight equipment held for lease, net (Note 3). In addition, as of December 31, 2018 and 2017, the debt financings associated with these legal entities totaled $534.4 million and $692.6 million, respectively, and are included in debt financings, net (Note 11).

JOINT VENTURES

In February 2016, we established two separate joint ventures, Bauhinia Aviation Capital Limited (BACL) and Bauhinia Aviation Management Limited (BAML). BACL was established with two third-party investors for the purpose of investing in the purchasing, leasing and selling of commercial aircraft. We owned 20% of the equity of BACL and our wholly owned subsidiary, ACG Aircraft Leasing Ireland Ltd. (AALIL), acted as the servicer for aircraft owned by BACL. BACL was not consolidated because we were not the primary beneficiary since we did not have the obligation to absorb losses/benefits that could potentially be significant to BACL or a controlling financial interest.

As of December 31, 2018 and 2017, the carrying amount and maximum exposure to loss related to BACL was $0 and $14.5 million, respectively, which is included in other assets, net.

BAML was established with a separate third-party investor for the purpose of providing management services for BACL. We owned 50% of the equity of BAML. BAML was not consolidated because we were not the primary beneficiary since we did not have the obligation to absorb the losses/benefits that could potentially be significant to BAML or a controlling financial interest. As of December 31, 2018 and 2017, the carrying amount and maximum exposure to loss related to BAML was $0 million and $0.7 million, respectively, which is included in other assets, net.

In January 2018, we sold our equity interest in BACL and AALIL ceased acting as servicer. In connection with the sale of our equity interest in BACL, BAML ceased providing management services for BACL. BAML was dissolved in January 2019.

7. OTHER ASSETS, NET

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

	December 31,	
	2018	2017
Lease premium, net	$55,483	$51,522
Operating lease receivables	15,373	16,472
Lease acquisition costs and lease incentives, net	13,850	17,751
Note and other receivables	12,902	14,945
Equity method investments	560	25,622
Other, net	24,010	6,527
Other assets, net	$122,178	$132,839

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

	December 31,	
	2018	2017
Gross carrying amount	$70,207	$57,546
Less: accumulated amortization	(14,724)	(6,024)
Lease premium, net	$55,483	$51,522

8. FAIR VALUE

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

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

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

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

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. As of December 31, 2018 and 2017, we did not have any Level 3 assets or liabilities that we measured at fair value on a recurring basis. The following table presents the Level 2 assets and liabilities measured at fair value on a recurring basis *(In Thousands)*:

	December 31,					
	2018			2017		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Derivative Financial Instruments	$8,446	($2,862)	$5,584	$1,006	($5,690)	($4,684)

The fair value of our Derivative Financial Instruments (Note 9) are determined using market standard valuation methodologies using mid-market inputs that are observable in the market or that can be derived principally from or corroborated by observable market data (Level 2 in the fair value hierarchy) available to us as of December 31, 2018 and 2017. The pricing models utilize, among other things, interest swap rates, interest rate volatility, and foreign currency forward and spot rates, as applicable. Analysis of the derivative valuations is performed, which includes both quantitative and qualitative analyses. Examples of procedures performed include, but are not limited to, review of internally calculated valuations and comparison to external broker valuations for reasonableness, review of pricing statistics and trends, analysis of the impacts of changes in the market environment and review of changes in the market value for each derivative by risk managers and accountants. Based on the experience and financial strength of our counterparties, we determined nonperformance risk to be immaterial as of December 31, 2018 and 2017.

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

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

The following table presents assets measured at fair value (at the relevant measurement date) on a non-recurring basis during the years ended December 31, 2018 and 2017 and still held at year end *(In Thousands)*:

	December 31,			
	2018		2017	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	$243,680	$18,161	$15,802
Assets held for sale	$72,139	—	122,720	—
Investment in finance leases, net	—	—	52,286	—
Total	$72,139	$243,680	$193,167	$15,802

The fair value measurements of our aircraft and acquired aircraft contractual rights may be based on the estimated sales price less selling costs (i.e., a market approach) based on Level 2 inputs, third party maintenance adjusted appraisal values (i.e., a market approach) based on Level 3 inputs, or the present value of estimated future cash flows (i.e., an income approach) based on Level 3 inputs. We used the market or income approach for all assets measured at fair value on a non-recurring basis for the years ended December 31, 2018 and 2017.

LEVEL 3 INPUTS FOR FLIGHT EQUIPMENT HELD FOR LEASE, NET AND ACQUIRED AIRCRAFT CONTRACTUAL RIGHTS MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

The key inputs for the income approach include the current contractual lease payments, estimated future lease payments extended to the end of the aircraft's estimated holding period in its highest and best use configuration, estimated disposition value less selling costs, and the discount rate. The key inputs to the market approach include third party maintenance adjusted appraisal values.

The current contractual lease payments are based on in-force lease rates. Estimated future lease payments are based on the aircraft's type, age, configuration, current contracted lease rates for similar aircraft, industry trends, and the estimated holding period. We generally assume a 25-year estimated economic useful life for aircraft. Shorter or longer holding periods may be used based on our assessment of the continued marketability of certain aircraft types or when a potential sale of an individual aircraft has been identified, or is likely. In the case of a potential sale, the holding period is based on the estimated sale date. The disposition value reflects an estimated residual value or estimated sales price less selling costs and is generally estimated based on aircraft type and condition. The estimated cash flows are then discounted to present value.

For flight equipment held for lease, net that we measured at fair value on a non-recurring basis using Level 3 inputs during the year ended December 31, 2018, the following table presents the fair value as of the measurement dates, the valuation technique and the related unobservable inputs *(In Thousands)*:

	Fair Value	Valuation Technique	Unobservable Input (a)
Flight equipment held for lease, net	$243,680	Market Approach	Maintenance Adjusted Appraisal Values

(a) Independent third-party appraisals were used in the determination of fair value.

The income approach is used to measure the fair value of acquired aircraft contractual rights. The key inputs for Lease Premiums and Lease Discounts include the current contractual lease payments, the market lease rate and the discount rate. The key inputs for maintenance right assets are the estimated cash flows received from the lessee at the end of the lease or the estimated value of the improved maintenance condition of an aircraft at the end of the lease for EOL Leases and the discount rate.

For the year ended December 31, 2018, we did not impair acquired aircraft contractual rights. We impaired certain acquired aircraft contractual rights to zero during the year ended December 31, 2017 as the carrying value of these assets was not expected to be recovered.

During the years ended December 31, 2018 and 2017, we made no transfers into or out of Level 3 assets, nor did we purchase or issue Level 3 assets or liabilities.

FINANCIAL ASSETS AND LIABILITIES

Our financial assets and liabilities include cash and cash equivalents, restricted cash, investments in finance leases, net, operating lease receivables, notes and other receivables, Derivative Financial Instruments, accounts payable, accrued expenses and other liabilities, and debt financings, net. Our financial assets and liabilities are carried at amortized cost with the exception of Derivative Financial Instruments which are carried at fair value.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The objective of our hedging policy is to adopt a risk averse position with respect to changes in interest rates and foreign currencies.

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

made in USD for different rental periods. We manage the interest rate and foreign currency exposure with respect to our rental payments and borrowings with Derivative Financial Instruments.

We have entered into a number of interest rate derivatives to hedge the current and future interest rate payments on our floating rate debt financings. Interest rate derivatives are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. The notional amount on an interest rate derivative is not exchanged. Our interest rate derivatives typically allow us to pay fixed amounts based on fixed interest rates and receive floating amounts based on one-month and three-month London Interbank Offered Rate (LIBOR) to convert our floating rate debt to fixed rate obligations to better match the largely fixed rate cash flows from rental payments.

Furthermore, from time to time we enter into foreign currency swaps that limit our exposure to foreign currency fluctuations in connection with the issuance of term loans denominated in Japanese yen (JPY) (Note 11). The JPY swap exchanges the three-month JPY LIBOR for the three-month USD LIBOR.

CASH FLOW HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

As required for all qualifying and highly effective cash flow hedges, the change in the fair value of the interest rate swap contracts was recorded in AOCL. During the years ended December 31, 2018, 2017 and 2016, we recorded a pre-tax unrealized gain of $2.0 million, $3.9 million and $5.3 million, respectively. During the years ended December 31, 2018, 2017 and 2016, our hedged forecasted transactions were determined to be probable of occurring. We did not record any ineffectiveness for cash flow hedges during the years ended December 31, 2018, 2017 and 2016. The maximum length of time over which we are hedging our exposure to variability in future cash flows for forecasted transactions does not exceed three years.

No amounts were reclassified from AOCL to earnings resulting from the discontinuance of cash flow hedges due to forecasted cash flows that were no longer probable of occurring for the years ended December 31, 2018, 2017 and 2016. Over the next twelve months, we anticipate that $0.5 million of unrealized losses on derivative instruments in AOCL will be reclassified to earnings. There were no additional deferred realized gains or losses in AOCL as of December 31, 2018 and 2017.

CONSOLIDATED FINANCIAL STATEMENT IMPACT

We determine the fair values (Note 8) of our Derivative Financial Instruments using pricing models and inputs that are observable in the market or can be derived principally from or corroborated by observable market data (Level 2 in the fair value hierarchy) available to us as of December 31, 2018 and 2017.

Certain Derivative Financial Instruments are subject to master netting agreements, which would allow the netting of derivative assets and liabilities in the case of a default under any one contract.

The following tables present our derivative financial instruments *(Dollars in Thousands)*:

	December 31, 2018				
	Fair Value	Maturity Date	Pay Rate	Receive Rate	Notional
Interest rate swaps designated as hedging	($849)	October 2019 - September 2021	2.7% - 3.5%	1M LIBOR or 3M LIBOR	$94,822
Interest rate swaps not designated as hedging	(2,013)	September 2019 - July 2033	4.9% - 5.5%	1M LIBOR	20,000
Foreign currency swaps not designated as hedging	8,446	February 2019 - July 2023	3M USD LIBOR	3M JPY LIBOR	300,795
Total Derivative Financial Instruments	$5,584				

	December 31, 2017				
	Fair Value	Maturity Date	Pay Rate	Receive Rate	Notional
Interest rate swaps designated as hedging	($2,850)	October 2019 - September 2021	2.7% - 3.5%	1M LIBOR or 3M LIBOR	$121,104
Interest rate swaps not designated as hedging	(2,840)	September 2019 - July 2033	4.9% - 5.5%	1M LIBOR	20,000
Interest rate cap not designated as hedging	—	January 2018	6.5%	1M LIBOR	217,000
Foreign currency swap not designated as hedging	1,006	February 2019	3M USD LIBOR	3M JPY LIBOR	203,427
Total Derivative Financial Instruments	($4,684)				

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

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

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

	Year Ended December 31, 2016		
	Unrealized Gain Recognized In AOCL	Loss Reclassed from AOCL Into Income (a)	Unrealized Gain (Loss) Recognized In Income Due To Market Adjustments
Interest rate swaps designated as hedging	$5,263	—	—
Interest rate swaps not designated as hedging	—	($1,493)	$1,580 (b)
Interest rate cap not designated as hedging	—	—	(2)
Foreign currency swaps not designated as hedging	—	—	12,769
Unrealized gain (loss) on hedging and non-hedging Derivative Financial Instruments	$5,263	($1,493)	$14,347

(a) Represents the amortization of the loss of de-designated interest rate swaps from AOCL to income.

(b) Represents mark-to-market adjustments of de-designated interest rate swaps after de-designation.

Credit risk arises from the potential failure of the counterparty to perform according to the terms of the derivative contract. Our exposure to credit risk at any point in time is represented by the fair value of the derivative contract reported as assets. We and the counterparty do not require collateral to support derivative contracts with credit risk. As of December 31, 2018, the counterparties to our derivative contracts were LifeCorp and a third party, both of which were rated investment grade by Standard and Poor’s, Moody's, and Fitch Ratings. A credit valuation analysis was performed for all derivative positions to measure the risk that the counterparty to the transaction will be unable to perform under the contractual terms (nonperformance risk) and the risk was determined to be immaterial as of December 31, 2018.

Certain master agreements include a termination event clause associated with a change in ownership and our financial strength ratings assigned by certain independent rating agencies. If there is a change in ownership and our financial strength ratings fall below a specified level, as defined within the master agreement, the counterparty could terminate the master agreement with payment due based on the fair value of the underlying derivatives. As of December 31, 2018, a foreign currency swap not designated as hedging with a fair value asset of $1.0 million had a termination event clause.

10. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

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

	December 31, 2018	December 31, 2017
Accrued interest	$67,656	$63,282
Employee compensation and benefits	41,806	35,189
Accounts payable and accrued expenses	27,042	30,476
Lease incentives	14,511	21,126
Other liabilities	20,360	16,833
Accounts payable, accrued expenses and other liabilities	$171,375	$166,906

11. DEBT FINANCINGS, NET

The following tables present the components of debt financings, net as of December 31, 2018 and 2017 *(Dollars in Thousands)*:

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

	December 31, 2017					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$4,694,000	January 2018 - November 2027	2.9% - 7.2%	Fixed	Semi-Annual	USD
Revolving Credit Facilities	235,000	December 2019 - April 2022	2.6%	Floating	Monthly	USD
Term loan	205,504	February 2019	0.7%	Floating	Quarterly	JPY
Secured debt obligations:						
Export Credit Facilities	842,832	December 2018 - November 2024	1.5% - 3.9%	Fixed and Floating	Quarterly	USD
Original issuance discounts	(18,735)					
Debt acquisition costs	(57,762)					
Debt financings, net	$5,900,839					

We enter into various senior unsecured financings with third parties. These financings include notes issued in reliance on Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended, and private placement notes issued to third parties (Senior Notes). During 2018, we issued Senior Notes totaling $2.3 billion, comprised of (i) $650.0 million of senior unsecured notes due 2023 with a fixed interest rate of 3.875%; (ii) $300.0 million of senior unsecured notes due 2021 that bear interest at a floating rate based on three-month LIBOR plus 0.67%; (iii) $500.0 million of senior unsecured notes due 2025 with a fixed interest rate of 4.125%; (iv) $500.0 million of senior unsecured notes due 2021 that bear interest at a floating rate based on three-month LIBOR plus 0.95%; and (v) $300.0 million of senior unsecured notes due 2024 with a fixed interest rate of 4.375%.

In June 2018, we entered into a new dual tranche senior unsecured term loan (2018 Term Loan). The 2018 Term Loan includes a $197.0 million USD tranche, which we drew in full in July 2018, and a 10.8 billion JPY tranche, which we drew in full in August 2018. The USD tranche bears interest at a floating rate based on three-month USD LIBOR plus 1.0% per annum, and the JPY tranche bears interest at a floating rate based on three-month JPY LIBOR plus 0.30% per annum. The USD and JPY tranches both mature in July 2023. We are also party to a 23.2 billion JPY senior unsecured term loan that matures in February 2019 (2015 Term Loan). Interest on the 2015 Term Loan accrues at a floating rate based on three-month JPY LIBOR plus 0.70% per annum.

We are party to two senior unsecured revolving credit facilities, the 2013 Revolving Credit Facility and the 2016 Revolving Credit Facility (collectively, Revolving Credit Facilities). In April 2018, we increased the capacity of the 2016 Revolving Credit Facility from $1.5 billion to $1.6 billion and extended the maturity date from April 2022 to April 2023. Borrowings under the 2016 Revolving Credit Facility bear interest at either (i) LIBOR plus a margin determined by reference to the credit ratings for our debt (as of December 31, 2018 the margin was 1.125%), or (ii) an alternative base rate. The 2013 Revolving Credit Facility matures in December 2019 and has total borrowing capacity of $220.0 million. Borrowings under the 2013 Revolving Credit Facility bear interest at either (i) LIBOR plus 1.50% or (ii) an alternative base rate. As of December 31, 2018, we have drawn $20.0 million of the $1.9 billion aggregate capacity available under the Revolving Credit Facilities.

In May 2018, we established 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. One of our Revolving Credit Facilities serves as a backstop facility for our commercial paper program. As of December 31, 2018, we have issued $96.0 million of commercial paper.

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

All of our outstanding debt as of December 31, 2018 is recourse only to ACG, and is not guaranteed by any of ACG's equity holders, including Pacific Life, LifeCorp or Tokyo Century.

The following table presents the aggregate estimated scheduled principal repayments of our debt financing obligations during the next five years and thereafter *(In Thousands)*:

Years Ended December 31:	
2019	$461,691
2020	956,002
2021	1,679,057
2022	1,082,982
2023	1,053,510
Thereafter	1,885,372
Total	$7,118,614

As of December 31, 2018 and 2017, we were in compliance with all applicable debt covenants.

12. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

We lease office facilities in Newport Beach, California; Bellevue, Washington; Dublin, Ireland; and Singapore under non-cancelable operating leases. Rent expense, included in selling, general and administrative, was $1.6 million, $1.6 million and $1.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. The following table presents our future minimum office lease payments *(In Thousands)*:

Years Ended December 31:	
2019	$2,171
2020	2,139
2021	2,285
2022	2,365
2023	2,459
Thereafter	11,819
Total	$23,238

Included in the table above are lease payments to Pacific Life for our sublease of Newport Beach, California office facilities from 2019 through 2028.

Leasehold improvement incentives received from the lessor are capitalized and amortized over the life of the lease.

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

CAPITAL COMMITMENTS

As of December 31, 2018, we had commitments to purchase 179 aircraft scheduled for delivery through 2023. In addition, we have a contingent commitment to purchase an additional three aircraft which are not included in the table below. All of these commitments arise from fixed price purchase agreements with Boeing, Airbus and other third parties, and may include escalation provisions. The manufacturers have informed us to expect delivery delays relating to certain aircraft originally scheduled for delivery in 2018 and 2019. The anticipated delays have been reflected in our commitment schedule below; however, there remains potential of further delivery delays not currently reflected in the schedule below.

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

Years Ended December 31:	
2019	$2,392,751
2020	2,159,494
2021	1,977,295
2022	1,434,322
2023	775,083
Total	$8,738,945

As of December 31, 2018, deposits made related to our purchase agreements totaled $1.2 billion and are included in prepayments on flight equipment.

GENERAL

In the ordinary course of business, as part of contractual agreements, we provide certain indemnifications related to debt financings, aircraft acquisitions, aircraft dispositions, and other transactions. Historically we have not made payments for these types of indemnifications. There are currently no indemnifications from which a probable and reasonably estimable loss could arise. Therefore, as of December 31, 2018 and 2017, we have no related liabilities to disclose.

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

13. MEMBERS' EQUITY

ACG LLC currently has 100,000 limited liability company interests outstanding, of which 79,000 are held by PLAH, 20,000 are held by TCSA and 1,000 are held by ACGHI. At the request of ACG and subject to certain conditions, TCSA has agreed to provide up to $600.0 million of additional equity capital to ACG through December 2020 (Primary Investment Period), pursuant to one or more investments, in exchange for newly issued limited liability company interests in ACG LLC. If TCSA owns less than 30% of the limited liability company interests in ACG LLC after the Primary Investment Period, TCSA shall have the right, subject to certain conditions, to purchase units in ACG LLC from PLAH up to an amount resulting in TCSA owning 30% of the outstanding limited liability company interests in ACG LLC immediately following such purchase.

14. INCOME TAXES

Effective March 31, 2017, we changed our tax status from a corporation to a limited liability company, which is taxed as a partnership for U.S. income tax purposes. Therefore, for periods after March 31, 2017, we are a flow-through entity for U.S. tax purposes and not subject to federal income tax at the partnership level. Instead, our members are responsible for income taxes on our U.S. federal and state taxable income. As a result of the changes in tax status, we recorded a tax benefit of $890.9 million as of March 31, 2017, and an additional tax expense during the year ended December 31, 2017 of $7.0 million relating to deferred tax true-up adjustments, in order to eliminate our U.S. federal and state net deferred tax liability. Our foreign subsidiaries continue to be subject to income tax.

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

Prior to March 31, 2017, we were included in the consolidated federal income tax return of Pacific Mutual Holding Company (PMHC) as well as certain state tax returns where PMHC filed on a combined/unitary basis. Consistent with a modified separate-return approach, our provision for federal income taxes was calculated on a systematic, rational, and consistent method, based on our income or loss, and giving recognition to the effects of net operating losses to the extent we estimated that they would be realizable in PMHC's consolidated federal income tax return, and reflecting the state apportionment factors in the combined/unitary state tax returns. Under the tax sharing arrangement PMHC credited us to the extent our net operating losses were used in PMHC's consolidated tax return and charged us to the extent of our tax liability. Our provision for state income taxes included California, in which we filed with PMHC using the unitary apportionment factors, and certain other states, in which we filed separate tax returns. As part of the tax sharing arrangement, we paid $14.6 million during the year ended December 31, 2017 and received net receipts of $137.4 million during the year ended December 31, 2016. As a result of our conversion to a limited liability company, the tax sharing agreement with PMHC has been terminated. As of December 31, 2018 and 2017, we had an income tax sharing liability of zero.

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

	Years Ended December 31,		
	2018	2017	2016
Domestic	$254,092	$144,215	$143,956
Foreign	15,169	1,939	(14,420)
Total	$269,261	$146,154	$129,536

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

	Years Ended December 31,		
	2018	2017	2016
Current:			
Federal	$708	($31,087)	($118,835)
State and local	85	(937)	(1,651)
Foreign	(10,931)	2,671	—
Total current	(10,138)	(29,353)	(120,486)
Deferred:			
Federal	—	(841,368)	165,237
State and local	—	(25,124)	5,602
Foreign	13,468	(2,275)	1,179
Total deferred	13,468	(868,767)	172,018
Provision for (benefit from) income taxes	$3,330	($898,120)	$51,532

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

	December 31,	
	2018	2017
Deferred tax liabilities:		
Aircraft basis difference	$24,014	$4,693
Other	(355)	495
Deferred tax liabilities from operations	23,659	5,188
Deferred tax assets:		
Net operating loss carryforwards	(21,607)	(5,640)
Deferred tax assets from operations	(21,607)	(5,640)
Net deferred tax liabilities (assets) from operations	2,052	(452)
Unrealized comprehensive loss	2,492	2,405
Deferred income taxes, net	$4,544	$1,953

Our U.S. deferred tax assets and liabilities were eliminated when we changed our status to a limited liability company, which is taxed as a partnership.

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

	Years Ended December 31,		
	2018	2017	2016
Federal Tax Loss Carryforwards:			
Expire between 2034 - 2035	—	—	$129,044
California Tax Loss Carryforwards:			
Expire between 2018 - 2034	—	—	22,949
Other States Tax Loss Carryforwards:			
Expire between 2029 - 2035	—	—	39,596
Singapore Tax Loss Carryforwards:			
No expiration date	$22,900	$33,179	21,963
Ireland Tax Loss Carryforwards:			
No expiration date	141,712	54,875	38,067
Total	$164,612	$88,054	$251,619

For the year ended December 31, 2016 the federal and California tax loss carryforwards have been reduced for certain tax contingencies. Our U.S. federal tax loss carryforwards were utilized in the PMHC consolidated return that includes our final corporate tax period ending March 31, 2017.

A reconciliation of the income taxes based on the prevailing corporate statutory tax rate of 21% for December 31, 2018 and 35% for December 31, 2017 and 2016 to the provision for (benefit from) income taxes reflected on the consolidated statements of income is as follows *(In Thousands)*:

	Years Ended December 31,		
	2018	2017	2016
Provision for income taxes at the federal statutory rate	$53,359	$51,635	$45,338
Nontaxable income due to partnership status	(53,359)	(65,838)	—
Conversion to LLC	—	(883,864)	—
Singapore operations	1,734	397	7,387
Ireland operations	1,475	—	—
State income taxes provision, net of federal benefit	85	(450)	1,200
Other	36	—	(2,393)
Provision for (benefit from) income taxes	$3,330	($898,120)	$51,532
Effective Tax Rate	1.2%	(614.5)%	39.8%

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

Balance as of January 1, 2016	$110,583
Decreases related to prior year positions	(63,240)
Increases related to current period positions	4,707
Balance as of December 31, 2016	52,050
Decreases related to prior period positions	(52,050)
Balance as of December 31, 2017 and 2018	—

Our policy is to recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes in the consolidated statements of income and any accrued interest and penalties related to unrecognized tax benefits within accounts payable, accrued expenses and other liabilities in the consolidated statements of financial condition. During the years ended December 31, 2018, 2017 and 2016, we did not record any interest and penalties related to unrecognized tax benefits.

For the period ended March 31, 2017, we were subject to taxation in the U.S. and various state jurisdictions. PMHC is under continuous audit by the IRS and is audited periodically by various state taxing authorities. The IRS has completed audits of PMHC's federal returns through the tax year ended December 31, 2012. PMHC is currently participating in the appeals process with the IRS for certain tax issues unrelated to us. The PMHC federal return for tax years 2013 onwards are open for examination. The IRS is currently auditing PMHC's federal returns for the tax years ended December 31, 2015 and 2016 and the exam for December 31, 2013 and 2014 is anticipated to close by March 15, 2019. The State of California is currently auditing the PMHC combined return for the tax year ended December 31, 2009. Various state returns are open for examination from 2012 onwards. We do not expect the federal and state audits to result in any material assessments.

15. OTHER INCOME

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

	Years Ended December 31,		
	2018	2017	2016
Finance lease revenue	$20,427	$18,568	$14,080
Interest income	20,028	1,438	402
Lease termination settlements	6,197	5,694	11,906
Management, transaction and advisory fees	5,475	2,560	1,779
Other	9,489	5,014	8,544
Other income	$61,616	$33,274	$36,711

16. SELLING, GENERAL AND ADMINISTRATIVE

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

	Years Ended December 31,		
	2018	2017	2016
Employee compensation and benefits	$48,670	$41,507	$47,249
Operating lease expense	23,321	23,323	23,484
Professional services	8,835	4,579	8,089
Maintenance and transition expense	6,018	17,695	17,480
Other	20,414	18,090	20,122
Selling, general and administrative	$107,258	$105,194	$116,424

17. INTEREST, NET

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

	Years Ended December 31,		
	2018	2017	2016
Interest on debt financings and net settlements on interest rate derivatives	$269,022	$239,228	$229,797
Amortization of debt acquisition costs and original issuance discounts	19,076	18,611	23,211
Change in value on non-hedging derivatives	(7,631)	(6,527)	(12,854)
Foreign currency adjustments	6,637	7,021	12,950
Fees paid to service providers	3,008	2,262	2,426
Gross interest expense	290,112	260,595	255,530
Capitalized interest	(40,913)	(34,980)	(17,893)
Interest, net	$249,199	$225,615	$237,637

18. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018 and 2017, we reimbursed Pacific Life $48.7 million and $50.2 million for expenses Pacific Life incurred on our behalf, predominantly for the payment of employee compensation and benefits, and other services.

As of December 31, 2018 and 2017, we had a liability to Pacific Life totaling $1.4 million and $0.5 million, which is included in accounts payable, accrued expenses and other liabilities.

We participate in a defined contribution Retirement Incentive Savings Plan sponsored by Pacific Life, which covers substantially all employees. We match 75% of employee contributions, up to a maximum of 6% of eligible employee compensation up to the IRS maximum allowable amount.

Our share of net expenses under this plan, included in selling, general and administrative expense, was $2.9 million, $2.0 million, and $1.8 million for the years ended December 31, 2018, 2017 and 2016, respectively.

In accordance with the terms of our tax sharing agreement with PMHC, we paid $14.6 million to Pacific Life for the year ended December 31, 2017, after reducing our payable due by $25.0 million to reflect net operating losses that Pacific Life could utilize in 2017. As a result of our conversion to a limited liability company, the tax sharing agreement with PMHC has been terminated (Note 14).

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

19. SUBSEQUENT EVENTS

We have evaluated events subsequent to December 31, 2018 and through February 19, 2019, the date the consolidated financial statements were available to be issued, and have concluded that, except for the events noted in Note 6, no events or transactions have occurred subsequent to December 31, 2018, that require consideration as adjustments, or disclosures in, the consolidated financial statements.