AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements
as of September 30, 2020 and December 31, 2019 and for the
nine months ended September 30, 2020 and 2019

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands)	September 30, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	$659,534	$341,234
Restricted cash	161,009	196,754
Flight equipment held for lease, net	9,749,852	9,348,825
Assets held for sale	34,224	289,353
Prepayments on flight equipment	1,008,966	1,254,170
Investment in finance leases, net	203,122	246,896
Other assets, net	567,003	221,597
TOTAL ASSETS	$12,383,710	$11,898,829
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$264,366	$288,214
Debt financings, net	7,638,335	7,127,842
Maintenance reserves	611,565	705,912
Security deposits	130,124	163,129
TOTAL LIABILITIES	8,644,390	8,285,097
Commitments and contingencies (Note 10)		
Equity:		
Member's equity	3,739,320	3,613,732
TOTAL EQUITY	3,739,320	3,613,732
TOTAL LIABILITIES AND EQUITY	$12,383,710	$11,898,829

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Nine Months Ended September 30,	
(In Thousands)	2020	2019
REVENUES		
Operating lease revenue	$681,158	$755,501
Amortization of lease incentives and premiums, net	(18,142)	(15,635)
Maintenance revenue	52,125	18,863
Gain on sale of flight equipment, net	10,773	23,703
Other income	39,113	60,430
TOTAL REVENUES	765,027	842,862
EXPENSES		
Depreciation	302,481	309,282
Interest, net	209,395	220,151
Asset impairment	33,675	115,212
Selling, general and administrative, net	90,077	97,696
TOTAL EXPENSES	635,628	742,341
Income before provision for (benefit from) income taxes	129,399	100,521
Provision for (benefit from) income taxes	3,811	(207)
NET INCOME	125,588	100,728
Other comprehensive income	—	2,456
TOTAL COMPREHENSIVE INCOME	$125,588	$103,184

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In Thousands)	Member's Equity	Accumulated Other Comprehensive (Loss) Income	Total Equity
BALANCES, JANUARY 1, 2019	**$3,227,146**	**($2,456)**	**$3,224,690**
Capital contribution from TCSA	200,000	—	200,000
Net income	100,728	—	100,728
Other comprehensive income	—	2,456	2,456
BALANCES, SEPTEMBER 30, 2019	**$3,527,874**	**—**	**$3,527,874**
BALANCES, JANUARY 1, 2020	**$3,613,732**	**—**	**$3,613,732**
Net income	125,588	—	125,588
BALANCES, SEPTEMBER 30, 2020	**$3,739,320**	**—**	**$3,739,320**

See Notes to Condensed Consolidated Financial Statements

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)	Nine Months Ended September 30, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$125,588	$100,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	302,481	309,282
Maintenance reserves, security deposits and lease incentives included in earnings	(35,416)	(18,664)
Asset impairment	33,675	115,212
Amortization of lease incentives and premiums, net	18,142	15,635
Amortization of debt acquisition costs and original issuance discounts	15,985	16,163
Gain on sale of flight equipment, net	(10,773)	(23,703)
Other operating activities, net	5,530	3,743
Change in operating assets and liabilities	(215,277)	(28,619)
NET CASH PROVIDED BY OPERATING ACTIVITIES	239,935	489,777
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of flight equipment and related assets	(514,444)	(1,008,094)
Proceeds from sale of flight equipment and related assets	199,278	167,571
Issuance of notes receivable	(195,800)	—
Prepayments on flight equipment	(149,605)	(199,237)
Refunded prepayments on flight equipment	155,209	—
Capitalized interest on prepayments on flight equipment	(19,934)	(28,404)
Payments on non-hedging derivative financial instruments	(1,222)	(208,491)
Receipts from non-hedging derivative financial instruments	132	209,316
Other investing activities, net	45,325	14,401
NET CASH USED IN INVESTING ACTIVITIES	(481,061)	(1,052,938)

(Continued)

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)	Nine Months Ended September 30, 2020	2019
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt financings	$1,631,385	$4,368
Repayment of debt financings	(327,762)	(348,950)
(Repayment of) proceeds from revolving credit facilities and commercial paper, net	(804,000)	274,000
Receipts of maintenance reserves	47,275	151,389
Payments of maintenance reserves	(23,456)	(53,529)
Receipts of security deposits	13,375	30,657
Payments of security deposits	(8,542)	(5,802)
Capital contribution from TCSA	—	200,000
Other financing activities, net	(4,594)	(1,523)
NET CASH PROVIDED BY FINANCING ACTIVITIES	523,681	250,610
Net change in cash and cash equivalents and restricted cash	282,555	(312,551)
Cash and cash equivalents and restricted cash, beginning of period	537,988	660,206
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$820,543	$347,655
RECONCILIATION TO CONDENSED CONSOLIDATED BALANCE SHEETS		
Cash and cash equivalents	$659,534	$156,390
Restricted cash	161,009	191,265
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	$820,543	$347,655
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	$159,037	$164,348
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	$255,634	$285,881

See Notes to Condensed Consolidated Financial Statements

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION

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

ACG LLC is a wholly owned subsidiary of TC Skyward Aviation U.S., Inc. (TCSA), a Delaware corporation and direct subsidiary of Tokyo Century Corporation (Tokyo Century), a Japanese corporation. Prior to December 5, 2019, ACG LLC was an indirect subsidiary of Pacific Life Insurance Company (Pacific Life), a wholly owned subsidiary of Pacific LifeCorp, with 74.6% of ACG LLC's limited liability company interests owned by Pacific Life Aviation Holdings LLC (PLAH), a wholly owned subsidiary of Pacific Life; 0.9% of its limited liability company interests owned by Aviation Capital Group Holdings, Inc. (ACGHI), a subsidiary of PLAH; and 24.5% of its limited liability company interests owned by TCSA. In December 2019, TCSA acquired all of PLAH and ACGHI's outstanding limited liability company interests in ACG LLC pursuant to a Membership Interest Purchase Agreement entered into by the parties in September 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying 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 and comprehensive 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, 2019 was derived from the audited consolidated financial statements as of December 31, 2019. 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, 2019.

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 2019 condensed consolidated balance sheet and condensed consolidated statement of income and comprehensive income to conform to the 2020 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, 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.

IMPACT OF COVID-19 PANDEMIC

In late 2019, an illness caused by a novel strain of coronavirus, COVID-19, was first detected and in March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Governmental authorities around the world have implemented measures to try to contain COVID-19, including travel bans and restrictions, border closures, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. Demand for commercial air travel has decreased significantly due to the COVID-19 pandemic and has materially impacted the operations of nearly all of our lessees. Aircraft manufacturers and suppliers have also been negatively affected, including the temporary closure of Boeing and Airbus' final assembly facilities. These events, together with the decrease in commercial air travel demand due to the COVID-19 pandemic, could materially and adversely affect our business, financial condition, results of operations and cash flows.

Since the start of the COVID-19 pandemic, we have seen an increase in delinquent rental payments from certain of our lessees. As of September 30, 2020, most of the lessees of our owned aircraft have requested some form of rental relief. We evaluate such requests on a case-by-case basis. Our evaluation and approvals of such requests are based on factors including our assessment of (1) the long-term viability of the lessee and its affiliates, (2) our existing security package with respect to the relevant aircraft, (3) the strength and history of our relationship with the lessee and its affiliates and (4) the potential ability to facilitate other commercial transactions or objectives with the lessee in exchange for granting a deferral. Deferrals granted have generally involved limited term deferrals of a portion of contractual rent payments and include interest. In select cases, lease extensions or other concessions were also negotiated and agreed as part of the lease deferrals. We continue to recognize operating lease revenue during the period in which a deferral is provided to the lessee, unless we determine collectability is not reasonably assured. We remain in active discussions with our airline customers and it is likely that we will continue to provide accommodation arrangements to additional lessees, including in some cases adjustments to previous deferral arrangements.

ACCOUNTING FOR LEASE CONCESSIONS RELATED TO THE EFFECTS OF THE COVID-19 PANDEMIC

In April 2020, the Financial Accounting Standards Board (FASB) issued an interpretive guidance Staff Q&A Accounting for lease concessions related to the effects of the COVID-19 pandemic (the Q&A). The Q&A is applicable to companies whose leases are affected by the economic disruptions caused by the COVID-19 pandemic. The Q&A provides that a company may elect to account for lease concessions as though those concessions existed regardless of whether the enforceable rights and obligations for the concessions explicitly exist in the contract. As a result, an entity is not required to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and can elect to apply or not apply the lease modification guidance in Accounting Standards Codification (ASC) 840 Leases (ASC 840) to those contracts. This election is available for concessions that result in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract.

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

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In 2020, the FASB issued Accounting Standards Update (ASU) 2020-04, which targets to provide accounting relief for the transition away from the London Interbank Offered Rate (LIBOR) and certain other reference rates. The objective of the amended guidance is to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates. Among other elections, entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. The amendments in this guidance are effective from March 12, 2020 through December 31, 2022 and can be adopted prospectively for any interim period that includes or is subsequent to March 12, 2020. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In 2016, the FASB issued ASU 2016-13, which, together with all subsequent amendments, provides guidance on the measurement of credit losses for certain financial assets. The new guidance replaces the incurred loss impairment methodology with one that reflects expected credit losses. The measurement of expected credit losses should be based on historical loss information, current conditions, and reasonable and supportable forecasts. The guidance also requires enhanced disclosures. The amendments in this guidance are effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years with a cumulative-effect adjustment to member's equity under a modified-retrospective approach. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In 2016, the FASB issued ASU 2016-02, which, together with all subsequent amendments, primarily amends existing leasing guidance related to a lessee's accounting for operating leases. The new guidance requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, leases would be classified as finance or operating leases. However, unlike current guidance, the new guidance will require both types of leases to be recognized on the 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. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements. We do not expect the amendments in this guidance to have a material impact on our consolidated financial statements.

3. FLIGHT EQUIPMENT HELD FOR LEASE, NET

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

	September 30, 2020	December 31, 2019
Cost of flight equipment held for lease	$12,063,073	$11,358,190
Less: accumulated depreciation	(2,313,221)	(2,009,365)
Flight equipment held for lease, net	$9,749,852	$9,348,825

As of September 30, 2020 and December 31, 2019, maintenance right assets of $118.1 million and $149.9 million, respectively, were included in flight equipment held for lease, net.

As of September 30, 2020 and December 31, 2019, flight equipment held for lease, net, assets held for sale and investment in finance leases, net, with aggregate carrying values of $1,062.7 million and $1,165.4 million, respectively, were pledged as collateral for our secured loans guaranteed by Export Credit Agencies (Note 9).

We test for impairment whenever events or changes in circumstances indicate that the carrying value of our flight equipment may not be recoverable. Factors we consider, whether as result of the COVID-19 pandemic (Note 2), the Boeing 737 MAX grounding (Note 10) or otherwise, include significant under-performance relative to historic results or projected future operating results, significant negative industry or economic trends, reductions to our future minimum lease rentals, a decline in the market values of our aircraft, and the maintenance condition of our aircraft. We may be required in the future to record a significant charge to earnings during the period in which any impairment is determined. Such charges could have a material adverse effect on our business, financial condition, results of operations and cash flows.

For the nine months ended September 30, 2020 and 2019, impairments related to flight equipment held for lease, net were $33.7 million and $114.4 million, respectively, and impairments related to assets held for sale were zero and $0.8 million, respectively. Impairment amounts may be derived from maintenance adjusted estimated values, estimated sale prices, or reductions of estimated future cash flows (Note 7).

We evaluate the collectability of operating lease receivables at an individual customer level. We monitor lessees with past due lease payments and consider all relevant operational and financial issues facing those lessees in order to determine an appropriate allowance for doubtful accounts. Accounts receivable, net of the allowance for doubtful accounts, is included in other assets, net. For the nine months ended September 30, 2020 and 2019, we recorded bad debt expense, net of recoveries, of $0.8 million and zero, respectively, which is included in selling, general and administrative, net.

The following table presents the future minimum lease rentals we are due under operating leases as of September 30, 2020 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2020	$259,098
2021	913,230
2022	837,176
2023	730,561
2024	632,595
Thereafter	2,420,115
Total	$5,792,775

At the beginning of 2020, there were four aircraft that we had previously sold to third parties, then leased back under operating leases (the Head Leases), and subsequently leased to airlines (the Sub Leases). We hold fixed price purchase options under the Head Leases and we have exercised the fixed price purchase option on two of these aircraft. The purchase of the two aircraft closed in July 2020. For the nine months ended September 30, 2020 and 2019, the operating lease revenue we recorded from the Sub Leases was $12.3 million and $20.3 million, respectively. The table above includes future minimum lease rentals related to the two remaining Sub Leases of $22.4 million. The two remaining Sub Leases mature in 2023.

As of September 30, 2020, we had remaining commitments of $9.0 million related to the two purchased aircraft noted above, which are scheduled to be paid in 2020, and are included in the table below. The two remaining Head Leases mature in 2023 and 2024. The following table includes our aggregate minimum future lease commitments on the Head Leases as of September 30, 2020 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2020	$11,094
2021	8,276
2022	8,398
2023	7,498
2024	211
Total	$35,477

4. INVESTMENT IN FINANCE LEASES, NET

As of September 30, 2020, our investment in finance leases, net, represents 17 aircraft on lease to two customers. As of September 30, 2020 and December 31, 2019, 100% and 88%, respectively, of our investment in finance leases, net by carrying value were operated in the U.S. The following table presents the components of investment in finance leases, net *(In Thousands)*:

	September 30, 2020	December 31, 2019
Total future minimum lease payments	$198,062	$258,802
Less: unearned income	(62,490)	(85,778)
Estimated unguaranteed residual value	67,550	73,872
Investment in finance leases, net	$203,122	$246,896

The following table presents the future minimum lease rentals that we are due under finance leases as of September 30, 2020 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2020	$8,256
2021	32,882
2022	32,782
2023	32,722
2024	32,662
Thereafter	58,758
Total	$198,062

5. GEOGRAPHIC CONCENTRATION

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

	September 30, 2020		December 31, 2019	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$2,366,443	24.2 %	$2,441,932	25.3 %
Europe	1,857,205	19.0 %	1,803,514	18.7 %
China	1,302,100	13.3 %	1,373,991	14.3 %
United States and Canada	1,189,549	12.2 %	1,113,665	11.6 %
Central America, South America and Mexico	802,003	8.2 %	1,209,625	12.6 %
Middle East and Africa	745,514	7.6 %	727,436	7.5 %
South Asia	520,422	5.3 %	536,150	5.6 %
Sub-total	8,783,236	89.8 %	9,206,313	95.6 %
Aircraft off-lease not subject to a signed lease or sales commitment	835,024	8.5 %	51,413	0.5 %
Aircraft off-lease subject to a signed lease or sales commitment	165,816	1.7 %	380,452	3.9 %
Total	$9,784,076	100.0 %	$9,638,178	100.0 %

As of September 30, 2020 and December 31, 2019, no individual lessee accounted for more than 10% of our aircraft portfolio. As of September 30, 2020 and December 31, 2019, no country accounted for more than 10% of our aircraft portfolio, except China. Our aircraft portfolio consists of flight equipment held for lease, net and assets held for sale.

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

	Nine Months Ended September 30,			
	2020		2019	
	Lease Revenue	Percent of Total	Lease Revenue	Percent of Total
Region:				
Asia Pacific (excluding China and South Asia)	$189,324	27.8 %	$172,785	22.9 %
Europe	146,309	21.5 %	159,485	21.1 %
United States and Canada	108,858	16.0 %	118,980	15.7 %
China	73,862	10.8 %	106,324	14.1 %
Central America, South America and Mexico	65,050	9.5 %	109,144	14.4 %
Middle East and Africa	53,054	7.8 %	45,029	6.0 %
South Asia	44,701	6.6 %	43,754	5.8 %
Operating lease revenue	$681,158	100.0%	$755,501	100.0%

For the nine months ended September 30, 2020 and 2019, no individual lessee accounted for more than 10% of our operating lease revenue. For the nine months ended September 30, 2020 and 2019, no country accounted for more than 10% of our operating lease revenue, except the U.S. and China.

6. VARIABLE INTEREST ENTITIES

FINANCING STRUCTURES

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

These legal entities have entered into secured loans with various third parties and financial institutions that are primarily guaranteed by ACG and supported by secondary guarantees from either the Export-Import Bank of the United States or the export credit agencies of the United Kingdom, France and/or Germany (collectively Export Credit Agencies). These legal entities use the proceeds from these loans to purchase aircraft. The aircraft secure the loans and are leased, pursuant to capital leases, to us. The loans are recourse to our general credit through 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 September 30, 2020 and December 31, 2019 totaled $915.4 million and $976.9 million, respectively, and is included in flight equipment held for lease, net, assets held for sale and investment in finance leases, net (Note 3 and Note 4). In addition, as of September 30, 2020 and December 31, 2019, the debt financings associated with these legal entities totaled $241.0 million and $339.1 million, respectively, and are included in debt financings, net (Note 9).

AFS NOTES RECEIVABLE, NET

In March 2020, we entered into a secured credit facility (AFS Facility) (Note 9), which we can draw on to provide loans to airlines (Borrower(s)) (AFS Notes Receivable). The AFS Notes Receivable are secured by aircraft owned by such Borrowers and amortized over a period not to exceed 12 years from the date of drawing. As of September 30, 2020, the carrying value of the AFS Notes Receivable, net of deferred fees, was $183.2 million and is included in other assets, net. The AFS Notes Receivable mature in June 2028.

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

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

7. FAIR VALUE

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

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

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

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

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

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

Market Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income Uses valuation techniques to convert future amounts to a single current amount based on current market expectation about those future amounts.

Cost Based on the amount that would be required currently to replace the service capacity of an asset (current replacement cost).

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

During 2019, in connection with TCSA's acquisition of ACG LLC, we funded certain deferred compensation obligations to meet funding obligations to employee participants. The assets are held in a trust and are subject to the claims of ACG's general creditors under federal and state laws in the event of insolvency. The assets are invested in a mutual fund and are included in other assets, net. The realized and unrealized holding gains and losses related to this investment are recorded in other income.

We use derivative financial instruments such as foreign currency swap contracts and interest rate swaps (collectively Derivative Financial Instruments) (Note 8) to manage exposure to changes in foreign currencies and interest rates. We record Derivative Financial Instruments at fair value. Derivative Financial Instruments in a net asset position are recorded in other assets, net and Derivative Financial Instruments in a net liability position are recorded in accounts payable, accrued expenses and other liabilities.

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

	September 30, 2020					
	Level 1			Level 2		
	Assets	Liabilities	Total	Assets	Liabilities	Total
Securities held in trust	$37,805	—	$37,805	—	—	—
Derivative Financial Instruments	—	—	—	$4,346	—	$4,346

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

As of September 30, 2020 and December 31, 2019, we did not have any Level 3 assets or liabilities that we measured at fair value on a recurring basis.

The fair value of our Derivative Financial Instruments are determined using market standard valuation methodologies using mid-market inputs that are observable in the market or that can be derived principally from or corroborated by observable market data (Level 2 in the fair value hierarchy) available to us as of September 30, 2020 and December 31, 2019. The pricing models may utilize, among other things, interest swap rates, interest rate volatility, and foreign currency forward and spot rates, as applicable. Analysis of the derivative valuations is performed, which includes both quantitative and qualitative analyses. Examples of procedures performed include, but are not limited to, obtaining third party valuations, reviewing internal calculations for reasonableness and review of changes in the market value for each derivative by accountants.

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

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

The following table presents assets measured at fair value (at the relevant measurement date) on a non-recurring basis during the nine months ended September 30, 2020 and the year ended December 31, 2019 and still held at period end *(In Thousands)*:

	September 30, 2020		December 31, 2019	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	$30,850	—	$265,150
Assets held for sale	—	—	$13,250	—
Total	—	$30,850	$13,250	$265,150

The fair value measurements of our aircraft and related assets may be based on the estimated sales price less selling costs (i.e., a market approach) based on Level 2 inputs, maintenance adjusted estimated values (i.e., a market approach) based on Level 3 inputs, or the present value of estimated future cash flows (i.e., an income approach) based on Level 3 inputs. We used the market or income approach for all assets measured at fair value on a non-recurring basis for the nine months ended September 30, 2020 and the year ended December 31, 2019.

For the nine months ended September 30, 2020 and 2019, impairments related to maintenance right assets and lease acquisition costs were $13.2 million and $9.2 million, respectively. These maintenance right assets and lease acquisition costs were measured at a fair value of zero, as there were no future contractual cash flows because of the termination of the related leases.

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

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

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

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, 2020, the following table presents the fair value as of the measurement date, the valuation technique and the related unobservable inputs *(In Thousands)*:

	Fair Value	Valuation Technique	Unobservable Input
Flight equipment held for lease, net	$30,850	Market Approach	Maintenance Adjusted Estimated Values

FINANCIAL ASSETS AND LIABILITIES

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

8. DERIVATIVE FINANCIAL INSTRUMENTS

The objective of our hedging policy is to mitigate risk 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 U.S. Dollars (USD) for different rental periods. We manage the interest rate and foreign currency exposure with respect to our rental payments and borrowings with Derivative Financial Instruments.

From time to time, we enter into foreign currency swaps that limit our exposure to foreign currency fluctuations in connection with the issuance of term loans denominated in Japanese yen (JPY) (Note 9). The JPY swap exchanges the three-month JPY LIBOR for the three-month USD LIBOR.

From time to time, we enter into interest rate derivatives to hedge the current and future interest rate payments on our floating rate debt financings. Interest rate derivatives are agreements in which a series of interest rate cash flows are exchanged with a third party over a prescribed period. The notional amount on an interest rate derivative is not exchanged. As of September 30, 2020, we do not have any outstanding interest rate swaps.

CASH FLOW HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

As required for all qualifying and highly effective cash flow hedges, the change in the fair value of the interest rate swap contracts were recorded in accumulated other comprehensive loss (AOCL). For the nine months ended September 30, 2019, we recorded a pre-tax unrealized loss of $0.2 million. We terminated all of our cash flow hedges in September 2019.

CONSOLIDATED FINANCIAL STATEMENT IMPACT

We determine the fair values (Note 7) 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 September 30, 2020 and December 31, 2019.

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

	September 30, 2020				
	Fair Value	Maturity Date	Pay Rate	Receive Rate	Notional
Foreign currency swap not designated as hedging	$4,346	July 2023	3M USD LIBOR	3M JPY LIBOR	$97,367

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

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

	Nine Months Ended September 30, 2020		
	Unrealized Loss Recognized In AOCL	Loss Amortized From AOCL Into Income (a)	Unrealized Gain Recognized In Income Due To Market Adjustments
Foreign currency swap not designated as hedging	—	—	$2,835

	Nine Months Ended September 30, 2019		
	Unrealized Loss Recognized In AOCL	Loss Amortized From AOCL Into Income (a)	Unrealized Loss Recognized In Income Due To Market Adjustments
Interest rate swaps designated as hedging	($228)	($1,077)	—
Interest rate swaps not designated as hedging	—	(1,457)	($448) (b)
Foreign currency swaps not designated as hedging	—	—	(6,235)
Unrealized loss on hedging and non-hedging Derivative Financial Instruments	($228)	($2,534)	($6,683)

(a) Represents the amortization of the loss of de-designated interest rate swaps from AOCL to income and the amortization into earnings from AOCL for terminated and de-designated cash flow hedges.

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

Credit risk arises from the potential failure of the counterparty to perform according to the terms of the derivative contract. Our exposure to credit risk at any point in time is represented by the fair value of the derivative contract reported as assets. Neither we nor our counterparty require collateral to support our current derivative contracts with credit risk. As of September 30, 2020, the counterparty to our derivative contracts was rated investment grade by Standard and Poor's, Moody's, and Fitch Ratings. A credit valuation analysis was performed for our derivative position to measure the risk that the counterparty to the transaction will be unable to perform under the contractual terms (nonperformance risk) and the risk was determined to be immaterial as of September 30, 2020.

As of September 30, 2020 and December 31, 2019, we had a foreign currency swap not designated as hedging with a fair value asset of $4.3 million and $1.5 million, respectively, which contained a termination event clause. Pursuant to the termination event clause, if there is a change in ownership and our financial strength ratings as assigned by certain independent rating agencies fall below a specified level, as defined within the International Swaps and Derivative Association (ISDA) master agreement, the counterparty could terminate the ISDA master agreement with payment due based on the fair value of the underlying derivative. As of September 30, 2020, no events have occurred that would trigger the termination event clause.

9. DEBT FINANCINGS, NET

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

	September 30, 2020					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$6,445,496	October 2020 - November 2027	0.9% - 7.1%	Fixed and Floating	Semi-Annual and Quarterly	USD
TC Term Loan	450,000	September 2025	1.3%	Floating	Quarterly	USD
Term loan	299,070	July 2023	0.3% - 1.3%	Floating	Quarterly	USD and JPY
Secured debt obligations:						
Secured loans	522,750	December 2020 - June 2028	0.5% - 3.6%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(50,785)					
Original issuance discounts	(28,196)					
Debt financings, net	$7,638,335					

	December 31, 2019					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$5,650,000	October 2020 - November 2027	2.6% - 7.1%	Fixed and Floating	Semi-Annual and Quarterly	USD
Commercial paper	704,000	January 2020 - February 2020	2.0% - 2.4%	Fixed	Various	USD
Term loan	295,585	July 2023	0.3% - 3.0%	Floating	Quarterly	USD and JPY
2019 Revolving Credit Facility	100,000	June 2024	2.7%	Floating	Monthly	USD
Secured debt obligations:						
Secured loans	447,535	August 2020 - November 2024	1.5% - 3.6%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(46,569)					
Original issuance discounts	(22,709)					
Debt financings, net	$7,127,842					

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 2020, we repurchased and retired $204.5 million of our 7.125% Senior Notes due October 2020 pursuant to a tender offer for such notes. In July 2020, we issued $1.0 billion of senior unsecured notes due December 2024 with a fixed interest rate of 5.50%.

In June 2019, we entered into a senior unsecured revolving credit agreement with a syndicate of lenders (the 2019 Revolving Credit Facility). The 2019 Revolving Credit Facility matures in June 2024 and has a total borrowing capacity of $2.0 billion. As of September 30, 2020 and December 31, 2019, zero and $100.0 million, respectively, was outstanding under the 2019 Revolving Credit Facility.

We have a $1.5 billion commercial paper program under which we may issue notes in minimum denominations of $250.0 thousand for periods ranging from one to 397 days. The 2019 Revolving Credit Facility serves as a backstop facility for our commercial paper program. As of September 30, 2020 and December 31, 2019, we had issued zero and $704.0 million, respectively, of commercial paper.

In June 2020, we established a revolving line of credit with Tokyo Century (the 2020 Revolving Credit Facility), which has a borrowing capacity of $600.0 million (or its equivalent in JPY) and an initial maturity of June 2023. Thereafter, the 2020 Revolving Credit Facility will automatically renew for additional one-year periods unless terminated by either party at least 60 days prior to the maturity date or then-current renewal date. As of September 30, 2020, we had not drawn any amounts available under the 2020 Revolving Credit Facility.

In September 2020, we entered into a $450.0 million unsecured term loan with Tokyo Century (the TC Term Loan). Tokyo Century, with the support of the Japan Bank for International Cooperation and other Japanese financial institutions, borrowed this debt capital on behalf of ACG and lent the proceeds to ACG via an intercompany loan. Interest on the TC Term Loan accrues at Tokyo Century's cost of funds under the underlying loan agreements plus 0.42% per annum. Principal amounts due under the TC Term Loan will be payable in installments beginning in December 2022, with the loan maturing in September 2025. As of September 30, 2020, $450.0 million was outstanding.

SECURED DEBT OBLIGATIONS

We enter into various secured loans guaranteed by Export Credit Agencies, some of which are financed through VIEs (Note 6). These loans are secured by our aircraft and are also guaranteed by ACG. As of September 30, 2020 and December 31, 2019, we had $333.0 million and $447.5 million, respectively, of secured loans guaranteed by Export Credit Agencies.

In March 2020, we entered into the $650.0 million AFS Facility in support of our AFS business. The AFS Facility includes an accordion option, which, if exercised, could increase the size of the AFS Facility to up to $1.0 billion. The AFS Facility contains an 18-month drawdown period, during which we can draw on the facility to fund our AFS Notes Receivable (Note 6). The AFS Notes Receivable will be secured by aircraft owned by the Borrowers and amortized over a period not to exceed 12 years from the date of drawing. The Borrowers will be able to elect either a fixed or floating interest rate, based on the benchmark rate. As of September 30, 2020, $189.8 million was outstanding and $452.7 million was available under the AFS Facility.

All of our outstanding debt as of September 30, 2020 is recourse only to ACG, and is not guaranteed by Tokyo Century.

As of September 30, 2020 and December 31, 2019, we were in compliance with all applicable debt covenants.

10. 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 aircraft we sold to third parties then leased back under operating leases (Note 3).

CAPITAL COMMITMENTS

We currently have unconditional purchase commitments for 128 aircraft scheduled for delivery through 2025. All of these commitments arise from fixed price purchase agreements with Boeing, Airbus and other third parties, and may include escalation provisions. Under certain circumstances, we have the right to alter the mix of aircraft types ultimately acquired. The manufacturers have informed us of delivery delays relating to certain aircraft and engines, including as a result of the Boeing MAX situation described below. The COVID-19 pandemic has also impacted aircraft manufacturers due to temporary closures of certain assembly and supplier facilities (Note 2). We are in active discussions with Boeing and Airbus to determine the estimated impact and duration of delivery delays given the recent adjustments to their production systems. Our leases contain lessee cancellation clauses related to aircraft delivery delays, typically for delays greater than one year. Our purchase agreements with Boeing and Airbus contain similar clauses.

In March 2019, the Federal Aviation Administration issued an order to suspend operations of all Boeing 737 MAX aircraft in the U.S. and by U.S. aircraft operators. Non-U.S. civil aviation authorities have also issued directives to similar effect. Boeing has suspended deliveries of the Boeing 737 MAX until clearance is granted by the appropriate regulatory authorities and we are unable to speculate as to when this may occur. Even after the clearance is granted, Boeing's ability to deliver 737 MAX aircraft may be impacted as a result of the COVID-19 pandemic (Note 2). As a result, we have incurred significant delays and expect to incur future delays on our scheduled Boeing 737 MAX deliveries. Prior to the grounding, we had delivered seven Boeing 737 MAX aircraft that are currently on lease to four airline customers and we are currently committed to take delivery of 72 Boeing 737 MAX aircraft. The commitment schedule below reflects our estimate of when the Boeing 737 MAX deliveries will resume.

The following table presents the estimated remaining payments for the purchase of aircraft as of November 5, 2020, including adjustments made subsequent to September 30, 2020 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2020	$300,048
2021	1,610,206
2022	2,074,499
2023	1,113,043
2024	693,152
Thereafter	286,518
Total	$6,077,466

We are currently in discussions with the manufacturers, which could result in further changes to the commitment table above.

As of September 30, 2020, deposits made related to our purchase agreements totaled $856.9 million and are included in prepayments on flight equipment.

GUARANTEES

In connection with our AFS program, we provide repayment guarantees for loans borrowed by airlines to finance new aircraft deliveries or to finance aircraft already owned by the airlines. These guarantees are limited to the borrower's failure to timely repay principal and interest on the amortizing senior secured loans to the lenders. The loans typically have a term of 12 years or less and may have a maximum term of up to 15 years. The loans are denominated in USD or Euros. In order to manage risk, we developed an internal credit rating model for airlines in our portfolio. Internal credit ratings are based on both quantitative and qualitative factors of the airlines and the environment in which they operate. These ratings may change, as new events occur and additional information is obtained. As of September 30, 2020 and December 31, 2019, the guarantee liability on our consolidated balance sheet was $6.2 million and $5.8 million, respectively, and is included in accounts payable, accrued expenses and other liabilities. As of September 30, 2020, if the borrowers default on the loans, our obligation and the estimated potential amount of future principal payments we could be required to make under the guarantees was $688.9 million; however, the loans are collateralized by the financed aircraft. Additionally, to the extent possible, the loans are cross-defaulted and cross-collateralized with other guaranteed aircraft loans and/or operating leases in our portfolio with that airline.

As of September 30, 2020, a borrower and lender under one of the loans guaranteed within our AFS program have entered into a deferral agreement whereby a portion of the principal payments on the loan are being deferred through 2021 and repaid in the subsequent four years. The borrower under this loan is current on its payments.

GENERAL

In the ordinary course of business, as part of contractual agreements, we provide certain indemnifications related to debt financings, aircraft acquisitions, aircraft dispositions, and other transactions. Historically we have not made payments for these types of indemnifications. There are currently no indemnifications from which a probable and reasonably estimable loss could arise. Therefore, as of September 30, 2020 and December 31, 2019, we have no related liabilities to disclose.

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

11. INCOME TAXES

For the nine months ended September 30, 2020 and 2019, our effective tax rate is 2.9% and (0.2%), respectively. The effective tax rates for the respective periods are based upon our expected annual tax expense and projected income for 2020 and 2019, as adjusted for discrete tax benefits. As a result of being an entity disregarded as separate from our owner for U.S. income tax purposes, we are not subject to U.S. federal or state income taxes. 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, 2020 and 2019 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.

12. 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, 2020 and December 31, 2019, we had a liability associated with these plans of $25.4 million and $23.8 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

13. RELATED PARTY TRANSACTIONS

In December 2019, TCSA purchased all of PLAH's and ACGHI's outstanding limited liability company interests in ACG LLC. Pacific Life provided certain services and subleased office space to ACG through the transaction closing date and we have an agreement with Pacific Life for related transition services, whereby Pacific Life will continue to provide certain support services for us for up to 18 months following the transaction closing date. For the nine months ended September 30, 2020, we paid Pacific Life $3.0 million for these transition services and subleased office space. For the nine months ended September 30, 2019 we reimbursed Pacific Life $49.6 million for expenses Pacific Life incurred on our behalf, primarily for the payment of employee compensation and benefits, and for other services. As a result of the purchase, certain liabilities were incurred, resulting in an adjustment to our member's equity of $29.4 million in 2019.

In 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 nine months ended September 30, 2020 and 2019, we received $2.4 million and $2.8 million, respectively, in fees for these services, which is included in other income.

In June 2020 and September 2020, we entered into the 2020 Revolving Credit Facility and the TC Term Loan, respectively, with Tokyo Century (Note 9).

14. SUBSEQUENT EVENTS

We have evaluated events subsequent to September 30, 2020 and through November 5, 2020, the date these consolidated financial statements were available to be issued, and have concluded that, except for the events noted in Note 2 and Note 10, no events or transactions have occurred subsequent to September 30, 2020 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.