

**AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES**

Unaudited Condensed Consolidated Financial Statements
as of March 31, 2023 and December 31, 2022 and
for the three months ended March 31, 2023 and 2022

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(In Thousands)</i>	March 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	\$116,202	\$200,479
Flight equipment held for lease, net	10,828,664	10,569,242
Assets held for sale	31,613	28,245
Prepayments on flight equipment	451,690	589,051
Notes receivable, net	557,233	520,484
Investment in finance leases, net	151,582	157,996
Other assets, net	265,326	301,750
TOTAL ASSETS	\$12,402,310	\$12,367,247
LIABILITIES AND EQUITY		
Liabilities:		
Debt financings, net	\$8,177,529	\$8,175,651
Maintenance reserves	566,136	535,670
Accounts payable, accrued expenses and other liabilities	252,330	246,267
Security deposits	142,651	140,568
TOTAL LIABILITIES	9,138,646	9,098,156
Commitments and contingencies (Note 11)		
Equity:		
Member's equity	3,263,664	3,269,091
TOTAL EQUITY	3,263,664	3,269,091
TOTAL LIABILITIES AND EQUITY	\$12,402,310	\$12,367,247

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

<i>(In Thousands)</i>	Three Months Ended March 31,	
	2023	2022
REVENUES		
Operating lease revenue	\$232,665	\$211,777
Amortization of lease incentives and premiums, net	(8,572)	(5,777)
Maintenance revenue	7,588	26,477
Gain on sale of flight equipment, net	1,430	1,236
Other income	24,527	13,790
TOTAL REVENUES	257,638	247,503
EXPENSES		
Depreciation	118,520	113,443
Interest, net	96,495	57,870
Asset impairment	270	112,208
Losses incurred from Russia exposure	—	388,583
Selling, general and administrative, net	28,341	34,392
TOTAL EXPENSES	243,626	706,496
Income (loss) before provision for income taxes	14,012	(458,993)
Provision for income taxes	15	131
NET INCOME (LOSS)	\$13,997	\$(459,124)

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

<i>(In Thousands)</i>	Total Equity
BALANCES, DECEMBER 31, 2021	\$3,857,701
Net loss	(459,124)
BALANCES, MARCH 31, 2022	\$3,398,577
BALANCES, DECEMBER 31, 2022	\$3,269,091
Cumulative effect due to adoption of new accounting standards	(19,424)
Net income	13,997
BALANCES, MARCH 31, 2023	\$3,263,664

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<i>(In Thousands)</i>	Three Months Ended March 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$13,997	\$(459,124)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	118,520	113,443
Asset impairment	270	112,208
Losses incurred from Russia exposure	—	388,583
Maintenance reserves, security deposits and lease incentives included in earnings	(120)	(18,124)
Amortization of debt acquisition costs and original issuance discounts	5,439	5,959
Amortization of lease incentives and premiums, net	8,572	5,777
Gain on sale of flight equipment, net	(1,430)	(1,236)
Other operating activities, net	(1,288)	(2,673)
Change in operating assets and liabilities	6,299	(678)
NET CASH PROVIDED BY OPERATING ACTIVITIES	150,259	144,135
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of flight equipment and related assets	(280,534)	(320,446)
Issuance of notes receivable	—	(133,889)
Prepayments on flight equipment	(14,335)	(126,518)
Proceeds from sale of flight equipment and related assets	9,180	31,229
Capitalized interest on prepayments on flight equipment	(3,688)	(2,597)
Receipts of notes receivable	10,276	—
Other investing activities, net	9,766	25,679
NET CASH USED IN INVESTING ACTIVITIES	(269,335)	(526,542)

(Continued)

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<i>(In Thousands)</i>	Three Months Ended March 31,	
	2023	2022
<i>(Continued)</i>		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt financings	\$300,000	\$132,782
Repayment of revolving credit facilities and commercial paper, net	(217,441)	(16,463)
Repayment of debt financings	(84,734)	(27,333)
Receipt of maintenance reserves, net of payments	32,617	15,777
Receipts of security deposits, net of payments	4,362	3,317
Other financing activities, net	(5)	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	34,799	108,080
Net change in cash and cash equivalents	(84,277)	(274,327)
Cash and cash equivalents, beginning of year	200,479	560,063
CASH AND CASH EQUIVALENTS, END OF PERIOD ⁽¹⁾	\$116,202	\$285,736
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	\$66,461	\$35,728
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	\$155,377	\$44,144

⁽¹⁾ Includes restricted cash of \$5.2 million and \$88.8 million as of March 31, 2023 and 2022, respectively.

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements (consolidated financial statements) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim reporting. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The information presented reflects all adjustments, consisting of normal recurring adjustments, that in the opinion of management, are necessary to fairly state the consolidated financial statements for the periods indicated. Statements of income (loss) 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, 2022 was derived from the audited consolidated financial statements as of December 31, 2022. 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, 2022.

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 2022 condensed consolidated balance sheets, consolidated statements of (loss) income, condensed consolidated statements of cash flows, and footnotes to conform to the 2023 presentation.

RISK AND UNCERTAINTIES

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

USE OF ESTIMATES

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

and complex decisions that are inherently uncertain and subject to material changes as facts and circumstances change.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments–Credit Losses (ASC 326), which, together with all subsequent amendments, replaces the incurred loss methodology with an expected loss methodology referred to as the current expected credit loss (CECL) methodology. The CECL methodology utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses and is based on historical loss information, current conditions, and reasonable and supportable forecasts. Our notes receivable, repayment guarantees, deferral and restructuring receivables, and investment in finance leases (collectively referred to herein as Guarantees and Financed Receivables) are the primary financial exposures within the scope of ASC 326. Our trade receivables related to aircraft operating leases are not within the scope of ASC 326.

On January 1, 2023, we adopted ASC 326 under a modified retrospective approach. Results for reporting periods after January 1, 2023 are presented under ASC 326, while prior period results are reported in accordance with the previously applicable U.S. GAAP. The cumulative effect of measuring the allowance for credit losses under the CECL methodology, as a result of adopting ASC 326 on January 1, 2023, was an increase to our allowances for credit losses of \$19.4 million and a corresponding decrease to member's equity for the same amount. As a result of adopting ASC 326, our allowance for credit losses will reflect our estimate of credit losses over the remaining expected life of the Guarantees and Financed Receivables measured at amortized cost. CECL provisions are recognized in our income statement within Selling, general and administrative expenses.

3. FLIGHT EQUIPMENT HELD FOR LEASE, NET

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

	March 31, 2023	December 31, 2022
Cost of flight equipment held for lease	\$13,823,140	\$13,479,535
Less: accumulated depreciation	(2,994,476)	(2,910,293)
Flight equipment held for lease, net	<u>\$10,828,664</u>	<u>\$10,569,242</u>

As of both March 31, 2023 and December 31, 2022, maintenance right assets of \$60.2 million were included in flight equipment held for lease, net.

As of March 31, 2023 and December 31, 2022, flight equipment held for lease, net, with carrying values of \$150.9 million and \$304.1 million, respectively, were pledged as collateral for our secured loans guaranteed by either the Export-Import Bank of the United States or the export credit agencies of the United Kingdom, France and/or Germany (collectively Export Credit Agencies).

The following table presents the future minimum lease rentals (inclusive of executed deferral and restructuring agreements) we are due under operating leases as of March 31, 2023 (*In Thousands*):

Years Ended December 31:	
Remainder of 2023	\$760,661
2024	933,210
2025	803,954
2026	718,905
2027	661,457
Thereafter	<u>2,429,158</u>
Total	<u>\$6,307,345</u>

RUSSIA - UKRAINE CONFLICT

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

operated by Russian airlines from entering certain airspace. We have complied and will continue to comply with all applicable sanctions. In compliance with the sanctions, we terminated all of our leasing activities in Russia and nine of our aircraft remain in Russia. As a result, we recorded losses for the full amount of our Russia exposure in 2022. Additional details relating to the Russia-Ukraine Conflict can be found in our 2022 annual financial statements.

Our lessees are required to provide insurance coverage with respect to leased aircraft and we are named as insureds under those policies in the event of a total loss of an aircraft. We also purchase insurance that provides us with coverage when our aircraft are not subject to a lease or when a lessee's policy fails to indemnify us. We have submitted insurance claims for the full net book value of our aircraft that remain in Russia, and in January 2023, we commenced legal proceedings in California against our insurance providers for damages in excess of \$700 million in connection with our losses relating to Russia. Insurance recoveries are generally recognized when they are realized or realizable, which typically occurs at the time cash proceeds are received or a claim agreement is executed, while taking into consideration the counterparty's ability to pay the claim amount. We intend to continue to pursue remedies for the losses incurred by us; however, the timing and amount of any potential recoveries are uncertain and we have not recognized any claim receivables as of March 31, 2023.

ASSET IMPAIRMENT

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

For the three months ended March 31, 2023 and 2022, impairments related to flight equipment held for lease, net and lease related assets were \$0.3 million and \$112.2 million, respectively. Impairment amounts may be derived from maintenance adjusted estimated values, estimated sale prices, and/or present value of estimated future cash flows (Note 9).

4. NOTES RECEIVABLE, NET

Notes receivable, net primarily consist of loans made by us to third-party airlines through our AFS program. The AFS notes receivable are secured by aircraft purchased with the proceeds of such loans. The loans are carried at cost, net of principal paydowns and deferred fees. Fees generated on the loans are deferred and amortized over the life of the notes and included as offsets to notes receivable, net. Interest income on performing notes is accrued, recognized at the contractual rate and included in other income.

Our notes receivable credit exposure reflects the risk that the borrowers fail to meet their payment obligations. We record our notes receivable net of an allowance for credit losses. We recorded an allowance for credit losses on outstanding notes receivable upon the adoption of ASC 326, and we will record an allowance in the future at the initial recognition of a note receivable. Our methodology for calculating the allowance for credit losses is described in Note 6 and is based on our estimate of expected credit losses over the loan term.

As of March 31, 2023 and December 31, 2022, the carrying value of our notes receivable, net of deferred fees and allowance for credit losses, was \$557.2 million and \$520.5 million, respectively. The notes receivable mature between 2025 and 2039.

5. INVESTMENT IN FINANCE LEASES, NET

If a lease meets specific criteria at lease commencement or at the effective date of a lease modification, we recognize the lease as a direct financing lease or a sales type lease, both of which are considered finance leases. Our net investment in finance leases consists of the lease receivable and the estimated unguaranteed residual value of the leased flight equipment at lease-end, less unearned income.

Our credit exposure related to finance leases reflects the risk that our finance lease customers fail to meet their payment obligations and the risk that the aircraft value is less than the unguaranteed residual value assumed in the investment in finance leases calculation. We record our investment in finance leases net of an allowance for credit losses. We recorded an allowance for credit losses on our outstanding investment in finance leases, net, upon the adoption of ASC 326, and we will record an allowance in the future at the initial recognition of a finance lease. Our methodology for calculating the allowance for credit losses is described in Note 6 and is based on our estimate of expected credit losses over the lease term.

As of March 31, 2023, our investment in finance leases, net, represents 17 aircraft on lease to two customers. As of March 31, 2023 and December 31, 2022, 100% of our investment in finance leases, net by carrying value were operated in the U.S. The following table presents the components of investment in finance leases, net (*In Thousands*):

	March 31, 2023	December 31, 2022
Total future minimum lease payments	\$115,947	\$124,143
Estimated unguaranteed residual value	67,561	67,561
Less: unearned income	(30,987)	(33,708)
Less: allowance for credit losses	(939)	—
Investment in finance leases, net	<u>\$151,582</u>	<u>\$157,996</u>

The following table presents the future minimum lease payments that we are due under finance leases as of March 31, 2023 (*In Thousands*):

Years Ended December 31:

Remainder of 2023	\$24,527
2024	32,662
2025	30,315
2026	21,075
2027	2,160
Total	<u>5,208</u>
	<u>\$115,947</u>

6. CREDIT LOSSES

We are exposed to credit losses on our Guarantees and Financed Receivables. Substantially all of our Guarantees and Financed Receivables are collateralized by rights to an aircraft or cash collateral, including letters of credit, collected in the form of security deposits or maintenance reserves. We estimate the expected risk of loss over the remaining life of our Guarantees and Financed Receivables using a probability of default and net exposure analysis using historical information, current conditions, and reasonable and supportable forecasts. The probability of default is based on historical cumulative default data published by a third-party servicer, adjusted for current conditions, of similarly risk-rated counterparties over the contractual term. The net exposure is estimated based on the Guarantees and Financed Receivables balance exposure, net of the estimated aircraft value and other cash collateral over the contractual term.

As it relates to our notes receivable, repayment guarantees and investment in finance leases, the expected loss provision for each individual contractual exposure is calculated by multiplying the probability of default by the net exposure over the contractual term. We then determine the present value of the expected loss amount over the contractual term. The discount rate used is equal to the financial asset's effective interest rate. Credit exposure related to our investment in finance leases reflects the risk that our finance lease lessees fail to meet their payment obligations and the risk that the aircraft value is less than the unguaranteed residual value assumed in the investment in finance leases calculation.

Our deferral and restructuring receivables credit exposure reflects the risk that our customers fail to meet their payment obligations. An allowance for credit losses was recorded upon the adoption of ASC 326 and will be recorded at the inception of any new deferral or restructuring receivable and is based on our estimate of expected credit losses over the lease term. We record our deferral and restructuring receivables in Other Assets, net and net of an allowance for credit losses.

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. The frequency of rating updates is established by our credit risk policy, which requires periodic monitoring and at least an annual review. The latest credit rating review was performed for the period ending March 31, 2023. Our internal risk ratings process is an important source of information in determining our allowance for credit losses related to deferral and restructuring receivables.

The following table presents the movements in the allowance for credit losses during the three months ended March 31, 2023 (*In Thousands*):

	Deferral and Restructuring Receivables	Notes Receivable	Loan Guarantees	Investment in Finance Leases, net	Total
December 31, 2022 allowance for credit losses	\$—	\$—	\$—	\$—	\$—
Cumulative effect due to adoption of ASC 326	15,767	1,945	703	1,009	19,424
Current period provision for expected losses	—	(61)	(124)	(70)	(255)
March 31, 2023 allowance for credit losses	\$15,767	\$1,884	\$579	\$939	\$19,169

7. GEOGRAPHIC CONCENTRATION

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

	March 31, 2023		December 31, 2022	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Central America, South America, and Mexico	\$2,360,646	21.7 %	\$2,226,908	21.0 %
Europe	2,128,341	19.6 %	2,008,218	19.0 %
Asia Pacific (excluding China and South Asia)	1,977,601	18.2 %	2,095,346	19.8 %
China	1,463,066	13.5 %	1,425,426	13.5 %
United States and Canada	1,377,329	12.7 %	1,115,253	10.5 %
Middle East and Africa	671,656	6.2 %	679,042	6.4 %
South Asia	335,497	3.0 %	415,417	3.9 %
Sub-total	10,314,136	94.9 %	9,965,610	94.1 %
Aircraft in transition subject to a signed lease or sales commitment	475,627	4.4 %	567,452	5.4 %
Aircraft on ground not subject to a signed lease or sales commitment	70,514	0.7 %	64,425	0.5 %
Total	\$10,860,277	100.0 %	\$10,597,487	100.0 %

As of March 31, 2023 and December 31, 2022, no individual lessee accounted for more than 10% of our aircraft portfolio. As of both March 31, 2023 and December 31, 2022, China accounted for 13.5% of our aircraft portfolio while no other country accounted for more than 10%.

The following table presents the global concentration of our operating lease revenue, calculated consistent with the revenue recognition policy described in Note 2 of our 2022 annual financial statements, and inclusive of executed deferral, restructuring and settlement agreements, based on the lessee's location (*In Thousands*):

	Three Months Ended March 31,			
	2023		2022	
Region:	Operating Lease Revenue	Percent of Total	Operating Lease Revenue	Percent of Total
Asia Pacific (excluding China and South Asia)	\$56,326	24.2 %	\$39,936	18.9 %
Europe	45,055	19.4 %	32,938	15.6 %
Central America, South America, and Mexico	44,449	19.1 %	36,740	17.3 %
United States and Canada	35,245	15.1 %	32,904	15.5 %
China	25,827	11.1 %	39,703	18.7 %
Middle East and Africa	16,004	6.9 %	16,331	7.8 %
South Asia	9,759	4.2 %	13,225	6.2 %
Operating lease revenue	\$232,665	100.0 %	\$211,777	100.0 %

For the three months ended March 31, 2023 and 2022, no individual lessee accounted for more than 10% of our operating lease revenue after adjusting for deferred lease rental payments from cash-basis lessees. For the three months ended March 31, 2023, the U.S. and China accounted for 12.2% and 11.1% of our operating lease revenue, respectively. For the three months ended March 31, 2022, China and the U.S. accounted for 18.7% and 12.5% of our operating lease revenue, respectively. No other individual country accounted for more than 10% of our operating lease revenue for the three months ended March 31, 2023 and 2022.

8. VARIABLE INTEREST ENTITIES

In connection with certain of our financing structures, we have participated in the design and formation of certain special purpose vehicles (SPVs). The purpose of these SPVs is to enable the lenders and guarantors under these financing structures to perfect their security interest in certain aircraft that secure the related debt financings.

The SPVs have entered into secured loans with us, third parties, and/or financial institutions that are primarily guaranteed by ACG and in some cases supported by secondary guarantees from an Export Credit Agency. The SPVs use the proceeds from these loans to purchase aircraft. The aircraft secure the loans and are leased, pursuant to capital leases, to an airline or to us. For loans in which ACG does not act as the lender, the loans are recourse to our general credit through ACG guarantees that are in place. These SPVs are considered VIEs because they do not have sufficient equity at risk.

In cases where we are the counter-party to the capital lease, we bear significant risk of loss and participate in gains through the leases, and we have the power to direct the activities that most significantly impact the economic performance of these SPVs. Currently, all of the SPVs in which we are the counter-party to the capital lease involve financing structures with Export Credit Agencies. 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 the SPVs that are related to these financing structures involving Export Credit Agencies and considered VIEs as of March 31, 2023 and December 31, 2022 was \$150.9 million and \$211.4 million, respectively, and is included in flight equipment held for lease, net (Note 3). In addition, as of March 31, 2023 and December 31, 2022, there was \$29.3 million and \$42.0 million, respectively, outstanding under the debt financings associated with these legal entities, which is included in debt financings, net (Note 10).

In cases where we are not the counter-party to the capital lease, we do not have the power to direct the activities that most significantly impact the economic performance of the SPVs. Therefore, we have determined that we are not the primary beneficiary of these SPVs and do not consolidate them into our consolidated financial statements.

The carrying value of the AFS notes receivable owed to us by these non-consolidated SPVs as of March 31, 2023 and December 31, 2022 was \$544.1 million and \$505.4 million, respectively, which approximated its fair value at such dates, and is included in notes receivable, net. In addition, as of March 31, 2023 and December 31, 2022, there was \$415.1 million and \$423.6 million, respectively, outstanding under the debt financings associated with these non-consolidated SPVs, which is included in debt financings, net (Note 10). Our maximum exposure to loss approximates the carrying value of the AFS notes receivable.

9. 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

As of March 31, 2023 and December 31, 2022, we did not have any material assets or liabilities that we measured at fair value on a recurring basis.

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

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

The following table presents assets measured at fair value (at the relevant measurement date) on a non-recurring basis during the three months ended March 31, 2023 and the year ended December 31, 2022 and still held at period end (*In Thousands*):

	March 31,		December 31,	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	—	—	—	\$189,684
Assets held for sale	\$14,080	—	\$14,350	—
Total	\$14,080	—	\$14,350	\$189,684

The fair value measurements of our aircraft and related assets may be based on the estimated sales price less selling costs (i.e., a market approach) based on Level 2 inputs, maintenance adjusted estimated values (i.e., a market approach) based on Level 3 inputs, or the present value of estimated future cash flows (i.e., an income approach) based on Level 3 inputs. We used the market or income approach

for all assets measured at fair value on a non-recurring basis during the three months ended March 31, 2023 and the year ended December 31, 2022.

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

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

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

For the three months ended March 31, 2023, we did not have any flight equipment held for lease measured at fair value on a non-recurring basis using Level 3 inputs.

10. DEBT FINANCINGS, NET

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

	March 31, 2023					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	\$5,000,000	May 2023 - November 2027	2.0%-5.5%	Fixed	Semi-Annual	USD
Term Loans	2,097,000	July 2023- December 2029	5.3%-6.8%	Floating	Quarterly and Semi-Annual	USD
Commercial paper	490,000	April 2023	5.7%	Fixed	Various	USD
Term Loans denominated in JPY	80,875	July 2023	0.3%	Floating	Quarterly	JPY
Secured debt obligations:						
Secured loans	560,255	May 2024 - February 2034	1.5%-6.4%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(33,028)					
Original issuance discounts	(17,573)					
Debt financings, net	<u>\$8,177,529</u>					

	Carrying Amount	Maturity Date	December 31, 2022			
			Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	\$5,000,000	May 2023 - November 2027	2.0%-5.5%	Fixed	Semi-Annual	USD
Term Loans	1,834,500	July 2023- December 2027	4.7%-6.1%	Floating	Quarterly	USD
Commercial paper	607,441	January 2023	5.0%-5.4%	Fixed	Various	USD
2019 Revolving Credit Facility	100,000	June 2026	5.7%	Floating	Monthly	USD
Term Loans denominated in JPY	81,387	July 2023	0.3%	Floating	Quarterly	JPY
Secured debt obligations:						
Secured loans	607,488	November 2023 - February 2034	1.5%-5.9%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(35,721)					
Original issuance discounts	(19,444)					
Debt financings, net	<u>\$8,175,651</u>					

SENIOR UNSECURED NOTES

As of both March 31, 2023 and December 31, 2022, we had \$5.0 billion in senior unsecured notes outstanding (Senior Notes). These notes are issued in reliance on Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended. In April 2023, we issued an additional \$600 million of Senior Notes due April 2028 with a fixed interest rate of 6.25%.

UNSECURED REVOLVING CREDIT FACILITIES

In June 2019, we entered into a senior unsecured revolving credit agreement with a syndicate of lenders (as amended, the 2019 Revolving Credit Facility). As of March 31, 2023, the aggregate borrowing capacity under the 2019 Revolving Credit Facility was approximately \$2.7 billion, with revolving commitments totaling approximately \$2.2 billion that mature in June 2026, approximately \$0.2 billion that mature in June 2025 and \$0.3 billion that mature in June 2024. Borrowings under the 2019 Revolving Credit Facility bear interest at either (i) adjusted term SOFR or adjusted daily simple SOFR plus a margin determined by reference to the credit ratings for our debt or (ii) an alternative base rate. As of March 31, 2023 and December 31, 2022, zero and \$100.0 million, respectively, was outstanding under the 2019 Revolving Credit Facility. The 2019 Revolving Credit Facility serves as a backstop for our commercial paper program.

In June 2020, we established a revolving line of credit with Tokyo Century, which was amended and restated in March 2023 (as amended, the TC Revolving Credit Facility) (Note 14). The TC Revolving Credit Facility has a borrowing capacity of \$1.2 billion (or its equivalent in JPY) and an initial maturity of March 2024. Thereafter, the TC Revolving Credit Facility will automatically renew for additional one-year periods unless terminated by either party at least 60 days prior to the maturity date or then-current renewal date. As of March 31, 2023 and December 31, 2022, we had not drawn any amounts available under the TC Revolving Credit Facility.

COMMERCIAL PAPER PROGRAM

We have a \$1.5 billion commercial paper program under which we may issue notes in minimum denominations of \$250 thousand for periods ranging from one to 397 days. As of March 31, 2023 and December 31, 2022, we had commercial paper outstanding in the amount of \$490.0 million and \$607.4 million, respectively.

UNSECURED TERM LOANS

In June 2018, we entered into a dual tranche senior unsecured term loan (2018 Term Loan) that includes a \$197.0 million USD tranche and a 10.8 billion JPY tranche. The USD tranche bears interest at a floating rate based on three-month USD LIBOR (with a floor of 0%) plus 1.0% per annum, and the JPY tranche bears interest at a floating rate based on three-month TONA with a spread of 0.31% per annum. The 2018 Term Loan matures in July 2023. As of March 31, 2023 and December 31, 2022, \$277.9 million and \$278.3 million, respectively, was outstanding under the 2018 Term Loan.

In September 2020, we entered into a \$450.0 million unsecured term loan with Tokyo Century (TC Term Loan). Tokyo Century, with the support of the Japan Bank for International Cooperation (JBIC) and other Japanese financial institutions, borrowed this capital on behalf of ACG and lent the proceeds to ACG via an intercompany loan. Principal amounts due under the TC Term Loan are paid in installments that began in December 2022, and the final maturity is in September 2025. As of March 31, 2023 and December 31, 2022, \$375.0 million and \$412.5 million, respectively, was outstanding under this loan.

In December 2020, we entered into a \$500.0 million senior unsecured term loan with Mizuho Bank, Ltd. that is guaranteed by Tokyo Century and insured by Nippon Export and Investment Insurance (the NEXI Term Loan). The NEXI Term Loan matures in December 2023. As of both March 31, 2023 and December 31, 2022, \$500.0 million was outstanding under the NEXI Term Loan.

In July 2022, we entered into a three-year senior unsecured term loan with a syndicate of lenders (2022-1 Term Loan), with initial commitments of \$375.0 million and the ability to increase the commitments by up to an additional \$300.0 million in the aggregate. In September 2022, we increased the commitments to \$425.0 million. As of both March 31, 2023 and December 31, 2022, \$425.0 million was outstanding under this loan.

In December 2022, we entered into a five-year senior unsecured term loan with certain lenders (2022-2 Term Loan), with initial commitments of \$300.0 million and the ability to increase the aggregate commitments by up to an additional \$50.0 million. This loan is guaranteed by Tokyo Century, and principal amounts due will be payable in installments beginning in March 2025, with final maturity in December 2027. As of both March 31, 2023 and December 31, 2022, \$300 million was outstanding under this loan.

In December 2022, we entered into a seven-year senior unsecured term loan with JBIC that is guaranteed by Tokyo Century (JBIC Term Loan). We drew the full \$300.0 million of commitments available under this loan in January 2023. Principal amounts due under the JBIC Term Loan will be payable in installments beginning in December 2024, with final maturity in December 2029. As of March 31, 2023 and December 31, 2022, \$300 million and zero was outstanding under this loan.

In April and May 2023, we entered into interest rate swaps to hedge our interest rate payments on the 2022-2 Term Loan and the JBIC Term Loan.

SECURED DEBT OBLIGATIONS

We enter into various secured loans guaranteed by Export Credit Agencies, some of which are financed through VIEs (Note 8). These loans are secured by the financed aircraft and are also guaranteed by ACG. As of March 31, 2023 and December 31, 2022, we had \$29.3 million and \$65.9 million, respectively, of secured loans guaranteed by Export Credit Agencies.

In March 2020, we entered into a \$650.0 million secured credit facility (AFS Facility) to provide loans for the benefit of airlines in connection with our AFS business. During the drawdown period, we were able to draw on the facility to fund certain AFS notes receivable (Note 2). These AFS notes receivable are secured by aircraft purchased from the proceeds of such loans by the AFS borrowers, and the rights to these aircraft are also pledged to the ACG borrower under the AFS Facility. As of March 31, 2023 and December 31, 2022, \$415.1 million and \$423.6 million, respectively, was outstanding under the AFS Facility. No additional amounts may be borrowed under the AFS Facility.

In November 2022, we became the obligor under a term loan that had originally been made to a Russian airline in connection with our AFS program and for which we had provided a repayment guarantee (Note 3). When we became the obligor, the unpaid principal amount outstanding was \$120.0 million. This loan is secured by the financed aircraft, which is located in Russia, so we are not currently able to take possession of it. Principal amounts due under this loan are payable in installments, with final maturity in February 2034. As of March 31, 2023 and December 31, 2022, we had \$115.9 million and \$118.0 million, respectively, outstanding under this loan.

Except as noted above, our outstanding debt as of March 31, 2023 is recourse only to ACG, and is not guaranteed by Tokyo Century.

As of March 31, 2023 and December 31, 2022 we were in compliance with all applicable debt covenants.

11. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

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

CAPITAL COMMITMENTS

As of March 31, 2023, we have unconditional purchase commitments for 128 aircraft scheduled for delivery through 2028. All of these commitments arise from fixed price purchase agreements with Boeing, Airbus and other third parties, and may include escalation provisions. Under certain circumstances, we have the right to alter the mix of aircraft types ultimately acquired. The manufacturers have informed us of expected delivery delays relating to certain aircraft, including as a result of disruption in their production systems. We remain in active discussions with Boeing and Airbus to determine the estimated impact and duration of continued delivery delays given the recent adjustments to their production systems. The commitment schedule below reflects our estimate of when the Boeing and Airbus deliveries will occur. Our leases contain lessee cancellation clauses related to aircraft delivery delays, typically for delays greater than one year. Our purchase agreements with Boeing and Airbus contain similar clauses.

The following table presents the estimated remaining payments for the purchase of aircraft as of March 31, 2023 (*In Thousands*):

Years Ended December 31:

Remainder of 2023	\$1,465,512
2024	1,320,765
2025	919,974
2026	1,324,875
2027	879,820
Thereafter	861,155
Total	<u>\$6,772,101</u>

As of March 31, 2023, deposits made related to our purchase agreements totaled \$337.9 million and are included in prepayments on flight equipment.

In addition, as of March 31, 2023, we had the right to purchase additional aircraft by confirming our order positions with the original equipment manufacturer (OEM) prior to delivery. The potential commitment associated with these order positions is approximately \$750 million with scheduled deliveries through 2025.

GUARANTEES

In connection with our AFS program, we provide repayment guarantees for loans for the benefit of airlines to finance new aircraft deliveries or to finance aircraft already owned by the airlines. These guarantees are limited to the borrower's failure to timely repay principal and interest on the amortizing senior secured loans to the third-party lenders. The guaranteed loans are collateralized by the financed aircraft and typically have a term of 12 years or less with a maximum term of up to 15 years. The guaranteed loans are denominated in USD or Euros. As of March 31, 2023 and December 31, 2022, the guarantee liability on our consolidated balance sheet was \$7.0 million and \$6.3 million, respectively, and is included in accounts payable, accrued expenses and other liabilities.

As of March 31, 2023, if all of the airlines under our AFS program defaulted on their ACG guaranteed loans, our obligation and the estimated potential amount of future principal payments we could be required to make to third party lenders under the guarantees was \$522.5 million. However, the guaranteed loans are collateralized by the financed aircraft and, to the extent possible, the guaranteed loans are cross-defaulted and cross-collateralized with other guaranteed aircraft loans and/or operating leases in our portfolio with that airline.

Our exposure related to repayment guarantees reflects the risk that the borrowers fail to meet their payment obligations. We record the allowance for credit losses related to our repayment guarantees in accounts payable, accrued expenses and other liabilities. We recorded an allowance for credit losses upon the adoption of ASC 326, and we will record in the future at the initial recognition of a repayment guarantee. Our methodology for calculating the allowance for credit losses is described in Note 6 and is based on our estimate of expected credit losses over the term of the guaranteed loan.

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

GENERAL

In the ordinary course of business, as part of contractual agreements, we provide certain indemnifications related to debt financings, aircraft acquisitions, aircraft dispositions, and other transactions. Historically, we have not made payments for these types of

indemnifications. There are currently no indemnifications from which a probable and reasonably estimable loss could arise. Therefore, as of March 31, 2023 and December 31, 2022, we had no related liabilities to disclose.

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

12. INCOME TAXES

For the three months ended March 31, 2023 and 2022, our effective tax rates were 0.11% and (0.03%), respectively. The effective tax rates for the respective periods are based upon our expected annual tax expense and projected income for 2022 and 2021, as adjusted for discrete tax items. We are a disregarded entity for U.S. tax purposes and not subject to federal income tax. Instead, our sole member, TCSA, is responsible for income taxes on our U.S. federal and state taxable income. Therefore, our annual effective tax rate is primarily driven by the operations of our foreign entities that remain subject to tax in their local jurisdiction.

The effective tax rates for the three months ended March 31, 2023 and 2022 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.

13. EMPLOYEE BENEFITS

We have defined contribution plans for our employees, including a retirement incentive savings plan, a deferred compensation plan and a supplemental executive retirement plan. As of March 31, 2023 and December 31, 2022, we had a liability associated with these plans of \$14.8 million and \$16.3 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

14. RELATED PARTY TRANSACTIONS

We have a servicing agreement with Tokyo Century to provide certain aircraft related management services for specified aircraft in Tokyo Century's fleet which expires in 2024.

We have entered into the TC Revolving Credit Facility and the TC Term Loan directly with Tokyo Century, and Tokyo Century also serves as guarantor for our NEXI Term Loan, 2022-2 Term Loan and JBIC Term Loan (Note 10). In the ordinary course of business, we have entered into certain transactions with an affiliate of Tokyo Century, including engaging with the affiliate to provide certain aircraft maintenance and related services to us. All transactions with the affiliate are entered into at arm's length.

15. SUBSEQUENT EVENTS

We have evaluated events subsequent to March 31, 2023 and through May 16, 2023, the date these consolidated financial statements were available to be issued, and have concluded that, except for the events noted in Note 10, no events or transactions have occurred subsequent to March 31, 2023 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.