AVIATION CAPITAL GROUP LLC
AND SUBSIDIARIES

Unaudited Condensed Consolidated Financial Statements
as of June 30, 2024 and December 31, 2023 and
for the six months ended June 30, 2024 and 2023

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands)	June 30, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents	$76,256	$79,446
Flight equipment held for lease, net	10,692,351	11,131,387
Assets held for sale	1,033,236	332,152
Prepayments on flight equipment	694,434	606,973
Notes receivable, net	347,262	354,928
Investment in finance leases, net	143,861	134,766
Other assets, net	218,001	220,293
TOTAL ASSETS	$13,205,401	$12,859,945
LIABILITIES AND EQUITY		
Liabilities:		
Debt financings, net	$8,714,502	$8,462,976
Maintenance reserves	572,723	547,095
Accounts payable, accrued expenses and other liabilities	307,596	300,930
Security deposits	145,452	137,365
TOTAL LIABILITIES	9,740,273	9,448,366
Commitments and contingencies (Note 10)		
Equity:		
Member's equity	3,450,947	3,402,435
Accumulated other comprehensive income	14,181	9,144
TOTAL EQUITY	3,465,128	3,411,579
TOTAL LIABILITIES AND EQUITY	$13,205,401	$12,859,945

See Notes to Condensed Consolidated Financial Statements

Aviation Capital Group LLC and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Six Months Ended June 30,	
(In Thousands)	2024	2023
REVENUES		
Operating lease revenue	$535,725	$490,337
Amortization of lease incentives and premiums, net	(24,678)	(17,341)
Maintenance revenue	24,146	25,142
Gain on sale of flight equipment, net	20,514	2,322
Other income	33,330	53,624
TOTAL REVENUES	589,037	554,084
EXPENSES		
Depreciation	246,950	241,339
Interest, net	208,236	199,561
Asset impairment	5,186	6,432
Selling, general and administrative, net	76,316	61,909
TOTAL EXPENSES	536,688	509,241
Income before provision for income taxes	52,349	44,843
Provision for income taxes	3,837	215
NET INCOME	48,512	44,628
OTHER COMPREHENSIVE INCOME		
Change in fair value of interest rate swap contracts	5,037	14,298
TOTAL OTHER COMPREHENSIVE INCOME	5,037	14,298
TOTAL COMPREHENSIVE INCOME	$53,549	$58,926

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In Thousands)	Member's Equity	Accumulated Other Comprehensive Income	Total Equity
BALANCES, DECEMBER 31, 2022	**$3,269,091**	**—**	**$3,269,091**
Cumulative effect due to adoption of new accounting standards	(19,424)	—	(19,424)
Net income	44,628	—	44,628
Other comprehensive income	—	14,298	14,298
BALANCES, JUNE 30, 2023	**$3,294,295**	**$14,298**	**$3,308,593**
BALANCES, DECEMBER 31, 2023	**$3,402,435**	**$9,144**	**$3,411,579**
Net income	48,512	—	48,512
Other comprehensive income	—	5,037	5,037
BALANCES, JUNE 30, 2024	**$3,450,947**	**$14,181**	**$3,465,128**

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)	Six Months Ended June 30, 2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$48,512	$44,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	246,950	241,339
Asset impairment	5,186	6,432
Maintenance reserves, security deposits and lease incentives included in earnings	(17,410)	(20,511)
Amortization of lease incentives and premiums, net	24,678	17,341
Amortization of debt acquisition costs and original issuance discounts	11,421	10,704
Gain on sale of flight equipment, net	(20,514)	(2,322)
Other operating activities, net	(3,033)	(2,519)
Change in other assets	5,269	23,375
Change in accounts payable, accrued expenses, and other liabilities	(35,201)	(18,384)
NET CASH PROVIDED BY OPERATING ACTIVITIES	265,858	300,083
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of flight equipment and related assets	(787,447)	(686,001)
Proceeds from sale of flight equipment and related assets	313,759	64,108
Prepayments on flight equipment	(135,910)	(143,424)
Receipts of notes receivable	17,411	58,593
Capitalized interest on prepayments on flight equipment	(13,627)	(7,619)
Issuance of notes receivable	(10,377)	—
Other investing activities, net	32,428	14,037
NET CASH USED IN INVESTING ACTIVITIES	(583,763)	(700,306)

(Continued)

See Notes to Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)	Six Months Ended June 30, 2024	2023
(Continued)		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt financings	$945,476	$1,588,554
Repayment of debt financings	(404,489)	(823,170)
Repayment of revolving credit facilities and commercial paper, net	(293,350)	(217,441)
Receipts of maintenance reserves, net of payments	59,525	65,938
Receipts of security deposits, net of payments	14,956	11,445
Other financing activities, net	(7,403)	(10,021)
NET CASH PROVIDED BY FINANCING ACTIVITIES	314,715	615,305
Net change in cash and cash equivalents	(3,190)	215,082
Cash and cash equivalents, beginning of year	79,446	200,479
CASH AND CASH EQUIVALENTS, END OF PERIOD [1]	$76,256	$415,561
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid, net of capitalized interest	$207,070	$173,312
Non cash transfer from prepayments on flight equipment to flight equipment held for lease, net	$60,687	$264,487

(1) Includes restricted cash of $1.3 million and $5.2 million as of June 30, 2024 and 2023, respectively.

See Notes to Condensed Consolidated Financial Statements

1. ORGANIZATION

Aviation Capital Group LLC, a Delaware limited liability company (ACG LLC), together with its subsidiaries (collectively ACG, we, us, or our) is a full service aircraft asset manager. Our business consists primarily of the acquisition, leasing, and disposition 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. The condensed consolidated 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, 2023 was derived from the audited consolidated financial statements as of December 31, 2023. 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, 2023.

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 2023 condensed consolidated statements of income and comprehensive income, and footnotes to conform to the 2024 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 counterparty'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, guarantee reserves, and allowance for credit losses. 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.

3. FLIGHT EQUIPMENT HELD FOR LEASE, NET

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

	June 30, 2024	December 31, 2023
Cost of flight equipment held for lease	$13,701,995	$14,272,162
Less: accumulated depreciation	(3,009,644)	(3,140,775)
Flight equipment held for lease, net	$10,692,351	$11,131,387

As of June 30, 2024 and December 31, 2023, maintenance right assets of $64.1 million and $59.5 million, respectively, were included in flight equipment held for lease, net.

As of June 30, 2024 and December 31, 2023, flight equipment held for lease, net, with carrying values of $113.8 million and $144.9 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 or ECAs) (Note 9).

The following table presents the future minimum lease rentals (inclusive of executed deferral and restructuring agreements) we are due under operating leases as of June 30, 2024 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2024	$536,345
2025	1,008,233
2026	925,638
2027	864,397
2028	803,020
Thereafter	2,776,787
Total	$6,914,420

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 during fiscal year 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 June 30, 2024.

ASSET IMPAIRMENT

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

For the six months ended June 30, 2024 and 2023, impairments related to flight equipment held for lease, net and lease related assets were $5.2 million and $6.4 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 8).

4. 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 (collectively finance leases). At the inception of the lease agreement, a sales-type lease includes a profit or loss equal to the difference between the fair value of the aircraft and our carrying value. In a direct financing lease, any profit or loss between the fair value of the aircraft and the carrying value is deferred and recognized as interest income over the lease term.

We have credit exposure related to finance leases that 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 recorded an allowance for credit losses on our outstanding investment in finance leases, net, upon the adoption of Accounting Standards Codification (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 5 and is based on our estimate of expected credit losses over the lease term and the risk that the aircraft value is less than the unguaranteed residual value at lease end.

As of June 30, 2024, our investment in finance leases, net, represents 18 aircraft on lease to three customers. As of June 30, 2024 and December 31, 2023, 100% of our investment in finance leases, net by carrying value were operated in the United States and Canada. The following table presents the components of investment in finance leases, net *(In Thousands)*:

	June 30, 2024	December 31, 2023
Total future minimum lease payments	$103,287	$91,420
Estimated unguaranteed residual value	67,561	67,561
Less: unearned income	(26,185)	(23,446)
Less: allowance for credit losses	(802)	(769)
Investment in finance leases, net	$143,861	$134,766

The following table presents the future minimum lease payments that we are due under finance leases as of June 30, 2024 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2024	$17,624
2025	33,831
2026	24,591
2027	5,676
2028	5,676
Thereafter	15,889
Total	$103,287

5. CREDIT LOSSES

We are exposed to credit losses on our notes receivable, repayment guarantees, investment in finance leases, and deferral and restructuring receivables (collectively referred to herein as 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 such expected loss amount over the contractual term using a discount rate 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.

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. 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 tables present the movements in the allowance for credit losses during the six months ended June 30, 2024 and 2023 *(In Thousands)*:

	June 30, 2024				
	Deferral and Restructuring Receivables	Notes Receivable, net	Repayment Guarantees	Investment in Finance Leases, net	Total
December 31, 2023 allowance for credit losses	$—	$525	$468	$769	$1,762
Current period provision for expected losses	11	1,287	(468)	33	863
June 30, 2024 allowance for credit losses	$11	$1,812	$—	$802	$2,625

	June 30, 2023				
	Deferral and Restructuring Receivables	Notes Receivable, net	Repayment 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	64	(266)	(205)	(137)	(544)
Write-offs charged against allowance	(15,767)	—	—	—	(15,767)
June 30, 2023 allowance for credit losses	$64	$1,679	$498	$872	$3,113

6. 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)*:

	June 30, 2024		December 31, 2023	
	Net Book Value	Percent of Total	Net Book Value	Percent of Total
Region:				
Europe	$2,845,020	24.3 %	$2,582,308	22.5 %
Central America, South America, and Mexico	2,580,505	22.0 %	2,444,177	21.3 %
Asia Pacific (excluding China)	1,989,931	17.0 %	1,887,129	16.5 %
United States and Canada	1,939,491	16.5 %	1,871,799	16.3 %
China	1,175,801	10.0 %	1,367,155	11.9 %
Middle East and Africa	789,772	6.7 %	795,680	7.0 %
Sub-total	11,320,520	96.5 %	10,948,248	95.5 %
Aircraft on ground not subject to a signed lease or sales commitment	234,218	2.0 %	217,258	1.9 %
Aircraft in transition subject to a signed lease or sales commitment	170,849	1.5 %	298,033	2.6 %
Total	$11,725,587	100.0 %	$11,463,539	100.0 %

As of June 30, 2024 and December 31, 2023, no individual lessee accounted for more than 10% of our aircraft portfolio. As of June 30, 2024, the U.S. and China accounted for 12.9% and 10.0%, respectively, of our aircraft portfolio. As of December 31, 2023, the U.S. and China accounted for 13.2% and 11.9%, respectively, of our aircraft portfolio. No other individual country accounted for more than 10% of our aircraft portfolio as of June 30, 2024 or December 31, 2023.

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 2023 annual financial statements and inclusive of executed deferral, restructuring and settlement agreements, based on the lessee's location *(In Thousands)*:

	Six Months Ended June 30,			
	2024		2023	
	Operating Lease Revenue	Percent of Total	Operating Lease Revenue	Percent of Total
Region:				
Europe	$119,387	22.3 %	$94,707	19.3 %
Asia Pacific (excluding China)	118,895	22.2 %	126,029	25.7 %
Central America, South America, and Mexico	109,620	20.5 %	88,705	18.1 %
United States and Canada	85,555	16.0 %	77,993	15.9 %
China	66,996	12.5 %	70,655	14.4 %
Middle East and Africa	35,272	6.5 %	32,248	6.6 %
Operating lease revenue	$535,725	100.0 %	$490,337	100.0 %

For the six months ended June 30, 2024 and 2023, 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 six months ended June 30, 2024, the U.S. and China accounted for 12.6% and 12.5% of our operating lease revenue, respectively. For the six months ended June 30, 2023, China and the U.S. accounted for 14.4% and 12.7% of our operating lease revenue, respectively. No other individual country accounted for more than 10% of our operating lease revenue, after adjusting for deferred lease rental payments from cash-basis lessees, for the six months ended June 30, 2024 or 2023.

7. 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 SPVs and consolidate them into our consolidated financial statements as VIEs.

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 June 30, 2024 and December 31, 2023 was $113.8 million and $144.9 million, respectively, and is included in flight equipment held for lease, net (Note 3). In addition, as of June 30, 2024 and December 31, 2023, there was $6.5 million and $15.7 million, respectively, outstanding under the debt financings associated with these legal entities, which is included in debt financings, net (Note 9).

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. Currently, all of the SPVs in which we are not the counterparty to the capital lease involve financing structures relating to our AFS program. 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 net carrying value of the AFS notes receivable owed to us by these non-consolidated SPVs as of June 30, 2024 and December 31, 2023 was $333.1 million and $347.9 million, respectively, which approximated its fair value at such dates, and is included in notes receivable, net. In addition, as of June 30, 2024 and December 31, 2023, there was $339.0 million and $355.0 million, respectively, outstanding under the debt financings associated with these non-consolidated SPVs, which is included in debt financings, net (Note 9). Our maximum exposure to loss approximates the net carrying value of the AFS notes receivable.

8. FAIR VALUE

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

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

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

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

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

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

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

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The objective of our hedging policy is to mitigate risk with respect to changes in interest rates and foreign currencies. We have entered into several interest rate swap contracts designed to hedge current and future interest rate payments on some of our floating rate debt financings, and we have designated these swaps as hedging. We have previously entered into foreign currency swaps to hedge exposure with respect to foreign currency fluctuations in connection with term loans we borrowed that were denominated in a foreign currency. As of June 30, 2024, we do not have any foreign currency exposure in connection with our outstanding debt financings.

Interest rate swap contracts 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 swap contract is not exchanged. Interest rate swap contracts allow us to pay fixed amounts based on fixed interest rates and receive floating amounts based on SOFR rates, which converts our floating rate debt to fixed rate obligations to better match the largely fixed rate cash flows we receive from our rental payments.

As required for all qualifying and effective cash flow hedges, the change in fair value of the interest rate swap contracts is recorded in other comprehensive income (OCI). During the six months ended June 30, 2024 and 2023, we recorded a pre-tax unrealized gain of $5.0 million and $14.3 million, respectively, in OCI. During the six months ended June 30, 2024, our hedged forecasted transactions were determined to be probable of occurring.

No amounts were reclassified from accumulated other comprehensive income (AOCI) to earnings resulting from the discontinuance of cash flow hedges due to forecasted cash flows that were no longer probable of occurring for the six months ended June 30, 2024. Over the next twelve months, we do not anticipate that any unrealized gains on derivative instruments in AOCI will be reclassified to earnings.

The fair value of the interest rate swap contracts is determined using market standard valuation methodologies using mid-market inputs that are observable in the market or that can be derived principally from or corroborated by observable market data (Level 2 in the fair value hierarchy) available to us as of June 30, 2024. The pricing models may utilize, among other things, relevant forward and spot rates. Analysis of the swap valuation is performed, which includes both quantitative and qualitative analyses. Examples of procedures performed include, but are not limited to, obtaining third party valuations, reviewing internal calculations for reasonableness and review of changes in the market value of the derivative by accountants.

Credit risk arises from the potential failure of the counterparty to perform according to the terms of the swap contracts. Our exposure to credit risk at any point in time is represented by the fair value of the swap contracts when reported as an asset. Neither we nor our counterparty require collateral to support our swap contracts. As of June 30, 2024, the counterparties to our swap contracts were each rated investment grade by Standard and Poor’s, Moody's, and Fitch Ratings. A credit valuation analysis was performed for our positions to measure the risk that the counterparty to each transaction will be unable to perform under the contractual terms (nonperformance risk) and the risk was determined to be immaterial as of June 30, 2024.

Our swap contracts contain certain termination event clauses, including termination events related to specified changes in our ownership. If any such event occurs, our counterparty could choose to terminate the relevant swap contract with payment due based on the fair value of the underlying derivative. As of June 30, 2024, no such termination events have occurred.

We fund certain deferred compensation obligations to meet funding obligations to employee participants. The assets are held in a trust and are subject to the claims of ACG's general creditors under federal and state laws in the event of insolvency. The assets held in the trust are valued using inputs observable in active markets for identical investments. 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. These assets are included as securities in the following table.

We have received corporate securities from certain airlines as part of a bankruptcy settlement and as part of a restructuring agreement. The corporate securities are valued using inputs observable in active markets for identical securities and are included in other assets, net. The realized and unrealized holding gains and losses related to these investments are recorded in other income.

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

	Level	June 30, 2024	December 31, 2023
Securities and short-term investments	1	$18,408	$33,801
Interest rate swaps	2	$14,181	$9,144

As of June 30, 2024 and December 31, 2023, we did not have any material Level 3 assets or liabilities that we measured at fair value on a recurring basis.

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

We test for impairment by measuring 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 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.

The following table presents assets measured at fair value (at the relevant measurement date) on a non-recurring basis for the six months ended June 30, 2024 and the year ended December 31, 2023 and still held at period end *(In Thousands):*

	June 30, 2024		December 31, 2023	
	Level 2	Level 3	Level 2	Level 3
Flight equipment held for lease, net	$21,623	$—	$—	$—
Assets held for sale	269,570	—	—	—
Investment in finance leases, net	27,330	—	—	—
Total	$318,523	$—	$—	$—

We used the market approach for all assets measured at fair value on a non-recurring basis during the six months ended June 30, 2024. We used the market or income approach for all assets measured at fair value on a non-recurring basis during the year ended December 31, 2023.

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.

Current contractual lease payments are future payments that third parties are contractually obligated to pay us 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. 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 six months ended June 30, 2024, we did not measure any flight equipment held for lease at fair value on a non-recurring basis using Level 3 inputs.

9. DEBT FINANCINGS, NET

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

	June 30, 2024					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$6,250,000	December 2024 - July 2030	2.0%-6.8%	Fixed	Semi-Annual	USD
Term Loans	1,562,500	July 2025- December 2029	5.7%-7.3%	Floating	Monthly, Quarterly, and Semi-Annual	USD
Commercial paper	516,900	July 2024	5.8%-5.9%	Fixed	Various	USD
Secured debt obligations:						
Secured loans	450,727	August 2024 - February 2034	1.5%-6.8%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(39,893)					
Original issuance discounts	(25,732)					
Debt financings, net	$8,714,502					

	December 31, 2023					
	Carrying Amount	Maturity Date	Interest Rate	Type	Interest Period	Currency
Unsecured debt obligations:						
Senior Notes	$5,950,000	January 2024 - July 2030	2.0%-6.8%	Fixed	Semi-Annually	USD
Term Loans	1,287,500	July 2025 - December 2029	5.8%-7.3%	Floating	Monthly, Quarterly, and Semi-Annually	USD
Commercial paper	810,250	January 2024 - February 2024	5.9%-6.1%	Fixed	Various	USD
Secured debt obligations:						
Secured loans	480,215	May 2024 - February 2034	1.5%-6.8%	Fixed and Floating	Quarterly	USD
Debt acquisition costs	(39,262)					
Original issuance discounts	(25,727)					
Debt financings, net	$8,462,976					

SENIOR UNSECURED NOTES

In June 2024, we issued $600 million of senior unsecured notes (Senior Notes) due July 2029 with a fixed interest rate of 5.375%.

As of June 30, 2024 and December 31, 2023, we had $6.3 billion and $6.0 billion, respectively, in Senior Notes outstanding. These notes are issued in reliance on Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended.

UNSECURED REVOLVING CREDIT FACILITIES

In June 2019, we entered into a senior unsecured revolving credit agreement with a syndicate of lenders (as amended, the Revolving Credit Facility). In June 2024, we extended the final maturity date of the Revolving Credit Facility from June 2027 to June 2028. As of June 30, 2024, the aggregate borrowing capacity under the Revolving Credit Facility was approximately $2.4 billion, with revolving commitments totaling approximately $2.1 billion that mature in June 2028, $0.1 billion that mature in June 2026 and $0.2 billion that mature in June 2025. Borrowings under the Revolving Credit Facility bear interest at either (i) adjusted term SOFR plus a margin determined by reference to the credit ratings for our debt or (ii) an alternative base rate. As of both June 30, 2024 and December 31, 2023, no amounts were outstanding under the Revolving Credit Facility. The 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 December 2023 (as amended, the TC Revolving Credit Facility). The TC Revolving Credit Facility has a borrowing capacity of $1.2 billion (or its equivalent in JPY) and an initial maturity of December 31, 2025. On December 31, 2024 and December 31 of each subsequent year, the TC Revolving Credit Facility will automatically extend for an additional twelve month period unless either party notifies the other party of its intent not to so extend the facility prior to November 1 of the same year. As of June 30, 2024 and December 31, 2023, 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 June 30, 2024 and December 31, 2023, we had commercial paper outstanding in the amount of $516.9 million and $810.3 million, respectively.

UNSECURED TERM LOANS

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 June 30, 2024 and December 31, 2023, $187.5 million and $262.5 million, respectively, was outstanding under this 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 with the final maturity in July 2025. In September 2022, we increased the commitments to $425.0 million. As of both June 30, 2024 and December 31, 2023, $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 June 30, 2024 and December 31, 2023, $300.0 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 both June 30, 2024 and December 31, 2023, $300.0 million was outstanding under this loan.

In February 2024, we entered into a four-year senior unsecured term loan with BNP Paribas (acting through its Tokyo Branch) acting as agent for a syndicate of lenders from time to time party thereto (the “2024 Term Loan”). We drew the full $350.0 million of commitments available under this loan in February 2024. The 2024 Term Loan matures in February 2028 and bears interest at term SOFR plus an applicable margin. As of June 30, 2024 and December 31, 2023, $350.0 million and zero, respectively, was outstanding under this loan.

SECURED DEBT OBLIGATIONS

At times, we enter into secured loans guaranteed by ECAs, some of which are financed through VIEs (Note 7). These loans are secured by the financed aircraft and are also guaranteed by ACG. As of June 30, 2024, our outstanding loans guaranteed by ECAs had final maturities between August 2024 and November 2024. As of June 30, 2024 and December 31, 2023, $6.5 million and $15.7 million, respectively, was outstanding under our secured loans guaranteed by ECAs. In July 2024, we entered into two new secured loans guaranteed by an ECA with an aggregate principal amount of $104.3 million. Such loans were financed through wholly owned subsidiaries of ACG LLC, and the final maturity of each loan is in April 2036. Flight equipment held for lease, net, with a net book value of $127.8 million was pledged as collateral for these secured loans.

In March 2020, we entered into a $650.0 million secured credit facility (AFS I 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. Amounts borrowed under the AFS I Facility are secured by the rights of the ACG borrower in the collateral that secures the notes receivable, including the aircraft financed from the proceeds of such loans. As of June 30, 2024 and December 31, 2023, $339.0 million and $355.0 million, respectively, was outstanding under the AFS I Facility pursuant to individual loans maturing between September 2032 and January 2034. No additional amounts may be borrowed under the AFS I Facility.

In July 2023, we entered into a second secured credit facility (AFS II Facility), primarily to provide loans in connection with our AFS business. The AFS II Facility has an initial size of $500.0 million and an accordion option which, if exercised during the availability period, could increase the size of the facility to up to $1.0 billion. The availability period expires in July 2026 and any amounts repaid during the availability period can be re-borrowed. During the availability period, we can use amounts borrowed under the AFS II Facility (i) by on-lending such funds to airlines to finance aircraft, or (ii) to finance aircraft owned by ACG (through a special purpose entity (SPE)) and leased to airlines via operating leases. Amounts lent by the ACG borrower to airlines or an ACG SPE will be secured by liens over the aircraft financed with such funds. Loans made under the AFS II Facility will be secured by the rights of the ACG borrower in the collateral that secures the loan to the airline or the ACG SPE, including the aircraft financed from the proceeds of such loan. Amounts drawn under the AFS II Facility will be amortized over the repayment period for such loan, with final maturity of the AFS II Facility in July 2030. As of June 30, 2024, $500.0 million is available under the AFS II Facility and no amounts have been drawn. As of both June 30, 2024 and December 31, 2023, no amounts were outstanding under the AFS II 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. 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 June 30, 2024 and December 31, 2023, we had $105.2 million and $109.5 million, respectively, outstanding under this loan.

Except as noted above, our outstanding debt as of June 30, 2024 is recourse only to ACG and is not guaranteed by Tokyo Century.

As of June 30, 2024 and December 31, 2023, we were in compliance with all applicable debt covenants.

10. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

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

CAPITAL COMMITMENTS

As of June 30, 2024, we had unconditional purchase commitments for 112 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 original equipment manufacturers (OEM) 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.

In July 2024, we finalized an order for 35 737 MAX aircraft that are scheduled to deliver through 2031. These commitments are not included in the table below.

The following table presents the estimated remaining payments for the purchase of aircraft as of June 30, 2024 *(In Thousands)*:

Years Ended December 31:	
Remainder of 2024	$622,939
2025	1,066,354
2026	1,717,287
2027	1,532,550
2028	963,647
Thereafter	—
Total	$5,902,777

As of June 30, 2024, deposits made related to our purchase agreements totaled $627.5 million and are included in prepayments on flight equipment.

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 June 30, 2024 and December 31, 2023, the guarantee liability on our consolidated balance sheet was $7.8 million and $8.3 million, respectively, and is included in accounts payable, accrued expenses and other liabilities.

As of June 30, 2024, 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 $591.7 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 5 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 June 30, 2024 and December 31, 2023, 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.

11. INCOME TAXES

For the six months ended June 30, 2024 and 2023, our effective tax rates were 7.33% and 0.48%, respectively. The effective tax rates for the respective periods are based upon our expected annual tax expense and projected income for 2024 and 2023, 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 six months ended June 30, 2024 and 2023 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.

We have recorded valuation allowances to reduce deferred tax assets held by ACG Aircraft Leasing Ireland Ltd. (AALIL) and Aviation Capital Group Singapore Pte. Ltd., both of which are wholly owned subsidiaries of ACG LLC, to the extent we believe it is more likely than not that a portion of such assets will not be realized. In making such determinations, we considered all available positive and negative evidence and determined that a valuation allowance should be recorded against our deferred tax assets, net of deferred tax liabilities, based on our three-year cumulative loss in each applicable entity.

In October 2021, the Organization for Economic Cooperation and Development (OECD) reached agreement among various countries to implement a minimum fifteen percent tax rate on certain multinational enterprises, commonly referred to as Pillar Two. On December 15, 2022, the Council of the EU formally adopted Directive 2022/2523 to achieve a coordinated implementation of Pillar Two in EU Member

States consistent with EU law. On December 18, 2023, the president of Ireland signed Finance (No. 2) Bill 2023 which includes implementation of the 15% Pillar Two global minimum tax. The Pillar Two legislation became effective January 1, 2024. As of June 30, 2024, we do not expect these changes to have a material impact on our financial position; however, we will continue to evaluate the impact as further information becomes available.

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 June 30, 2024 and December 31, 2023, we had a liability associated with these plans of $15.0 million and $14.6 million, respectively, which is included in accounts payable, accrued expenses and other liabilities.

13. 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 2027. 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.

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 2022-2 Term Loan and JBIC Term Loan (Note 9).

14. SUBSEQUENT EVENTS

We have evaluated events subsequent to June 30, 2024 and through August 13, 2024, the date these consolidated financial statements were available to be issued, and have concluded that, except for the events noted in Note 9 and Note 10, no events or transactions have occurred subsequent to June 30, 2024 that require consideration as adjustments to, or disclosures in, the consolidated financial statements.