Castlelake Aviation Limited and Subsidiaries

Consolidated Financial Statements

For the year ended December 31, 2023 and December 31, 2022
With Report of Independent Auditors

Castlelake Aviation Limited and Subsidiaries

Consolidated Financial Statements
For the year ended December 31, 2023 and December 31, 2022

TABLE OF CONTENTS

Report of Independent Auditors

To the Board of Directors and Shareholders of Castlelake Aviation Limited

Opinion

We have audited the consolidated financial statements of Castlelake Aviation Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended December 31, 2023 and 2022, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group at December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Group and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Building a better
working world

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young

Ernst & Young
Dublin, Ireland
March 21, 2024

Castlelake Aviation Limited and Subsidiaries
Consolidated Balance Sheets
(U.S. dollars in thousands)

	Notes	December 31, 2023	December 31, 2022
Assets			
Cash and cash equivalents	3	$ 120,386	$ 131,073
Restricted cash	3	-	1,094
Trade receivables	9	9,828	10,196
Flight equipment held for operating leases, net	4	3,384,672	2,811,775
Maintenance right and lease premium, net	5	276,498	305,930
Net investment in finance lease	6	330,380	288,472
Other assets	7	22,725	13,793
Loan assets	8	795,675	400,365
Derivative assets	14	69,455	96,787
Deferred tax assets	15	34,213	42,819
Total Assets		**$ 5,043,832**	**$ 4,102,304**
Liabilities and Equity			
Accounts payable and accrued liabilities		$ 7,069	$ 4,428
Deferred rental income		22,083	12,706
Security deposits		41,122	26,906
Accrued maintenance liabilities	11	49,415	68,454
Derivative liabilities	14	15,342	4,661
Deferred tax liabilities	15	41,295	45,345
Debt	10	3,506,085	2,705,653
Total Liabilities		**3,682,411**	**2,868,153**
Ordinary share capital, $0.01 par value: 5,000,000 shares authorized, 1,159,709 shares and 1,060,062 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively		11	11
Additional paid-in capital		1,188,803	1,100,803
Accumulated retained earnings		111,797	39,737
Accumulated other comprehensive income		60,810	93,600
Total Equity		**1,361,421**	**1,234,151**
Total Liabilities and Equity		**$ 5,043,832**	**$ 4,102,304**

The accompanying notes are an integral part of these consolidated financial statements.

Castlelake Aviation Limited and Subsidiaries
Consolidated Income Statements
(U.S. dollars in thousands)

	Notes		For the year ended December 31, 2023		For the year ended December 31, 2022
Revenues and Other Income					
Rental income from operating and finance leases	12	$	380,529	$	255,868
Interest and other income	13		67,161		26,014
Gain on transfer to investment in finance lease			2,896		4,792
Gain on disposal of aircraft			18,554		-
Total Revenues and Other Income			**469,140**		**286,674**
Expenses					
Interest expense	10		191,826		114,972
Depreciation	4		146,894		108,391
Maintenance and other costs			7,741		6,981
Selling, general and administrative expenses			41,447		22,751
Total Expenses			**387,908**		**253,095**
Net income before income tax expense			81,232		33,579
Income tax expense	15		(9,172)		(22,380)
Net Income		**$**	**72,060**	**$**	**11,199**

The accompanying notes are an integral part of these consolidated financial statements.

Castlelake Aviation Limited and Subsidiaries
Consolidated Statements of Comprehensive Income
(U.S. dollars in thousands)

	Notes		For the year ended December 31, 2023		For the year ended December 31, 2022
Net income		$	72,060	$	11,199
Other comprehensive income:					
Net unrealized gain/(loss) on derivatives, net of tax	14		(32,790)		94,930
Total Comprehensive Income		**$**	**39,270**	**$**	**106,129**

The accompanying notes are an integral part of these consolidated financial statements.

Castlelake Aviation Limited and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(U.S. dollars in thousands)

	Number of ordinary shares issued	Ordinary share capital	Additional paid-in capital	Accumulated retained earnings	Accumulated other comprehensive (loss)/income	Total
Balance at December 31, 2021	**812,814**	**$ 8**	**$ 812,806**	**$ 28,538**	**$ (1,330)**	**$ 840,022**
Net change	247,248	3	287,997	11,199	94,930	394,129
Balance at December 31, 2022	**1,060,062**	**$ 11**	**$1,100,803**	**$ 39,737**	**$ 93,600**	**$ 1,234,151**
Net change	99,647	-	88,000	72,060	(32,790)	127,270
Balance at December 31, 2023	**1,159,709**	**$ 11**	**$1,188,803**	**$ 111,797**	**$ 60,810**	**$ 1,361,421**

The accompanying notes are an integral part of these consolidated financial statements.

Castlelake Aviation Limited and Subsidiaries
Consolidated Statements of Cash Flows
(U.S. dollars in thousands)

	Notes	For the year ended December 31, 2023	For the year ended December 31, 2022
Cash Flows from Operating Activities:			
Net income activities:		$ 72,060	$ 11,199
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	4	146,894	108,391
Amortisation of debt issuance cost	10	13,794	9,082
Lease premium amortisation	12	14,724	17,029
Collection of finance leases	6	130,092	22,058
Collection of loan assets	8	148,470	900
Gain on transfer to investment in finance lease	6	(2,896)	(4,792)
Gain on disposal of aircraft	4	(18,554)	-
Changes in assets and liabilities			
Receivables	9	368	623
Other asset	7/14	(8,395)	-
Loan assets	8	(1,781)	-
Deferred tax asset	15	8,606	13,985
Deferred tax liability	15	(4,050)	21,658
Income tax effect on derivatives		4,684	(13,371)
Accounts payable		2,643	(1,461)
Accrued liabilities	10	1,467	-
Deferred rental income		9,377	2,959
Net cash provided by operating activities		517,503	188,260
Cash Flows from Investing Activities:			
Purchase of aircraft on operating lease	4/5	(971,555)	(926,133)
Purchase of aircraft on finance lease	6	-	(187,620)
Cash paid for loan assets	8	(542,000)	(271,631)
Cash received for aircraft disposals		115,923	-
Net cash used in investing activities		(1,397,632)	(1,385,384)
Cash Flows from Financing Activities:			
Net cash received from borrowings	10	1,961,974	910,339
Repayment of borrowings	10	(1,153,779)	(52,087)
Net increase in security deposits		14,216	3,257
Net (decrease)/increase in maintenance reserves	11	(19,039)	29,627
Proceeds from issuance of shares		88,000	288,000
Debt issuance costs	10	(23,024)	(6,164)
Net cash provided by financing activities		868,348	1,172,972
Net decrease in Cash, Cash Equivalents and Restricted Cash		(11,781)	(24,152)
Cash, Cash Equivalents and Restricted Cash at Beginning of year		132,167	156,319
Cash, Cash Equivalents and Restricted Cash at End of year		$ 120,386	$ 132,167
Supplemental Cash Flow Information:			
Cash paid for interest expense		$ 177,617	$ 103,247

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – Organization

Castlelake Aviation Limited (the "Company") is incorporated in the Cayman Islands and is tax resident in the Republic of Ireland. The Company was incorporated on August 6, 2021 for the purpose of acquiring, marketing, leasing and selling newer generation and mid-life commercial aircraft and providing other aircraft financing solutions to its airline customers. Castlelake Aviation LLC, a company wholly owned by affiliates of Castlelake, L.P. ("Castlelake"), is the sole shareholder of the Company.

The Company, Castlelake Aviation Finance Designated Activity Company ("CAF DAC"), a direct wholly owned subsidiary of the Company, and CAF DAC's subsidiaries collectively comprise (the "CA Group"). As of December 31, 2023, there were 120 assets (December 31, 2022: 96 assets) in the CA Group's portfolio, consisting of 92 aircraft on operating lease (2022: 78), 9 aircraft and aircraft engines on finance lease (2022: 9) and 19 secured loan assets (2022: 9). These assets have been financed by a number of term loans, a Revolving Credit Facility and a High Yield Bond (as outlined in Note 10).

Note 2 – Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements and the supporting notes have been prepared on a going concern basis in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The CA Group consolidates all companies in which the CA Group has control under Accounting Standards Codification ("ASC") 810. All inter group balances and transactions with consolidated subsidiaries have been eliminated. The results of consolidated entities are included from the effective date of control. The results of subsidiaries sold or otherwise deconsolidated are excluded from the date that the CA Group ceases to control the subsidiary.

Loan receivables that were included as part of "Other assets" line item in the face of the prior period consolidated balance sheet were reclassified and presented separately as "Loan assets" to conform with the current presentation to allow for consistent reporting.

The consolidated financial statements are stated in U.S. dollars, which is the functional and reporting currency of the CA Group.

Going Concern

The CA Group relies on lessees' continued performance of their lease obligations. The ability of each lessee to perform its obligations under its lease will depend primarily on such lessee's financial condition and cash flow, which may be affected by factors beyond the CA Group's control. The Directors continue to have a reasonable expectation that the CA Group has adequate resources to continue in operation for at least the next 12 months from the date of approval of the financial statements based on the future cash flow analysis using contracted revenues, forecasted maintenance receipts and payments, debt obligations, capital commitments and current cash positions and that the going concern basis of preparation remains appropriate for the preparation of the financial statements as of December 31, 2023.

Note 2 – Summary of Significant Accounting Policies (continued)

Judgments and Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires the Directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. While the Directors believe that the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

The most significant estimates are those in relation to the residual value and useful economic lives of flight equipment held for operating leases, the impairment of flight equipment held for operating leases, the proportion of supplemental maintenance rent that will not be reimbursed, the valuation allowance recognized against deferred tax assets, the recoverability of trade receivables and deferred operating lease revenue, the recoverability of loan assets and key assumptions about the likelihood and magnitude of an outflow of resources for commitments and contingent liabilities.

The estimates and underlying assumptions are reviewed by the Directors on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash comprises cash held by the CA Group which is reserved or used as security for specific financing arrangements, and to which the CA Group does not have access for immediate or general business use.

Trade Receivables

Trade receivables represent unpaid lessee obligations under existing lease contracts. Trade receivables are secured by security deposits or letters of credit held on behalf of airline customers. Any allowance for doubtful accounts is established on a specific identification basis and is maintained at a level believed by management to be adequate to absorb probable losses associated with trade receivables.

Note 2 – Summary of Significant Accounting Policies (continued)

Trade Receivables (continued)

The assessment of credit risk is primarily based on the extent to which amounts outstanding exceed the value of security held, the financial strength and condition of a debtor and the current economic and regulatory conditions of the debtor's operating environment. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows and consideration of current factors and economic trends impacting the lessees and their credit worthiness, all of which may be susceptible to significant change.

Uncollectible rent receivables are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is recorded based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

A lessee is placed on non-accrual status once it is no longer probable that the CA Group will receive the economic benefits of the lease. Revenue from a lessee on non-accrual status is recognized to the extent cash is received. As at December 31, 2023 and December 31,2022, no lessees were on non-accrual status.

Amounts are considered past due if they are owed past the contractual due date. Receivables are considered delinquent where the cash flows from a customer are not expected to the meet the contractual cash flows or where there is no reasonable expectation of receiving it, either in its entirety or a portion thereof. Write-offs will be charged where there is no reasonable expectation of the recovery of the receivable, either in its entirety or a part thereof. Considerations for evaluating a potential write-off include, but are not limited to;

- Changes in a lessee's financial position such that the lessee can no longer pay the obligation; and
- Changes indicating security will not be sufficient to pay the obligation.

Investment in Finance Leases

If a lease meets specific criteria under U.S. GAAP, the CA Group recognize the lease as an investment in finance lease. The asset is considered sold for accounting purposes, so the aircraft is derecognized (including the maintenance rights asset and net lease premium) and the net investment in the lease, which represents the present value of minimum lease payments (including the unguaranteed residual value of the aircraft) is recorded in the Consolidated Balance Sheets. The difference between the net investment in the lease and the minimum lease payments (including the unguaranteed residual value) is recorded as unearned interest income. Also, under a sales-type lease, an immediate gain or loss on sale of aircraft is recognized representing the difference between the fair value of an asset subject to lease and the carrying value of the aircraft (including the maintenance rights asset and net lease premium). Interest on finance leases is recognized using the effective interest method. Lease income is recorded in decreasing amounts over the term of the contract, resulting in a constant rate of return on the net investment in finance leases.

Note 2 – Summary of Significant Accounting Policies (continued)

Flight Equipment Held for Operating Leases, Net

Flight equipment are recorded at cost, less accumulated depreciation and impairment. Flight equipment are depreciated on a straight-line basis over their estimated useful lives to their estimated residual values. Generally, aircraft and equipment are depreciated over estimated useful lives of 25 years from the date of manufacture for widebody and narrowbody aircraft. Freighter aircraft are depreciated over estimated useful lives of 35 years from the date of manufacture to an estimated residual value. In addition, the useful lives of the aircraft are extended to the end of the lease term in situations where the lease term exceeds the useful life of the aircraft.

The useful lives or the estimated residual values may be revised subject to the periodic re-evaluation of matters affecting specific aircraft or the aircraft industry in general. Initial direct costs incurred as part of the acquisition of flight equipment held for operating leases such as costs associated with identifying, negotiating, and delivering aircraft to the CA Group's lessees, which are specific to each aircraft, are capitalized at cost and depreciated over the estimated useful life of the asset. Modifications or improvements to flight equipment held for operating leases are normally expensed. Where such modifications or improvements materially improve the value of the asset or extend its useful life, these are capitalized and depreciated over the remaining economic life of the asset. The CA Group's estimates are reviewed periodically to ensure continued appropriateness.

Aircraft are periodically reviewed for impairment in accordance with (ASC 360-10). The recognition of an impairment loss for an asset held for use is required when the estimate of undiscounted future cash flows expected to be generated by the asset is less than its carrying amount (net book value). Undiscounted future cash flows consist of cash flows from currently contracted leases, future projected lease cash flows, and an estimated disposition value, as appropriate, for each aircraft. Measurement of an impairment loss is to be recognized based on the amount by which the carrying amount (net book value) of an asset exceeds the fair value of the asset. The fair value reflects underlying economic value of the aircraft, which includes the appraisers' opinion of most likely trading prices that maybe generated by the aircraft under assumed current market circumstances.

Security Deposits

Security deposits on leased aircraft are generally paid by the lessee on the execution of the lease and are non-refundable during the term of the lease. The amounts are held as a security for the timely and faithful performance by the lessee of its obligations during the lease and are included on the Consolidated Balance Sheets. Security deposits are refundable to the lessees, based on the terms of the various aircraft lease agreements. The deposit may be applied against amounts owing from the lessee for rent or returned to the lessee on the termination of the lease. Security may also be held in the form or a letter of credit obtained by the lessee. Security deposits are also held for aircraft being sold and are generally paid by the purchaser on the execution of the sale agreement. Security deposits on assets that being sold are refundable to the purchaser's based on the terms of the various aircraft lease agreements.

Note 2 – Summary of Significant Accounting Policies (continued)

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represents accrued administrative and operating expenses which were due but unpaid as of the balance sheet date. These amounts are generally settled within one year.

Accrued Maintenance Liability

Certain leases require the lessee to make payments to the lessor, calculated on measures of usage, to cover the expected costs of scheduled maintenance events which include major airframe and engine overhauls. All such amounts collected have been recorded as accrued maintenance liabilities and reimbursement payments to lessees are charged against such accrued maintenance liabilities.

In many cases where the lessee has paid maintenance reserves, those payments will be used to reimburse the lessee or the service provider for maintenance charges. The leases generally provide that any maintenance expenses incurred for the operation of the aircraft in excess of the amounts collected from lessees are the sole obligation of the lessees. The CA Group can elect to recognize maintenance reserves that are not expected to be reimbursed to lessees, as lease revenue, during the lease.

Conversely, if maintenance expenses for the aircraft are less than the maintenance reserve amounts collected from the lessees during the term and the CA Group has reliable information that the lessee will not require reimbursements of additional reserve amounts based on a maintenance forecasting model, then these excess amounts will be recognised in the Consolidated Income Statements as revenue. Where there is uncertainty over amounts expected not to be reimbursed to lessees, revenue is recognized at the end of the lease.

Except for a portion of the maintenance reserves that were transferred by the sellers to the CA Group on the Closing Date as a reserve for estimated maintenance obligations, the relevant sellers retained all maintenance reserves attributable to the period on or prior to the Closing Date under the relevant leases. Any maintenance obligations in excess of the transferred reserves and amounts collected from lessees subsequent to the Closing Date will be the obligation of the CA Group.

Some leases provide that the lessor is required to contribute to the cost of certain future maintenance expenses based on the number of cycles or the amount of time various components have been in use before the inception of the lease. In the case of new leases with a lessor contribution, if the lessor contribution amount can be quantified at lease commencement, such amount is considered a lease incentive asset and amortized over the remaining term of the related lease and recorded as a component of revenue. If the lessor contribution amount cannot be quantified, the amount will be capitalized when paid and amortized under the deferral method over the overhaul event life and recorded as a component of expense.

Note 2 – Summary of Significant Accounting Policies (continued)

Lease Incentive Assets

At the beginning of each new lease, other than the first lease on a new aircraft, lessor contributions representing contractual obligations on the part of the CA Group to contribute to the lessee's cost of the next planned major maintenance event, expected to occur during the lease, are established. Lessor contributions represent a lease incentive and are recorded as a charge against lease rental income over the life of the associated lease. The CA Group regularly reviews the level of lessor contributions to cover its contractual obligations under current lease contracts and makes adjustments as necessary.

Lease Premiums/Discounts

The CA Group identifies, measures, and accounts for lease premiums/discounts associated with its acquisitions of aircraft with in-place leases. Lease premiums/discounts represent the value of an acquired long-term lease where the contractual rent payments are above/below the market lease rate at the date of acquisition. These assets/liabilities are recognized at cost and amortized on a straight-line basis over the remaining term of the related lease and recorded as a component of revenue.

Maintenance Right Assets/Liabilities

The CA Group identifies, measures, and accounts for maintenance right assets/liabilities associated with acquisitions of aircraft with in-place leases. A maintenance right asset is recognized at the acquisition date when the maintenance condition of the aircraft at the acquisition date is less than the return condition required by the in-place lease. Alternatively, when the maintenance condition of the aircraft at the acquisition date is greater than the return condition required by the in-place lease, a maintenance right liability could exist. However, in most cases, a liability related to the maintenance condition of the asset is not recorded at the time of acquisition. Based on the return condition of the aircraft, a maintenance liability is only recorded in circumstances when payment to the lessee at the end of the lease is required, based on the maintenance condition of the aircraft at the end of the lease.

For a maintenance reserve paying lessee, the lessee submits a claim upon the occurrence of a qualifying maintenance event. Upon payment of the claim, the maintenance liability is reduced, and qualifying maintenance costs are capitalized by reclassifying the maintenance right asset to a component of the aircraft. The depreciation of the component under U.S. GAAP is recorded over the estimated useful life of the maintenance component.

If, upon expiration of the lease, there is an amount which has not been reimbursed to the lessee for qualifying maintenance events, the CA Group will relieve the maintenance right asset against the maintenance reserve liability, with the excess of the maintenance reserve liability over the maintenance right asset recognized as end of lease income. The reduction of the maintenance right asset represents improvements which were expected to be made to the aircraft as of the acquisition date but did not occur over the term of the lease.

Note 2 – Summary of Significant Accounting Policies (continued)

Maintenance Right Assets/Liabilities (continued)

For end of lease return condition (EOL) leases, at the expiration of the leases, the CA Group obtains from the lessees detailed information regarding the maintenance condition of the aircraft. When the maintenance right asset is settled through an improved aircraft at the end of the lease, the maintenance right is relieved, and an aircraft component is recorded to the extent the improvement is substantiated and deemed to otherwise meet the CA Group's capitalization policy for major maintenance. When the maintenance right asset is settled through a cash payment from the lessee, the cash payment from the lessee is applied to the maintenance right asset. Cash received in excess of the maintenance right asset is recorded as end of lease income. Thereafter, the amortisation policy as noted previously will be followed. In the event an EOL lessee notifies the CA Group of a qualifying maintenance event during the lease term, the qualifying costs will be reclassified from the maintenance right asset to a component of the aircraft at the time of the qualifying event.

For EOL lessees, if the CA Group is obligated under the terms of the lease to pay the lessee based on an aircraft being returned in an improved condition, a liability is recorded for the estimated amount to be paid when the amount is both probable and estimable. When the amount is paid to the lessee, an offset is taken against the maintenance liability. If the CA Group makes a payment that does not fully offset the liability (but fully relieves its contractual obligation), the remainder of the liability would be relieved through end of lease income. To the extent the payment made is in excess of the obligation previously recorded, the difference will be capitalized to the extent the improvements are substantiated and meet capitalization requirements.

Debt

Debt is carried at its principal amount borrowed, including accrued interest, unamortized discounts and premiums, and deferred financing charges, where applicable. The amount of discounts and premiums are amortized over the period the debt is outstanding using the effective interest method. The costs incurred for issuing debt are capitalized and amortized as an increase to interest expense over the life of the debt using the straight line method.

Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the Consolidated Income Statements and Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. The CA Group recognizes an uncertain tax benefit only to the extent that it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Note 2 – Summary of Significant Accounting Policies (continued)

Taxation (continued)

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credits carried forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax assets attributable to unutilized losses carried forward or other timing differences are reduced by a valuation allowance if it is more likely than not that such losses will not be utilized to offset future taxable income. The key judgements associated with the accounting for valuation allowances in respect of deferred tax assets relate primarily to:

- Profit projections which are consistent with forecasts used to support other areas of financial reporting such as impairment analysis;
- Contractually committed lease agreements which support a future income stream in excess of the costs required to service the lease; and
- Assumed disposal proceeds.

Rental Income

At lease inception, the CA Group reviews all necessary criteria to determine proper lease classification. Revenue under operating leases is generally recognized as rental income on a straight-line basis over the lease term. Usage rent is calculated based on hourly usage or cycles operated, depending on the lease agreement. Usage rent is recorded as revenue as it is earned under the terms of the lease. Rent earned but not received is recorded in trade receivables and rent received but unearned is recorded in deferred rental income on the Consolidated Balance Sheets until it has been earned.

The CA Group periodically evaluates the collectability of the operating lease contracts to determine the appropriate revenue recognition and measurement model to apply to each lessee. Accrual-based revenue recognition ceases on an operating lease contract when the collection of the rental payments is no longer probable and thereafter rental revenues are recognized using a cash receipts basis.

At each reporting date, the CA Group applies significant judgment in assessing whether operating rental payments are probable of collection by reference to the credit status of each lessee, including lessees in bankruptcy-type arrangements, the extent of overdue balances and other relevant factors. In the period when collection of lease payments is no longer probable, any difference between revenue amounts recognized to date under the accrual method and payments that have been collected from the lessee, including security deposit amounts held, is recognized as a current period adjustment to lease revenue. Subsequently, revenues are recognized based on the lesser of the straight-line rental income or the lease payments collected from the lessee until such time that collection is probable.

Note 2 – Summary of Significant Accounting Policies (continued)

Rental Income (continued)

Under most of the CA Group's aircraft leases, the lessee is responsible for maintenance, repairs and other operating expenses during the term of the lease. Under the provisions of many of the leases, the lessee is required to make payments of supplemental maintenance rents which are calculated with reference to the utilization of the airframe, engines and other major life-limited components during the lease. The CA Group records as lease revenue all supplemental maintenance rent receipts not expected to be reimbursed to the lessee.

Other income consists of interest revenue, management fee revenue, lease termination fees, insurance proceeds, and income related to other miscellaneous activities. Interest revenue from secured loans, notes receivable and other interest-bearing instruments is recognized using the effective interest rate as interest accrues under the associated contracts. Management fee revenue is recognized as income as it accrues over the life of the contract. Income from the receipt of lease termination penalties is recorded at the time cash is received or when the lease is terminated, if revenue recognition criteria are met.

Allowance for Credit Losses

The CA Group is exposed to credit losses on its net investment in finance leases, loan receivables from customers, trade receivables from airline customers and lease deferrals provided to its airline customers. The CA Group's investment in finance leases, loan receivable and lease deferrals credit exposure reflect the risk that its customers fail to meet their payment obligations and the risk that the aircraft value in a finance lease is less than the unguaranteed residual value.

The CA Group estimates the expected risk of loss over the remaining life of a lease using a probability of default and net exposure analysis. The probability of default is estimated based on historical cumulative default data, adjusted for current conditions of similarly risk rated counterparties over the contractual term. The net exposure is estimated based on the exposure, net of collateral, including security deposits and maintenance-related deposits and aircraft where applicable, over the contractual term.

Current expected credit loss provisions are included in the rental income from operating and finance leases in the CA Group's Consolidated Income Statements, with a corresponding allowance for credit loss amount reported as a reduction in the carrying amount of the net investment in finance leases, loan receivables which are included in other assets and lease deferrals which are included in trade receivables on the Consolidated Balance Sheets. A write-off is recognized when all or part of the investment in net finance leases, loan receivable asset or lease deferrals is deemed uncollectable. Write-offs are charged against previously established allowances for credit losses. Partial or full recoveries of amounts previously written off are generally recognized as a reduction in the provision for credit losses.

Note 2 – Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

The CA Group uses derivative financial instruments to manage its exposure to interest rate risk. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the Consolidated Balance Sheets as either a freestanding asset or liability. Changes in the fair value of a derivative that is designated and qualifies as an effective cash flow hedge are recorded in accumulated other comprehensive income (loss), net of tax, until earnings are affected by the variability of cash flows of the hedged item. Any derivative gains or losses that are not highly effective in hedging the variability of expected cash flows of the hedged item or that do not qualify for hedge accounting treatment are recognized directly into income.

At the hedge's inception and at least every reporting period thereafter, a formal assessment is performed to determine whether changes in cash flows of the derivative instrument have been highly effective in offsetting changes in the cash flows of the hedged items and whether they are expected to be highly effective in the future. The CA Group discontinues hedge accounting prospectively when (i) it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; (ii) the derivative expires or is sold, terminated, or exercised; or (iii) it determines that designating the derivative as a hedging instrument is no longer appropriate. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the derivative instrument is carried at its fair market value on the Consolidated Balance Sheets with changes in fair value recognized in current-period earnings. The remaining balance in accumulated other comprehensive income (loss) associated with the derivative that has been discontinued is not recognized in the income (loss) statement unless it is probable that the forecasted transaction will not occur. Such amounts are recognized in earnings when earnings are affected by the hedged transaction.

The CA Group had certain debt instruments and derivative contracts that referenced 'The London Interbank Offered Rate' ("LIBOR"). LIBOR was a benchmark interest rate calculated based on information contributed by a panel of large international banks. LIBOR's administrator announced in March 2021 that it intended to stop publishing the Overnight, one-month, three-month, six-month and 12month U.S. dollar LIBOR settings after June 30, 2023. In April 2023, the FCA announced that the one-month, three-month and six-month U.S. dollar LIBOR tenors will continue to be published in synthetic form until September 2024, at which point these LIBOR tenors will cease. In anticipation of that cessation, we commenced the transition of our LIBOR-based instruments and contracts to 'Secured Overnight Financing Rate' ("SOFR" or "Term SOFR") in 2023. The transition of LIBOR-based instruments and contracts was completed in 2023.

Note 2 – Summary of Significant Accounting Policies (continued)

Fair Value of Measurements

Fair value is 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. The CA Group determines 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 into one of the following levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Foreign Currency Transactions

All of the CA Group's lessees pay in U.S. dollars. Certain expenses are paid in foreign currencies and are recorded at the U.S. dollar equivalent on the payment date of that transaction. Monetary assets and liabilities denominated in foreign currencies are re-measured into U.S. dollars at the exchange rate prevailing at the balance sheet date. All resulting exchange gains and losses are recorded in administrative and other expenses in the Consolidated Income Statements.

Equity

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Reportable Segments

The CA Group manages its business and analyze and report its results of operations on the basis of one business segment: leasing, financing, sales and management of commercial aircraft and engines.

Note 2 – Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards

ASU 2023-01 Leases: Common Control Arrangements (Topic 842)
In March 2023, the FASB issued ASU 2023-01, Leases: Common Control Arrangements (Topic 842). The new guidance is effective for reporting periods beginning after December 15, 2023, and interim periods within those fiscal years. The guidance requires entities to determine whether a related party arrangement between entities under common control is a lease. An arrangement that is determined to be a lease must be classified and accounted for on the same basis as an arrangement with an unrelated party. Topic 842 generally requires that leasehold improvements have an amortisation period consistent with the shorter of the remaining lease term and the useful life of the improvements, which is an approach that is largely consistent with legacy guidance. The CA Group has reviewed the impact of the initial application of amendments and determined that there is no significant impact for the CA Group.

ASU 2023-09 Income Taxes (Topic 740)
In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740). The new guidance is effective for reporting periods beginning after December 15, 2025, and interim periods within those fiscal years. The amendments in ASU 2023-09 require consistent categories and greater disaggregation of income tax disclosures related to the income tax rate reconciliation and income tax paid disaggregated by jurisdiction to improve transparency of income tax disclosures. The CA Group has reviewed the impact of the initial application of amendments and determined that there is no significant impact for the CA Group.

Note 3 – Cash, Cash Equivalents and Restricted Cash

The CA Group maintains various cash accounts as required by the lenders and the facility providers, including collateral accounts, security deposit accounts and maintenance reserve accounts.

The CA Group held cash and cash equivalents of $120.4 million and $131.1 million at December 31, 2023 and December 31, 2022, respectively.

The CA Group's restricted cash was $Nil and $1.1 million as of December 31, 2023 and December 31, 2022, respectively, related to a reserve for the TL 2 defined in Note 10 – Debt. TL2 was repaid in full during the year.

Note 4 –Flight Equipment Held for Operating Leases, Net

As of December 31, 2023, and December 31, 2022, flight equipment held for operating leases, net were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Flight Equipment held for Operating Leases, net	$ 3,384,672	$ 2,811,775

Note 4 –Flight Equipment Held for Operating Leases, Net (continued)

Movements in flight equipment held for operating leases during the year ended December 31, 2023 and December 31, 2022 were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Opening balance	$ 2,811,775	$ 2,038,052
Additions	982,616	926,133
Transfer from maintenance intangible	353	-
Reclassification	-	3,936
Disposals	(94,074)	-
Transfers to investment in finance lease	(169,104)	(47,955)
Depreciation	(146,894)	(108,391)
Net book value at end of year	$ 3,384,672	$ 2,811,775
Opening accumulated depreciation	$ (126,951)	$ (18,560)
Depreciation	(146,894)	(108,391)
Disposals	7,600	-
Accumulated depreciation from transfers to finance lease	13,617	-
Closing accumulated depreciation	$ (252,628)	$ (126,951)

Depreciation charge on flight equipment held for operating leases during the year ended December 31, 2023 and December 31, 2022 were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Depreciation	$ (146,894)	$ (108,391)

During the year ended December 31, 2023, the CA Group acquired 22 aircraft (2022: 16) subject to operating leases. In addition, the CA Group disposed of 4 aircraft subject to operating leases for $115.9 million (gain of $18.6 million), (2022: $Nil) and 4 aircraft (2022: 2) were transferred from flight equipment held for operating leases to aircraft under finance leases (gain of $2.9 million), (2022: gain of $4.8 million).

Flight equipment held for operating lease were transferred to investment in finance lease for non-cash consideration of $172.0 million (2022: $52.7 million).

As of December 31, 2023, the CA Group's aircraft portfolio consisted of 92 aircraft held for operating lease which were on lease to 18 different lessees in 13 different countries.

As of December 31, 2022, the CA Group's aircraft portfolio consisted of 78 aircraft held for operating lease which were on lease to 18 different lessees in 13 different countries.

Note 4 –Flight Equipment Held for Operating Leases, Net (continued)

The following table sets forth the regional concentration based on each lessee's principal place of business of the CA Group's flight equipment held for operating leases based on net book value as of December 31, 2023 and December 31, 2022 (U.S. dollars in thousands, except percentages):

Region	December 31, 2023 Net Book Value	December 31, 2023 % of Total	December 31, 2022 Net Book Value	December 31, 2022 % of Total
Europe, Middle East and Africa (EMEA)	$ 701,503	21	$ 189,875	7
Asia Pacific (APAC) and India	1,705,258	50	1,570,346	56
Americas	977,911	29	1,051,554	37
Total	$ 3,384,672	100	$ 2,811,775	100

Note 5 – Maintenance Right Assets and Lease Premiums, Net

Maintenance rights assets and lease premium, net consisted of the following as of December 31, 2023 and December 31, 2022 (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Lease Premium	$ 59,423	$ 85,701
Maintenance Right Asset	217,075	220,229
	$ 276,498	$ 305,930

As of December 31, 2023, lease premium asset/(liability) and maintenance right asset/(liability) were as follows (U.S. dollars in thousands):

	Lease Premium	Maintenance Right Asset
Opening balance	85,701	220,229
Additions to maintenance right assets	-	842
Additions to lease intangible liability	(11,902)	-
Disposals	348	(3,643)
Maintenance claim	-	(353)
Amortisation charge for the year	(14,724)	-
	$ 59,423	$ 217,075

Note 5 – Maintenance Right Assets and Lease Premiums, Net (continued)

As of December 31, 2022, lease premium and maintenance right asset/(liability) were as follows (U.S. dollars in thousands):

	Lease Premium	Maintenance Right Asset
Opening balance	$ 103,484	$ 223,411
Reclassification	(754)	(3,182)
Amortisation charge for the year	(17,029)	-
	$ 85,701	$ 220,229

As of December 31, 2023, lease premium asset/(liability) and maintenance right asset/(liability) were as follows (U.S. dollars in thousands):

Note 6 – Net Investment in Finance Leases

As of December 31, 2023, and December 31, 2022, 9 leases were accounted for as finance leases. As of December 31, 2023, and December 31, 2022, 9 and 7 leases had a purchase option in place, respectively. During the year ended December 31, 2023, the CA Group transferred 4 aircraft (2022: 2) from flight equipment held for operating leases to aircraft under finance leases for a gain of $2.9 million (2022: $4.8 million) and 4 finance leases were repaid during the year. The following tables list the components of the net investment in finance lease as of December 31, 2023 and December 31, 2022 (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Total lease payments to be received	$ 494,427	$ 373,161
Less: Unearned income	(164,047)	(84,689)
Allowance for credit losses	-	-
Net investment in finance lease	$ 330,380	$ 288,472

The CA Group is exposed to credit losses on its net investment in finance leases provided to its airline customers. The CA Group’s net investment in finance lease credit exposure reflect the risk that its customers fail to meet their payment obligations and the risk that the aircraft value in a finance lease is less than the unguaranteed residual value.

As of December 31, 2023, and December 31, 2022, no expected credit loss was recognized for net investment in finance leases. An evaluation in accordance with ASC 326 Financial Instruments – Credit Losses was completed, and it was deemed that no expected credit loss was required.

Note 6 – Net Investment in Finance Leases (continued)

Included within total lease payments to be received as at December 31, 2023 is $Nil (2022: $245.6 million) in relation to the recognition of Nil (2022: 5) finances leases as well as $277.4 million (2022: $51.6 million) in relation to 4 (2022: 2) operating leases transferred to finance lease were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Opening balance	$ 288,472	$ 70,163
Additions	-	187,620
Transfer from operating lease	169,104	47,955
Gain on transfer from operating lease	2,896	4,792
Principal repayments	(130,092)	(22,058)
Net investment in finance lease	$ 330,380	$ 288,472

During the year ended December 31, 2023 and 2022 the CA Group recognized interest income from net investment in finance leases of $19.1 million and $17.5 million respectively, included in rental income from operating and finance leases.

At December 31, 2023 and December 31, 2022, future scheduled minimum lease payments to be received under finance leases were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Within 1 year	50,167	92,553
Between 1 and 2 years	49,886	38,401
Between 2 and 3 years	48,787	36,697
Between 3 and 4 years	47,688	35,029
Between 4 and 5 years	46,603	33,360
Later than 5 years	251,296	137,121
Undiscounted cash flows receivable	494,427	373,161
Less: Unearned income	(164,047)	(84,689)
Allowance for credit losses	-	-
Total	$ 330,380	$ 288,472

Note 7 – Other Assets

At December 31, 2023 and December 31, 2022, the principal components of the CA Group's other assets were as follows (U.S. dollars in thousands):

	December 31 2023	December 31 2022
VAT receivable	1,419	777
RCF debt costs	8,688	6,529
Interest receivables	175	1,397
Other assets	12,443	5,090
Total	$ 22,725	$ 13,793

Other assets relate to prepaid expenses, accruals and receivables relating to a bank guaranteed amount supported by a letter of credit in favor of an entity within the CA Group that is expected to be received in 2026.

Note 8 – Loan Assets

	December 31, 2023	December 31, 2022
Opening balance	$ 400,365	$ 126,171
Additions to loan assets	549,329	272,367
Additions to upfront fees	(7,329)	(3,907)
Repayments	(148,470)	(900)
Amortisation	2,659	1,487
Movement in accrued interest	(879)	5,147
Closing balance	$ 795,675	$ 400,365

Loan assets of $791.4 million (2022: $395.4 million) is presented net of interest, unamortized upfront fees and re-measurement adjustments (the "Loan Adjustments"). The net loan receivable amounts consist of $267.1 million to 2 Asia Pacific based airlines (2022: $116.7 million, to 1 Asia Pacific based airline), $60.8 million to 2 EMEA based lessors (2022: $60.1 million), and $463.5 million (2022: $218.6 million) to an EMEA based airline.

There are 4 loans provided to Asia Pacific based airlines, 1 accrues interest at a fixed rate of 11.75% per annum and is secured by charges over intellectual property of the airlines and aircraft inventory. As of December 31, 2023, $116.7 million is drawn down. The 3 other loans accrue interest at fixed rates ranging from 10.6% to 11.6% per annum and are secured against aircraft owned by the lessors. As of December 31, 2023, $150.5 million is drawn down.

Note 8 – Loan Assets (continued)

Loans of $65.4 million provided to 2 EMEA based lessors accrues interest at a fixed rate of 8% per annum and are secured against aircraft owned by the lessors. As of December 31, 2023, there are no undrawn amounts or available commitments under these loans.

The loans provided to the EMEA based airlines accrue interest at fixed rates ranging from 7.70% to 8.60%, per annum and are secured by an assignment of the certain rights of the airline under the relevant aircraft purchase agreement. As of December 31, 2023, $463.3 million (2022: $221.5 million) is drawn down.

The CA Group is exposed to credit losses on its loan assets provided to its airline customers. The CA Group's loan assets credit exposure reflects the risk that its customers fail to meet their payment obligations.

As of December 31, 2023, and December 31, 2022, no expected credit loss was recognized for loan receivables. An evaluation in accordance with ASC 326 Financial Instruments – Credit Losses was completed, and it was deemed that no expected credit loss was required.

The following table provides a summary of the anticipated principal payments under outstanding loan assets as of December 31, 2023 and 2022 (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Within 1 year	$ 142,297	$ 121,930
Between 1 and 2 years	41,280	108,785
Between 2 and 3 years	111,450	3,600
Between 3 and 4 years	41,280	70,266
Between 4 and 5 years	89,280	3,600
Later than 5 years	389,674	107,100
Loan adjustments	(19,586)	(14,916)
Total	$ 795,675	$ 400,365

Note 9 – Trade Receivables

The CA Group is exposed to credit losses on its lease deferrals and trade receivables provided to its airline customers. The CA Group's lease deferrals and trade receivables credit exposure reflect the risk that its customers fail to meet their payment obligations and the risk that the aircraft value in a finance lease is less than the unguaranteed residual value.

The CA Group estimates the expected risk of loss over the remaining life of a lease using a probability of default and net exposure analysis. The probability of default is estimated based on historical cumulative default data, adjusted for current conditions of similarly risk rated counterparties over the contractual term. The net exposure is estimated based on the exposure, net of collateral, including security deposits and maintenance-related deposits and aircraft where applicable, over the contractual term.

As of December 31, 2023, trade receivables of $9.8 million was presented net of an expected credit loss on lease deferrals and an allowance for bad debts on lease receivables as follows (U.S. dollars in thousands):

	Lease deferrals	Trade Receivables	Total
Balance (Gross)	$ 55,633	$ 276	$ 55,909
Allowance for bad debts	-	(260)	(260)
Expected credit loss	(45,821)	-	(45,821)
Total	$ 9,812	$ 16	$ 9,828

As of December 31, 2022, trade receivables of $10.2 million was presented net of an expected credit loss on lease deferrals and an allowance for bad debts on lease receivables as follows (U.S. dollars in thousands):

	Lease deferrals	Trade Receivables	Total
Balance (Gross)	$ 56,473	$ 5,245	$ 61,718
Allowance for bad debts	-	(4,860)	(4,860)
Expected credit loss	(46,662)	-	(46,662)
Total	$ 9,811	$ 385	$ 10,196

Note 9 – Trade Receivables (continued)

At December 31, 2023 there was a net expected credit loss reversal of $5.4 million (2022: $4.3 million) recognized in the Consolidated Income Statements. This consisted of a reversal of $4.4 million, $0.8 million is recorded in rental income from operating and finance leases and $3.6 million is recorded in interest and other income (2022: $7.1 million, $3.2 million in rental income from operating and finance leases and $3.9 million in interest and other income) and $1.0 million reclassification between allowance for bad debts and lease deferrals (2022: $2.8 million) during the year.

The movement in expected credit loss and allowance for bad debts during the year ended December 31, 2023 is as follows (U.S. dollars in thousands):

		Allowance for Bad Debts		Expected Credit Loss		Total
Opening balance	$	(4,860)	$	(46,662)	$	(51,522)
Movement for the year		3,606		841		4,447
Adjustment		994		-		994
Total	$	(260)	$	(45,821)	$	(46,081)

The movement in expected credit loss and allowance for bad debts during the year ended December 31, 2022 is as follows (U.S. dollars in thousands):

		Allowance for Bad Debts		Expected Credit Loss		Total
Opening balance	$	(1,208)	$	(43,237)	$	(44,445)
Movement for the year		(3,652)		(3,425)		(7,077)
Bad debt recoveries		2,782		-		2,782
Total	$	(2,078)	$	(46,662)	$	(48,740)

Note 10 – Debt

The CA Group's outstanding indebtedness consists of senior unsecured notes ("HYB"), two senior secured term loan B facilities ("TLB 1" and "TLB 2"), Six term loan facilities ("TL 3", "TL 4", "TL 5", "TL 6", "TL 7" and "TL 8") and a secured revolving credit facility ("RCF") together the "Debt".

The outstanding principal balances, unamortized discount and legal maturity dates of the Debt at December 31, 2023 and December 31, 2022 were as follows (U.S. dollars in thousands):

		Balances as of	
Type	**Maturity**	**December 31, 2023**	**December 31, 2022**
Unsecured			
HYB	04/2027	$ 420,000	$ 420,000
Secured			
TLB 1	10/2026	1,153,450	1,165,250
TLB 2	10/2027	628,650	-
TL 1*	02/2023	-	237,201
TL 2*	12/2023	-	109,439
TL 3	12/2034	127,145	133,632
TL 4	11/2034	117,901	125,679
RCF	04/2026	403,410	539,900
TL 5	12/2030	74,349	-
TL 6	06/2026	363,265	-
TL 7	06/2031	116,816	-
TL 8	08/2038	134,310	-
Total secured		3,119,296	2,311,101
Accrued interest		13,151	11,684
Debt issuance costs		(70,919)	(47,895)
Amortisation of debt issuance costs		24,557	10,763
Total debt		$ 3,506,085	$ 2,705,653

*"TL1" and "TL2" were repaid in February and December 2023, respectively.

Note 10 – Debt (continued)

As of December 31, 2023, the interest rate of the CA Group's unsecured debt of $420 million is 5% and the weighted average effective interest rate for the CA Group's secured debt is 5.34%. The weighted average interest rate for our floating rate debt of $3.1 billion is calculated based on the applicable U.S. dollar SOFR rate, as applicable, as of the most recent interest payment date of the respective debt and excludes the impact of related derivative financial instruments which we hold to hedge our exposure to floating interest rates, as well as any amortisation of debt issuance costs and debt discounts.

Interest payments, principal payments and loan conversion on the Debt during the year ended December 31, 2023 were as follows (U.S. dollars in thousands):

	Interest	Principal
HYB	$ 21,000	$ -
TLB 1	95,353	11,800
TLB 2	40,471	6,350
TL 1	3,240	237,201
TL 2	9,216	119,403
TL 3	7,559	6,487
TL 4	8,052	7,778
RCF	19,488	712,900
TL 5	2,782	2,651
TL 6	13,298	5,735
TL 7	2,827	3,184
TL 8	1,832	2,290
Commitment fees	3,021	-
Derivative interest	(50,522)	-
*Loan conversion	-	38,000
Total interest payments and principal repayment	$ 177,617	$ 1,153,779

*During the year ended December 31, 2023 the CA Group entered into two non-interest bearing convertible loans of $20 million and $18 million which were both converted to equity within the year considering the mandatory feature of the loans. The CA Group also entered into new TL5, TL6, TL7 & TL8 loans that are secured by aircraft during the year.

Note 10 – Debt (continued)

Interest payments, principal payments and loan conversion on the Debt during the year ended December 31, 2022 were as follows (U.S. dollars in thousands):

	Interest	Principal
HYB	$ 20,592	$ -
TLB 1	51,841	11,800
TL 1	8,903	7,599
TL 2	3,276	-
TL 3	1,473	868
TL 4	804	320
RCF	11,428	31,500
Commitment fees	2,658	-
Derivative interest	2,272	-
Total interest payments and principal repayment	$ 103,247	$ 52,087

The total interest expense during the year ended December 31, 2023 and December 31, 2022 was comprised of the following (U.S. dollars in thousands):

	Year Ended December 31, 2023	Year Ended December 31, 2022
HYB	$ 21,000	$ 20,927
TLB 1	93,995	54,278
TLB 2	42,885	-
TL 1	2,515	9,371
TL 2	8,836	3,735
TL 3	7,565	1,749
TL 4	8,094	1,147
RCF	22,171	14,638
TL 5	2,979	-
TL 6	14,189	-
TL 7	3,134	-
TL 8	2,242	-
Amortisation of debt issuance costs	13,794	9,082
Derivatives	(51,573)	45
Total	$ 191,826	$ 114,972

In March 2023, the CA Group entered into a TLB 2 which was secured by, among other things, a pledge of the shares of the borrower entity within the CA Group.

Note 10 – Debt (continued)

As of December 31, 2023, $403.4 million (2022: $539.9 million) was drawn down from the RCF leaving an undrawn amount of $546.6 million (2022: $410.1 million). As of December 31, 2023, TLB 1, TLB 2, TL, 3, TL 4, TL 5, TL 6, TL 7 and TL 8 (2022: TLB 1, TL3, and TL4) were fully drawn down. The HYB is guaranteed on a senior unsecured basis by the Company and certain subsidiaries of CAF DAC.

As of December 31, 2023, TLB 1, TLB 2, TL 3, TL 4, TL 5, TL 6, TL 7 and TL 8 are secured by 98 (2022: TLB, TL1, TL3 and TL4, 69) aircraft, while RCF is secured by 14 (2022: 17) aircraft assets.

At December 31, 2023, the CA Group remained in compliance in all material respects with the covenants in the agreements governing its Debt.

Maturities of debt outstanding as of December 31, 2023 and December 31, 2022 are as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Within 1 year	$ 65,423	$ 78,096
Between 1 and 2 years	67,834	861,362
Between 2 and 3 years	1,916,491	27,750
Between 3 and 4 years	1,069,733	1,146,728
Between 4 and 5 years	41,960	437,832
Later than 5 years	377,855	179,333
Total	$ 3,539,296	$ 2,731,101

Note 11 – Accrued Maintenance Liabilities

As of December 31, 2023, and December 31, 2022, accrued maintenance liability were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Accrued maintenance liability	$ 49,415	$ 68,454

Movements in accrued maintenance liability during the year ended December 31, 2023 and December 31, 2022 were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Opening balance	$ 68,454	$ 38,827
Maintenance payments received	10,642	32,777
Maintenance reserves released	(12,023)	-
Maintenance claims paid	(17,658)	(3,150)
Accrued maintenance liabilities	$ 49,415	$ 68,454

Note 12 – Rental Income from Operating and Finance Leases

The following table details rental income during the year ended December 31, 2023 and December 31, 2022, (U.S dollars in thousands):

	December 31, 2023		December 31, 2022	
Europe, Middle East and Africa (EMEA)	$	55,359	$	19,490
Asia Pacific (APAC) and India		188,134		141,424
Americas		151,760		111,983
Lease premium amortisation (Note 5)		(14,724)		(17,029)
Total	$	380,529	$	255,868

Total rental income above includes $12.0 million and $Nil related to the release of maintenance reserves for the year ended December 31, 2023 and December 31, 2022, respectively and interest income from net investment in finance leases of $19.1 million and $17.5 million, for the year ended December 31, 2023 and December 31, 2022, respectively, as disclosed in Note 6 – Net Investment in Finance leases.

The CA Group's top 5 customers represented 64% (2022: 78%) of total rental revenues for the year ended December 31, 2023 and 3 customers each accounted for 10% or more of total rental revenues at 21%, 15% and 12% (2022: 31%, 23% and 10%). At December 31, 2023, 39 of the operating leases provide for unexpired extension options (2022: 24) and 1 of the operating leases provides for an unexpired early termination option (2022: 1).

At December 31, 2023 and December 31, 2022, the CA Group had contracted to receive the following minimum cash lease rentals under non-cancellable operating leases (U.S. dollars in thousands):

	December 31, 2023		December 31, 2022	
Within 1 year	$	381,909	$	332,677
Between 1 and 2 years		370,189		337,677
Between 2 and 3 years		334,201		302,286
Between 3 and 4 years		300,773		289,750
Between 4 and 5 years		291,154		273,970
Later than 5 years		1,222,496		1,427,347
Total	$	2,900,722	$	2,963,707

During the year ended December 31, 2023, the CA Group recognized a reversal for expected credit losses of $0.8 million (2022: expected credit loss charge of $0.4 million), classified in operating rental income, in respect of the CA Group's deferred operating lease revenue balance at December 31, 2023. See Note 9 – Trade Receivables.

Note 13 – Interest and Other Income

Interest and other income during the year ended December 31, 2023 and December 31, 2022 were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Interest income from loan assets	$ 52,212	$ 25,415
Bank interest income	4,459	896
Other income	2,724	90
Late payment interest	4,160	3,479
Reversal of allowance for bad debt/ (provision for bad debt)	3,606	(3,866)
	$ 67,161	$ 26,014

Note 14 – Derivative Financial Instruments

The CA Group entered into interest rate swaps to hedge the current and future interest rate payments of a portion of external debt which has an underlying variable interest rate. As of December 31, 2023, the underlying variable benchmark interest rates under the interest swaps were three-month U.S. dollar SOFR and one-month U.S. dollar SOFR and as of December 31, 2022, the underlying variable benchmark interest rates under the interest swaps were three-month U.S. dollar SOFR, three-month U.S. dollar LIBOR and one-month U.S. dollar SOFR. The transition of LIBOR-based instruments and contracts to SOFR or Term SOFR was completed in 2023.

The counterparties to the interest rate swaps are major international financial institutions. The CA Group continually monitors its positions and the credit ratings of the counterparties involved and limit the amount of credit exposure to any one party. The CA Group could be exposed to potential losses due to the credit risk of non-performance by these counterparties. The CA Group has not experienced any losses to date.

The following table presents the notional amounts and estimated fair values of the CA Group's derivatives as of December 31, 2023 and December 31, 2022, (U.S. dollars in thousands):

	December 31, 2023		December 31, 2022	
	Notional Amounts	Fair Value	Notional Amounts	Fair Value
Derivative assets (liabilities) designated as accounting cash flow hedges:				
Interest rate swaps asset	$ 1,478,802	$ 68,300	$ 1,400,221	$ 95,094
Accrued interest		2,745		1,693
Interest rate swap unwind		(1,590)		
Derivative asset		$ 69,455		$ 96,787
Interest rate swaps asset (liability)	1,688,514	(15,342)	$ 428,043	(4,661)
Total	$ 3,167,316	$ 54,113	$ 1,828,264	$ 92,126

Note 14 – Derivative Financial Instruments (continued)

The fair value and notional value of the swaps include a forward swap of $1.8 million (Notional $611.2 million) with an effective date of 2026.

Changes in the fair value of a derivative that is designated and qualifies as an effective cash flow hedge are recorded in accumulated other comprehensive income/(loss), net of tax, until earnings are affected by the variability of cash flows of the hedged item.

The CA Group recorded the following in other comprehensive gain related to derivative financial instruments for the year ended December 31, 2023 and December 31, 2022 (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Effective portion of change in FV of derivatives designated as cash flow hedges:		
Interest rate swaps	$ (37,474)	$ 108,301
Income tax effect	4,684	(13,371)
Net (loss)/gain on derivatives, net of tax	$ (32,790)	$ 94,930

Note 15 – Income Tax

The following table presents the CA Group's income tax expense for the year ended December 31, 2023 and December 31, 2022 (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Current tax (benefit)/expense	$ (69)	$ 108
Deferred tax expense	9,241	22,272
Provision for income taxes	$ 9,172	$ 22,380

Note 15 – Income Tax (continued)

The following table provides a reconciliation of the statutory income taxes for the year ended December 31, 2023 and December 31, 2022 (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Effective tax reconciliation:		
Earnings before income tax	$ 81,232	$ 33,579
Expected tax at 12.5%	10,154	4,197
Non taxable foreign income	17	60
Fair value uplift on aircraft	(155)	-
Income taxed at higher/(lower) rate	(329)	379
Current year unrecognized deferred tax asset	453	3,686
Prior year under provision of current tax	-	101
Movement in provision for deferred tax	(968)	13,957
Income tax expense	$ 9,172	$ 22,380

As of December 31, 2023, and December 31, 2022, deferred tax assets and deferred tax liabilities were as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Deferred tax assets	$ 34,213	$ 42,819
Deferred tax liabilities	(41,295)	(45,345)

Effective from 1 January 2022, the CA Group elected to no longer subject 16 of the aircraft asset owning entities to Irish corporation tax under the rules outlined within section 110 of the Taxes Consolidation Act 1997, instead opting to tax those entitles as trading companies.

The calculation of income for tax purposes differs significantly from book income. Deferred tax is provided to reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured under tax law in the various jurisdictions. Tax loss carry forwards and accelerated tax depreciation on flight equipment held for operating leases give rise to the most significant timing differences. The effective tax rate is impacted by the source and amount of earnings among our different tax jurisdictions, the amount of permanent tax differences relative to pre-tax income and an increase in valuation allowance for an amount of unrecognized tax losses.

Note 15 – Income Tax (continued)

The following tables provide details regarding the principal components of the CA Group’s deferred tax (assets) and liabilities as of December 31, 2023 and December 31, 2022 (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Tax written down value in excess of net book value at higher rate	$ -	$ -
Losses forward at higher rate	(21,485)	(22,562)
Tax written down value in excess of net book value at standard rate	109,758	70,704
Losses forward at standard rate	(89,877)	(58,988)
Deferred tax on swaps	8,686	13,372
Deferred tax liabilities (assets), net	$ 7,082	$ 2,526

As of December 31, 2023, the CA Group had total recognized net operating losses carried forward of $805.0 million (2022: $562.2 million) and unrecognized net operating losses carried forward of $64.9 million (2022: $34.1 million), all of which can be carried forward indefinitely. Full valuation allowance have been provided on deferred tax assets of $11.7 million and $36.4 million relating to net operating tax losses carried forward of $70.1 million and $157.4 million as of the same dates as it is more likely than not that these deferred tax assets will not be realized.

The CA Group’s primary tax jurisdiction is Ireland. The tax returns in Ireland for Castlelake Aviation Limited and the entities that were incorporated in 2022 are open for examination by the Irish Revenue from 2022 onwards. There were a number of existing entities which were acquired by Castlelake Aviation Limited in 2022; tax returns for these entities remain open for enquiries by Irish Revenue for four years from the end of the year in which a particular return is filed.

At December 31, 2023 and December 31, 2022, substantially all of the unrecognized tax benefits if recognized, would impact the CA Group’s effective tax rate. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next 12 months, based on the information currently available, the CA Group does not expect any change to be material to the Consolidated Balance Sheets.

Note 16 – Commitments and Contingencies

As of December 31, 2023, the CA Group was under an agreement for purchase and leaseback transactions for 23 aircraft (and associated financing of 2 of these 23 aircraft), (2022: 40 aircraft (and associated financing of 7 of these 40 aircraft)). Commitments for the acquisition of these aircraft (purchase and leaseback transactions), calculated at an estimated aggregate purchase price (including adjustments for anticipated inflation) of approximately $1.5 billion and of $2.4 billion as of December 31, 2023 and December 31, 2022 are as follows (U.S. dollars in thousands):

	December 31, 2023	December 31, 2022
Within 1 year	$ 195,000	$ 1,024,945
Between 1 and 2 years	-	108,000
Between 2 and 3 years	-	-
Between 3 and 4 years	580,309	-
Between 4 and 5 years	730,545	580,309
Later than 5 years	-	730,545
Total	$ 1,505,854	$ 2,443,799

The final purchase prices can vary due to a number of factors, including inflation and the final acquisition dates can vary as the timing of some transactions have not been determined yet. As of December 31, 2023, and December 31, 2022, all debt was guaranteed by the Company, the respective CA Group borrower or issuer and their subsidiaries.

Each of the HYB, TLB, and the RCF is guaranteed on a senior unsecured basis by the Company and a senior secured basis by certain subsidiaries of the Company. Specifically, each of the TLB, RCF and HYB is guaranteed by the Company and each of the Company's subsidiaries, other than the borrower or issuer of the associated debt. Each of these guarantees is a full and unconditional guarantee of the payment of all of the principal, and any premium and interest, if any, on the associated debt when due, whether at maturity or otherwise, and all other obligations of the CA Group entity under the associated debt instruments. Each of TL 3, TL 4, TL 5, TL 6, TL 7 and TL 8 is guaranteed by the Company (but not subsidiaries of the Company) on a full recourse basis, except that the Company's guarantee of TL3 is limited to $2 million of exposure.

Each of the aforementioned guarantees is limited as necessary to prevent such guarantee from being rendered voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. See above for information on the amounts outstanding under each of these facilities.

The CA Group may be involved in legal and administrative proceedings that arise from time to time in the normal conduct of business. No provision for any liability has been recorded in the accompanying financial statements, and the CA Group believes that the ultimate disposition of any such matters will not have a material adverse effect on the financial position or results of operations of the CA Group.

Note 17 – Related Parties

Pursuant to various servicing agreements as well as pursuant to a management agreement, affiliates of Castlelake perform aircraft, lease and administrative services for the CA Group. The CA Group incurred Servicer fees in the amount of $24.3 million during the year ended December 31, 2023 (2022: $12.6 million). As of December 31, 2023, the accrued but unpaid Servicer fee balance is $3.0 million (2022: $1.2 million) which has been subsequently paid in January 2024. The CA Group incurred Management fees in the amount of $1.4 million during the year ended December 31, 2023 (2022: $0.4 million). As of December 31, 2023, the accrued but unpaid Management fee balance is $Nil (2022: $Nil).

Note 18 – Fair Value Measurements

Fair value is 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. The CA Group determines 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 into one of the following levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

As of December 31, 2023, and December 31, 2022, the CA Group’s derivative portfolio consisted of interest rate swaps. The fair value of derivatives is based on dealer quotes for identical instruments. The CA Group has also considered the credit rating and risk of the counterparty of the derivative contract based on quantitative and qualitative factors. As such, the valuation of these instruments was classified as Level 2.

Note 18 – Fair Value Measurements (continued)

The following tables present the CA Group's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as of December 31, 2023 and December 31, 2022: (U.S. dollars in thousands):

	December 31, 2023			
	Total	Level 1	Level 2	Level 3
Assets				
Derivative assets	$ 68,300	$ -	$ 68,300	$ -
Liabilities				
Derivative liabilities	$ 15,342	$ -	$ 15,342	$ -

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Assets				
Derivative assets	$ 95,094	$ -	$ 95,094	$ -
Liabilities				
Derivative liabilities	$ 4,661	$ -	$ 4,661	$ -

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

The CA Group also measures the fair value of flight equipment on a non-recurring basis, when US GAAP requires the application of fair value, including when events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. The CA Group develops the assumptions used in the fair value measurements. Therefore, the fair value measurements of flight equipment are classified as Level 3 valuations.

Financial Instruments Not Measured at Fair Value

The CA Group's financial instruments are measured at amortized cost, other than those noted above. The following financial instruments are not measured at fair value on the CA Group's Consolidated Balance Sheets at December 31, 2023 and December 31, 2022, but require disclosure of their fair values: cash and cash equivalents. The estimated fair value of such instruments at December 31, 2023 and December 31, 2022 approximates the carrying value as reported on the Consolidated Balance Sheets on Page 5. The fair value of all these instruments would be categorized as Level 1 in the fair value hierarchy.

Note 19 – Subsequent Events

The following transactions occurred in the CA Group post year end:

- Conversion of 2 aircraft on operating lease to a South American based lessee to finance lease
- Provided advances under a secured loan agreement with an EMEA based lessee and;
- Entered into binding sale agreements for the sale of 2 aircraft on operating lease.