Aircastle LTD
Form 10-K
February 15, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2016
or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 001-32959
AIRCASTLE LIMITED
(Exact name of Registrant as Specified in its Charter)

Bermuda	98-0444035
(State or other Jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

300 First Stamford Place, 5th Floor, Stamford, Connecticut 06902
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (203) 504-1020

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The aggregate market value of the Registrant's Common Shares based upon the closing price on the New York Stock Exchange on June 30, 2016 (the last business day of registrant's most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was approximately $921.5 million. For purposes of the foregoing calculation, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers and shareholders owning 10% or more of the outstanding common shares of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

As of February 7, 2017, there were 78,556,466 outstanding shares of the registrant's common shares, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Documents of Which Portions Are Incorporated by Reference	Parts of Form 10-K into Which Portion Of Documents Are Incorporated
Proxy Statement for Aircastle Limited 2017 Annual General Meeting of Shareholders	Part III (Items 10, 11, 12, 13 and 14)

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	29
Item 2.	Properties	29
Item 3.	Legal Proceedings	29
Item 4.	Mine Safety Disclosures	29
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	31
Item 6.	Selected Financial Data	34
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operation	37
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	61
Item 8.	Financial Statements and Supplementary Data	62
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	62
Item 9A.	Controls and Procedures	62
Item 9B.	Other Information	65
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	65
Item 11.	Executive Compensation	65
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	65
Item 13.	Certain Relationships and Related Transactions, and Director Independence	65
Item 14.	Principal Accounting Fees and Services	65

PART IV

Item 15. Exhibits and Financial Statement Schedules 66

Item 16. Form 10-K Summary E - 3

SIGNATURES S - 1

SAFE HARBOR STATEMENT UNDER THE
PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

All statements included or incorporated by reference in this Annual Report on Form 10-K (this "report"), other than characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not necessarily limited to, statements relating to our ability to acquire, sell, lease or finance aircraft, raise capital, pay dividends, and increase revenues, earnings, EBITDA, Adjusted EBITDA and Adjusted Net Income and the global aviation industry and aircraft leasing sector. Words such as "anticipates," "expects," "intends," "plans," "projects," "believes," "may," "will," "would," "could," "should," "seeks," "estimates" and variations on these words and similar expressions are inte identify such forward-looking statements. These statements are based on our historical performance and that of our subsidiaries and on our current plans, estimates and expectations and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle can give no assurance that its expectations will be attained. Accordingly, you should not place undue reliance on any such forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. These risks or uncertainties include, but are not limited to, those described from time to time in Aircastle's filings with the Securities and Exchange Commission ("SEC"), including as described in Item 1A, and elsewhere in this report. In addition, new risks and uncertainties emerge from time to time, and it is not possible for Aircastle to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this report. Aircastle expressly disclaims any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances.

WEBSITE AND ACCESS TO COMPANY'S REPORTS

The Company's Internet website can be found at www.aircastle.com. Our annual reports on Forms 10-K, quarterly reports on Forms 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website under "Investors — SEC Filings" as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

Statements and information concerning our status as a Passive Foreign Investment Company ("PFIC") for U.S. taxpayers are also available free of charge through our website under "Investors — SEC Filings".

Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee) are available free of charge through our website under "Investors — Corporate Governance". In addition, our Code of Ethics for the Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller, is available in print, free of charge, to any shareholder upon request to Investor Relations, Aircastle Limited, c/o Aircastle Advisor LLC, 300 First Stamford Place, 5th Floor, Stamford, Connecticut 06902.

The information on the Company's website is not part of, or incorporated by reference, into this report, or any other report we file with, or furnish to, the SEC.

PART I.

ITEM 1. BUSINESS

Unless the context suggests otherwise, references in this report to “Aircastle,” the “Company,” “we,” “us,” or “our” refer to Aircastle Limited and its subsidiaries. References in this report to “Aircastle Bermuda” refer to Aircastle Holding Corporation Limited and its subsidiaries. Throughout this report, when we refer to our aircraft, we include aircraft that we have transferred into grantor trusts or similar entities for purposes of financing such assets through securitizations and term financings. These grantor trusts or similar entities are consolidated for purposes of our financial statements. All amounts in this report are expressed in U.S. dollars and the financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

Aircastle acquires, leases, and sells commercial jet aircraft to airlines throughout the world. As of December 31, 2016, we owned and managed on behalf of our joint ventures 206 aircraft leased to 71 lessees located in 36 countries. Our aircraft are managed by an experienced team based in the United States, Ireland and Singapore. Our aircraft are subject to net leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in certain cases, we are obligated to pay a portion of specified maintenance or modification costs. As of December 31, 2016, the net book value of our flight equipment (including flight equipment held for lease and net investment in finance and sales-type leases, or "net book value") was $6.51 billion compared to $6.07 billion at the end of 2015. Our revenues and net income for the year ended December 31, 2016 were $773.0 million and $151.5 million, respectively, and for the fourth quarter of 2016 were $204.7 million and $67.7 million, respectively.

Growth in commercial air traffic is broadly correlated with world economic activity and in recent years, has been expanding at a rate one and a half to two times that of global GDP growth. The expansion of air travel has driven a rise in the world aircraft fleet. There are currently approximately 20,000 commercial mainline passenger and freighter aircraft in operation worldwide. This fleet is expected to continue expanding at an average annual rate of three to four percent over the next twenty years. In addition, aircraft leasing companies own a significant share of the world’s commercial jet aircraft and account for approximately 41% of this fleet.

Notwithstanding the sector’s long-term growth, the aviation markets have been, and are expected to remain, subject to economic variability, as well as to changes in macroeconomic variables such as fuel price levels and foreign exchange rates. The aviation industry is susceptible to external shocks, such as regional conflicts and terrorist events. Mitigating these risks is the portability of the assets, allowing aircraft to be redeployed to locations where demand is higher.

Air traffic data for the past several years has shown strong passenger market growth. According to the International Air Transport Association, during 2016, global passenger traffic increased 6.3% compared to 2015. This strong growth was, in part, stimulated by lower air fare prices resulting from the significant drop in fuel prices. Air cargo demand, which is more sensitive to economic conditions, appears to have stabilized. During 2016, air cargo traffic increased 3.8% compared to 2015, but capacity increased 5.3%, further depressing load factors. This market continues to be hampered by oversupply arising from the rapid growth in belly cargo capacity in passenger aircraft, as well as the production of dedicated freighter aircraft.

Demand for air travel varies considerably by region. Emerging market economies have generally been experiencing significant increases in air traffic, driven by rising levels of per capita income. Air traffic growth in some regions is being driven by the proliferation of low cost carriers, which have stimulated demand through lower prices. Mature markets, such as North America and Western Europe, are likely to grow more slowly in tandem with their economies. Persian Gulf-based Emirates, Qatar Airways and Etihad Airways are also showing signs of reaching maturity, with their growth rates starting to slow. Airlines operating in areas with political instability or weakening economies, such as those in Russia, Brazil, and now Turkey, are under pressure, and their near-term outlook is more uncertain. On balance, we believe air travel will increase over time, and as a result, we expect demand for modern aircraft will continue to remain strong over the long-term.

Record low fuel prices and interest rates have had a substantial effect on our industry. In the four years between 2012 and 2016, the price of oil dropped by $67 per barrel, allowing airlines to reduce ticket prices and stimulate aircraft traffic while retaining enough of this benefit to achieve record profit levels. We believe the prospect of fuel prices

having shifted to a lower baseline has shifted lease pricing among different types of aircraft, generally to the detriment of newer, more fuel efficient aircraft with higher capital costs. The ongoing low interest rate environment and strong overall performance of the aircraft financing sector attracted significant new capital, increasing competition for new investments. The downward

trend in fuel prices and interest rates may, however, have ended as fuel prices started rising in 2016 and in early 2017 the price of fuel was up $19 per barrel since January 2016. Likewise interest rates have started to rise in the U.S., with Federal Reserve guidance suggesting multiple rate hikes subsequent to the December 2016 increase in the Federal Funds rate.

Capital availability for aircraft has varied over time, and we consider this variability to be a basic characteristic of our business. If pursued properly, this represents an important source of opportunity. Both debt and equity markets have improved globally over the past several years with the recovery from the global financial crisis. Strong U.S. debt capital market conditions benefited borrowers by permitting access to financing at historic lows while higher fees have driven down export credit agency ("ECA") demand. Recently, ECA availability has been curtailed, both in the U.S. and in Europe, due to political issues and an investigation into possible irregularities, respectively. Commercial bank debt continues to play a critical role for aircraft finance, although we believe regulatory pressures may ultimately limit its role.

While financial markets conditions are currently attractive, heightened volatility stemming from global growth concerns and various geopolitical issues may increase capital costs and limit availability going forward. We believe these market forces should generate attractive new investment and trading opportunities upon which we are well placed to capitalize given our access to different financing sources, our limited capital commitments and our reputation as a reliable trading partner. Over the longer term, our strategy is to achieve an investment grade credit rating, which we believe will reduce our borrowing costs and enable more reliable access to debt capital throughout the business cycle.

We believe our business approach is differentiated from those of other large leasing companies. Our investment strategy is to seek out the best risk-adjusted return opportunities across the commercial jet market, so our acquisition targets and growth rates will vary with market conditions. We prefer to have capital resources available to capture investment opportunities that arise in the context of changing market circumstances. As such, we limit large, long-term capital commitments and are therefore much less reliant on orders for new aircraft from aircraft manufacturers as a source of new investments. In general, we focus on discerning investment value in situations that are often more bespoke and generally less competitive.

Competitive Strengths

We believe that the following competitive strengths will allow us to capitalize on future growth opportunities in the global aviation industry:

- Diversified portfolio of modern aircraft. We have a portfolio of modern aircraft that is diversified with respect to lessees, geographic markets, lease maturities and aircraft types. As of December 31, 2016, our aircraft portfolio consisted of 206 aircraft, comprising a variety of aircraft types leased to 71 lessees located in 36 countries. Lease expirations for our owned aircraft are well dispersed, with a weighted-average remaining lease term of 5.1 years as of December 31, 2016. This provides the company with a long-dated base of contracted revenues. We believe our focus on portfolio diversification reduces the risks associated with individual lessee defaults and adverse geopolitical or economic issues, and results in generally predictable cash flows.
- Flexible, disciplined acquisition approach and broad investment sourcing network. We consider Aircastle to be the industry's largest "value investor." Our investment strategy is to seek out the best risk-adjusted return opportunities across the commercial jet market, so our acquisition targets vary with market opportunities. We source our acquisitions through well-established relationships with airlines, other aircraft lessors, manufacturers, financial institutions and other aircraft owners. Since our formation in 2004, we built our aircraft portfolio through more than 144 transactions with 84 counterparties.
- Significant experience in successfully selling aircraft throughout their life cycle. Since our formation, we sold 169 aircraft for $4.0 billion. These sales produced net gains of $231 million and involved a wide range of aircraft types and buyers. Our team is adept at managing and executing the sale of both new and used aircraft. We sold 124 aircraft that were over fourteen years old at the time of sale; many of these being sold on a part-out disposition basis, where the airframe and engines may be sold to various buyers. We believe our competence in selling older aircraft is an essential portfolio management skill and one of the capabilities that sets us apart from many of our larger competitors.

- Strong capital raising track record and access to a wide range of financing sources. Aircastle is a publicly listed company, and our shares have traded on the New York Stock Exchange since 2006. Since our inception in late 2004, we raised approximately $1.7 billion in equity capital from private and public investors. Our two largest shareholders are Marubeni Corporation (“Marubeni”) and Ontario Teachers’ Pension Plan (“Teachers’”)

with whom we maintain strong, strategic relationships. We also obtained $12.9 billion in debt capital from a variety of sources including the unsecured bond market, commercial banks, export credit agency-backed debt, and the aircraft securitization market. The diversity and global nature of our financing sources demonstrates our ability to adapt to changing market conditions and seize new opportunities.

- Our capital structure is long-dated and provides investment flexibility. Our business is currently financed under debt financings with a weighted-average debt maturity of 3.7 years. We also have $810 million available from unsecured revolving credit facilities that expire in 2019 and 2020, thereby limiting our near-term financial markets exposure. Given our relatively limited future capital commitments, we have resources to take advantage of what we anticipate will be a more attractive investment environment. We also believe that our access to the unsecured bond market and our unsecured revolving lines of credit, due to our large unencumbered asset base, allow us to pursue a flexible and opportunistic investment strategy.
- Experienced management team with significant expertise. Each member of our management team has more than twenty years of industry experience and has expertise in the acquisition, leasing, financing, technical management, restructuring/repossession and sale of aviation assets. This experience spans several industry cycles and a wide range of business conditions and is global in nature. We believe our management team is highly qualified to manage and grow our aircraft portfolio and to address our long-term capital needs.
- Global and scalable business platform. We operate through offices in the United States, Ireland and Singapore, using a modern asset management system designed specifically for aircraft operating lessors and capable of handling a significantly larger aircraft portfolio. We believe that our current facilities, systems and personnel are capable of supporting an increase in our revenue base and asset base without a proportional increase in overhead costs.

Business Strategy

The overall financing environment has improved in recent years and aircraft owners have benefited from the low interest rate environment. Particularly strong conditions in the debt capital markets have provided select borrowers, including Aircastle, access to attractively priced, flexible financing. This provides us a competitive advantage over airlines and lessors that lack similar access. Moreover, supply of traditional asset-based financing from commercial banks remains volatile, particularly for older aircraft. Going forward, recent heightened financial markets volatility stemming from global growth and geopolitical concerns may increase capital costs and limit availability. This may enable more attractive investment opportunities for Aircastle.

We plan to grow our business and profits over the long-term while maintaining a countercyclical orientation, a bias towards limiting long-dated capital commitments and a conservative and flexible capital structure. Our business strategy entails the following elements:

- Pursuing a disciplined and differentiated investment strategy. In our view, aircraft values change in different ways over time. We carefully evaluate investments across different aircraft models, ages, lessees and acquisition sources and re-evaluate these choices as market conditions and relative investment values change. We believe the financing flexibility offered through unsecured debt and our team's experience with a wide range of asset types enables our value oriented strategy and provides us with a competitive advantage. We view orders from equipment manufacturers to be part of our investment opportunity set, but choose to limit long term capital commitments unless we believe there is an adequate return premium to compensate for risks and opportunity costs. This approach sets us apart from most other large aircraft leasing companies.
- Originating investments from many different sources across the globe. Our strategy is to seek out worthwhile investments by leveraging our team's wide range of contacts around the world. We utilize a multi-channel approach to sourcing acquisitions and have purchased aircraft from a large number of airlines, lessors, original equipment manufacturers, lenders and other aircraft owners.
- Selling assets when attractive opportunities arise and for portfolio management purposes. We sell assets with the aim of realizing profits and reinvesting proceeds when more accretive investments are available. We also use asset sales for portfolio management purposes, such as reducing lessee specific concentrations and lowering residual value exposures to certain aircraft types, and as an exit from investments when a sale generates the greatest expected cash flow.

Maintaining efficient access to capital from a wide set of sources while targeting an investment grade credit rating.

- We believe the aircraft investment market is influenced by the business cycle. Our strategy is to increase

our purchase activity when prices are low and to emphasize asset sales when competition for assets is high. To implement this approach, we believe it is important to maintain access to a wide variety of financing sources. Our strategy is to improve our corporate credit ratings to an investment grade level by maintaining strong portfolio and capital structure metrics while achieving a critical size through accretive growth. We believe improving our credit rating will not only reduce our borrowing costs but also facilitate more reliable access to both secured and unsecured debt capital throughout the business cycle.

- Leveraging our strategic relationships. We intend to capture the benefits provided through the extensive global contacts and relationships maintained by Marubeni, which is our biggest shareholder and one of the largest Japanese trading companies. Marubeni has already enabled greater access to Japanese-based financing and helped source and develop our new joint venture ("IBJ Air") with the leasing arm of the Industrial Bank of Japan, Limited ("IBJL"). Our Lancaster joint venture with Teachers'("Lancaster") provides us with an opportunity to pursue larger transactions, manage portfolio concentrations and improve our return on deployed capital. IBJ Air is targeted at newer narrow-body aircraft leased to premier airlines, providing Aircastle with increased access to this market sector and to these customers.
- Capturing the value of our efficient operating platform and strong operating track record. We believe our team's capabilities in the global aircraft leasing market places us in a favorable position to source and manage new income-generating activities. We intend to continue to focus our efforts in areas where we believe we have competitive advantages, including new direct investments as well as ventures with strategic business partners.
- Intending to pay quarterly dividends to our shareholders based on the Company's sustainable earnings levels. Aircastle has paid dividends each quarter since our initial public offering in 2006. On October 28, 2016, our Board of Directors declared a regular quarterly dividend of $0.26 per common share, or an aggregate of $20.4 million for the three months ended December 31, 2016, which was paid on December 15, 2016 to holders of record on November 29, 2016. These dividend amounts may not be indicative of any future dividends. Our ability to pay quarterly dividends will depend upon many factors, including those as described in Item 1A. "Risk Factors" and elsewhere in this report.

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount (Dollars in thousands)	Record Date	Payment Date
October 28, 2016	$ 0.260	$ 20,434	November 29, 2016	December 15, 2016
August 2, 2016	$ 0.240	$ 18,872	August 26, 2016	September 15, 2016
May 2, 2016	$ 0.240	$ 18,915	May 31, 2016	June 15, 2016
February 9, 2016	$ 0.240	$ 18,915	February 29, 2016	March 15, 2016
October 30, 2015	$ 0.240	$ 19,377	November 30, 2015	December 15, 2015
August 4, 2015	$ 0.220	$ 17,860	August 31, 2015	September 15, 2015
May 4, 2015	$ 0.220	$ 17,863	May 29, 2015	June 15, 2015
February 17, 2015	$ 0.220	$ 17,860	March 6, 2015	March 13, 2015
October 31, 2014	$ 0.220	$ 17,817	November 28, 2014	December 15, 2014
July 28, 2014	$ 0.200	$ 16,201	August 29, 2014	September 12, 2014
May 5, 2014	$ 0.200	$ 16,202	May 30, 2014	June 13, 2014
February 21, 2014	$ 0.200	$ 16,201	March 7, 2014	

March 14, 2014

We believe our team's capabilities in the global aircraft leasing market place us in a favorable position to explore new income-generating activities as capital becomes available for such activities. We intend to continue to focus our efforts on investment opportunities in areas where we believe we have competitive advantages and on transactions that offer attractive risk/return profiles after taking into consideration available financing options. In any case, there can be no assurance that we will be able to access capital on a cost-effective basis and a failure to do so could have a material adverse effect on our business, financial condition or results of operations.

Acquisitions and Sales

We originate acquisitions and sales through well-established relationships with airlines, other aircraft lessors, financial institutions and brokers, as well as other sources. We believe that sourcing such transactions globally through multiple channels provides for a broad and relatively consistent set of opportunities.

Our objective is to develop and maintain a diverse and stable operating lease portfolio. We review our operating lease portfolio to sell aircraft opportunistically, to manage our portfolio diversification and to exit from aircraft investments when we believe selling will achieve better expected risk-adjusted cash flows than reinvesting in and re-leasing the aircraft. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Acquisitions and Sales.”

We have an experienced acquisitions and sales team based in Stamford, Connecticut; Dublin, Ireland and Singapore that maintains strong relationships with a wide variety of market participants throughout the world. We believe that our seasoned personnel and extensive industry contacts facilitate our access to acquisition and sales opportunities and that our strong operating track record facilitates our access to debt and equity capital markets.

Potential investments and sales are evaluated by teams comprised of marketing, technical, risk management, financial and legal professionals. These teams consider a variety of aspects before we commit to purchase or sell an aircraft, including price, specification/configuration, age, condition and maintenance history, operating efficiency, lease terms, financial condition and liquidity of the lessee, jurisdiction, industry trends and future redeployment potential and values, among other factors. We believe that utilizing a cross-functional team of experts to consider investment parameters helps us assess more completely the overall risk and return profile of potential acquisitions and helps us move forward expeditiously on letters of intent and acquisition documentation.

Finance

We intend to fund new investments through cash on hand, cash flows from operations, our revolving credit facilities and medium to long-term financings. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings, cash generated from operations and asset sales. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Secured Debt Financings” and “ — Unsecured Debt Financings” under Item 7.

Segments

The Company manages, analyzes and reports on its business and results of operations on the basis of one operating segment: leasing, financing, selling and managing commercial flight equipment. Our chief executive officer is the chief operating decision maker.

Aircraft Leases

Nearly all of our aircraft are contracted on operating leases. Under an operating lease, we retain the benefit, and bear the risk, of re-leasing and of the residual value of the aircraft at the end of the lease. Operating leasing can be an attractive alternative to ownership for an airline because leasing increases their fleet flexibility, requires lower capital commitments, and significantly reduces aircraft residual value risks. Under these leases, the lessee agrees to lease an aircraft for a fixed term, although certain of our operating leases allow the lessee the option to extend the lease for an additional term or, in rare cases, terminate the lease prior to its expiration. As a percentage of lease rental revenue for the year ended December 31, 2016, our four largest customers, Lion Air, LATAM Airlines Group, Avianca Brazil and South African Airways, accounted for 7%, 6%, 6% and 5%, respectively.

The scheduled maturities of our aircraft leases by aircraft type grouping currently are as follows, taking into account lease placement and renewal commitments as of February 7, 2017:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Sale at Lease End	Total
A319/A320/A321	1	2	10	17	12	6	11	9	4	3	2	3	1	—	81
A330-200/300	1	—	5	1	5	1	1	2	3	2	1	—	—	—	22
737-700/800/900ER	—	6	11	9	7	13	4	5	4	—	4	—	—	—	63
757-200	—	—	—	—	—	—	—	—	—	—	—	—	—	6	6
777-200ER/300ER	—	2	2	—	1	—	1	1	1	—	—	—	—	—	8
E195	—	—	—	—	—	—	1	4	—	—	—	—	—	—	5
Freighters	2	4	—	—	—	1	1	—	—	—	—	—	—	—	8
Total	4	14	28	27	25	21	19	21	12	5	7	3	1	6	193

2017 Lease Expirations and Lease Placements

We began 2017 with seventeen aircraft having scheduled lease expirations in 2017 and three off-lease aircraft. As of February 7, 2017, we have lease commitments or letters of intent to lease or sell sixteen of these aircraft. The remaining four aircraft, which account for 2.9% of our net book value at December 31, 2016, represent our best estimate for the aircraft which we will need to place on lease or sell this year.

2018-2021 Lease Expirations and Lease Placements

Taking into account lease and sale commitments, we currently have the following number of aircraft with lease expirations scheduled in the period 2018-2021, representing the percentage of our net book value at December 31, 2016, specified below:

- 2018: 14 aircraft, representing 9%;
- 2019: 28 aircraft, representing 16%;
- 2020: 27 aircraft, representing 9%; and
- 2021: 25 aircraft, representing 12%.

Lease Payments and Security. Each of our leases requires the lessee to pay periodic rentals during the lease term. As of December 31, 2016, rentals on more than 93% of our leases then in effect, as a percentage of net book value, are fixed and do not vary according to changes in interest rates. For the remaining leases, rentals are payable on a floating interest-rate basis. Most lease rentals are payable monthly in advance, and all lease rentals are payable in U.S. dollars. Under our leases, the lessee must pay operating expenses accrued or payable during the term of the lease, which normally include maintenance, overhaul, fuel, crew, landing, airport and navigation charges, certain taxes, licenses, consents and approvals, aircraft registration and insurance premiums. Typically, the lessee is required to make payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Our determination of whether to permit a lessee to make a single maintenance payment at the end of the lease term, rather than requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the amount of security deposit which may be provided by the lessee and market conditions at the time. If a lessee is making monthly maintenance payments, we would typically be obligated to use the funds paid by the lessee during the lease term to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components, usually shortly following completion of the relevant work. If a lease requires an end of lease term maintenance payment, typically the lessee would be required to pay us for its utilization of the aircraft during the lease. In some cases, however, we may owe a net payment to the lessee in the event heavy maintenance is performed and paid for by the lessee during the lease term and the aircraft is returned to us in better condition than at lease inception.

6

Many of our leases also contain provisions requiring us to pay a portion of the cost of modifications to the aircraft performed by the lessee at its expense, if such modifications are mandated by recognized airworthiness authorities. Typically, these provisions would set a threshold, below which the lessee would not have a right to seek reimbursement and above which we may be required to pay a portion of the cost incurred by the lessee. The lessees are obliged to remove liens on the aircraft other than liens permitted under the leases.

Our leases generally provide that the lessees' payment obligations are absolute and unconditional under any and all circumstances and require lessees to make payments without withholding payment on account of any amounts the lessor may owe the lessee or any claims the lessee may have against the lessor for any reason, except that under certain of the leases a breach of quiet enjoyment by the lessor may permit a lessee to withhold payment. The leases also generally include an obligation of the lessee to gross up payments under the lease where lease payments are subject to withholding and other taxes, although there may be some limitations to the gross up obligation, including provisions which do not require a lessee to gross up payments if the withholdings arise out of our ownership or tax structure. In addition, changes in law may result in the imposition of withholding and other taxes and charges that are not reimbursable by the lessee under the lease or that cannot be so reimbursed under applicable law. Lessees may fail to reimburse us even when obligated under the lease to do so. Our leases also generally require the lessee to indemnify the lessor for tax liabilities relating to the leases and the aircraft, including in most cases, value added tax and stamp duties, but excluding income tax or its equivalent imposed on the lessor.

Portfolio Risk Management

Our objective is to build and maintain a lease portfolio which is balanced and diversified and delivers returns commensurate with risk. We have portfolio concentration objectives to assist in portfolio risk management and highlight areas where action to mitigate risk may be appropriate, and take into account the following:

- individual lessee exposures;
- geographic concentrations;
- aircraft type concentrations;
- portfolio credit quality distribution; and
- lease maturity distribution.

We have a risk management team which undertakes detailed due diligence on lessees when aircraft are being acquired with a lease already in place and for placement of aircraft with new lessees following lease expiration or termination.

Lease Management and Remarketing

Our aircraft re-leasing strategy is to develop opportunities proactively, well in advance of scheduled lease expiration, to enable consideration of a broad set of alternatives, including deployment, sale or part-out, and to allow for reconfiguration or maintenance lead times where needed. We also take a proactive approach to monitoring the credit quality of our customers, and may seek early return and redeployment of aircraft if we feel that a lessee is unlikely to perform its obligations under a lease. We have invested significant resources in developing and implementing what we consider to be state-of-the-art lease management information systems and processes to enable efficient management of aircraft in our portfolio.

Other Aviation Assets and Alternative New Business Approaches

We believe investment opportunities may arise in related areas such as financing secured by commercial jet aircraft as well as jet engine and spare parts leasing, trading and financing. In the future, we may make opportunistic investments in these or other sectors or in other aviation-related assets, and we intend to continue to explore other income-generating activities and investments.

We established Lancaster, a joint venture with Teachers' in December 2013 to invest in leased aircraft. This joint venture is aimed at leveraging our capabilities and allowing us to pursue larger opportunities than we would have on our own. At February 7, 2017, Teachers' holds 10.0% of our outstanding common shares.

In February 2016, through the Company's relationship with Marubeni, we established IBJ Air, a new joint venture with the leasing arm of IBJL. IBJ Air is targeted at newer narrow-body aircraft leased to premier airlines, providing Aircastle with increased access to this market sector and to these customers.

7

We source and service investments for Lancaster and IBJ Air and provide marketing, asset management and administrative services to them. We are paid market-based fees for those services, which are recorded in Other revenue in our Consolidated Statements of Income.

We believe we have a world class servicing platform and may also pursue opportunities to capitalize on these capabilities such as providing aircraft management services for third party aircraft owners.

Competition

The aircraft leasing and trading industry is highly competitive with a significant number of active participants. We face competition for the acquisition of aircraft from airlines and other aircraft owners, for the placement of aircraft on lease with airlines and for buyers of aircraft assets which we may wish to divest.

Competition for aircraft acquisitions comes from large established aircraft leasing companies, smaller players, and new entrants. The improvement in financial markets conditions over the past several years has increased competition across most asset types and has drawn many new investors to our business.

Larger lessors are generally more focused on acquiring new aircraft via purchase and lease-back transactions with airlines and through direct orders with the original equipment manufacturers. These larger lessors include GE Capital Aviation Services, AerCap Holdings, Air Lease Corporation, Aviation Capital Group, CIT Aerospace, SMBC Aviation Capital, BOC Aviation and Avolon Holdings/Bohai Leasing. In addition, several major Asian financial institutions have entered the market for new aircraft over the past several years through new leasing subsidiaries and have been pursuing business aggressively.

Many aircraft leasing companies appear to be in the midst of significant changes, which have the potential to affect the industry structure. Bank of China completed an initial public offering for their leasing subsidiary, BOC Aviation, in May 2016. After acquiring Avolon Holdings in 2015, Bohai Leasing, a Chinese leasing company affiliated with HNA Group, announced an agreement to acquire CIT Aerospace in October 2016, subject to various regulatory approvals. AWAS' ownership group is reported to be exploring exit alternatives.

Competition for mid-aged and older aircraft typically comes from smaller players that, in many cases, rely on private equity or hedge fund capital sources. Such competitors include Apollo Aviation Group, Deucalion, Castlelake, Alterna Capital Partners and a number of relatively new players funded by alternative investment funds and companies. These companies are typically fund-based, rather than having permanent capital structures, and have benefited from the substantially improved availability of debt financing for mid-aged aircraft.

Competition for leasing or re-leasing of aircraft, as well as aircraft sales, is based principally upon the availability, type and condition of aircraft, lease rates, prices and other lease terms. Aircraft manufacturers, airlines and other operators, distributors, equipment managers, leasing companies, financial institutions and other parties engaged in leasing, managing, marketing or remarketing aircraft compete with us, although their focus may be on different market segments and aircraft types.

Some of our competitors have, or may obtain, greater financial resources than we have and may have a lower cost of capital. A number also commit to speculative orders of new aircraft to be placed on operating lease upon delivery from the manufacturer, which compete with new and used aircraft offered by other lessors. However, we believe that we are able to compete favorably in aircraft acquisition, leasing and sales activities due to the reputation of our team of experienced professionals, extensive market contacts and expertise in sourcing and acquiring aircraft. We also believe our access of unsecured capital markets debt provides us with a competitive advantage in pursuing investments quickly and reliably and in acquiring aircraft in situations for which it may be more difficult to finance on a secured, non-recourse basis.

Employees

As of December 31, 2016, we had 102 employees. None of our employees are covered by a collective bargaining agreement, and we believe that we maintain excellent employee relations. We provide certain employee benefits, including retirement benefits, and health, life, disability and accident insurance plans.

Insurance

We require our lessees to carry airline general third-party legal liability insurance, all-risk aircraft hull insurance (both with respect to the aircraft and with respect to each engine when not installed on our aircraft) and war-risk hull and legal liability insurance. We are named as an additional insured on liability insurance policies carried by our lessees, and we or one of our lenders would typically be designated as a loss payee in the event of a total loss of the aircraft. We maintain contingent hull and liability insurance coverage with respect to our aircraft which is intended to provide coverage for certain risks, including the risk of cancellation of the hull or liability insurance maintained by any of our lessees without notice to us, but which excludes coverage for other risks such as the risk of insolvency of the primary insurer or reinsurer.

We maintain insurance policies to cover non-aviation risks related to physical damage to our equipment and property, as well as with respect to third-party liabilities arising through the course of our normal business operations (other than aircraft operations). We also maintain limited business interruption insurance to cover a portion of the costs we would expect to incur in connection with a disruption to our main facilities, and we maintain directors' and officers' liability insurance providing coverage for liabilities related to the service of our directors, officers and certain employees. Consistent with industry practice, our insurance policies are generally subject to deductibles or self-retention amounts.

We believe the insurance coverage currently carried by our lessees and by Aircastle provides adequate protection against the accident-related and other covered risks involved in the conduct of our business. However, there can be no assurance that we have adequately insured against all risks, that lessees will at all times comply with their obligations to maintain insurance, that our lessees' insurers and re-insurers will be or will remain solvent and able to satisfy any claims, that any particular claim will ultimately be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

Government Regulation

The air transportation industry is highly regulated. In general, we are not directly subject to most air transportation regulations because we do not operate aircraft. In contrast, our lessees are subject to extensive, direct regulation under the laws of the jurisdictions in which they are registered and under which they operate. Such laws govern, among other things, the registration, operation, security, and maintenance of our aircraft, as well as environmental and financial oversight regulation of their operations.

Our customers may also be subject to noise or emissions regulations in the jurisdictions in which they operate our aircraft. In July 2016, the U.S. Environmental Protection Agency ("EPA") determined that Greenhouse Gas ("GHG") emissions from certain aircraft engines contribute to the pollution that causes climate change and endangers Americans' health and the environment. The findings are for carbon dioxide (CO2), methane, nitrous oxide, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6). At that time, the EPA indicated its intention to promulgate new rules to adopt GHG standards promulgated by the International Civil Aviation Organization ("ICAO"). In October 2016, ICAO adopted a global market-based measure to control CO2 emissions from international aviation. The pilot phase of this measure will begin in 2021, and the mandatory phase begins in 2027. In addition, European countries generally have strict environmental regulations, and, in particular, the European Union ("E.U.") has included flights originating or landing in the E.U. in the European Emissions Trading Scheme ("ETS"). The United States, China and other countries continue to oppose the inclusion of aviation emissions in ETS. Other environmental regulations our customers may be subject to include those relating to discharges to surface and subsurface waters, management of hazardous substances, oils, and waste materials, and other regulations affecting their aircraft operations.

Inflation

Inflation affects our lease rentals, asset values and costs, including SG&A expenses and other expenses. We do not believe that our financial results have been, or will be, adversely affected by inflation in a material way.

Subsequent Events

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of December 31, 2016 through the date of this filing, the date on which the

consolidated financial statements included in this Form 10-K were issued.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially adversely affect our business, financial condition, results of operations or ability to pay dividends in future periods or to meet our debt obligations. The risks described below are not the only risks facing our Company. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, results of operations or ability to pay dividends in future periods.

Risks Related to Our Business

Risks Related to Our Operations

Volatile financial market conditions may adversely impact our liquidity, our access to capital and our cost of capital and may adversely impact the airline industry and the financial condition of our lessees.

The financial crisis that began in the second half of 2008 resulted in significant global market volatility and disruption and a lack of liquidity. While these conditions have stabilized and many segments of the capital markets have improved substantially since the first quarter of 2009, the availability and pricing of capital in the commercial bank market and in the unsecured bond market remain susceptible to global events, including, for example, political changes in the U.S. and abroad, rising interest rates, a strengthening dollar, the rate of China's economic growth and implications from changes in oil prices. If we need, but cannot obtain, adequate capital on satisfactory terms, or at all, as a result of negative conditions in the capital markets or otherwise, our business, financial condition, results of operations or our ability to pay dividends to our shareholders could be materially adversely affected. Additionally, such inability to obtain capital on satisfactory terms, or at all, could prevent us from pursuing attractive future growth opportunities.

Risks affecting the airline industry may adversely affect our customers and have a material adverse impact on our financial results.

We operate as a supplier to airlines and are indirectly impacted by all the risks facing airlines today. The ability of each lessee to perform its obligations under the relevant lease will depend primarily on the lessee's financial condition and cash flow, which may be affected by factors beyond our control, including:

- passenger and air cargo demand;
- competition;
- passenger fare levels and air cargo rates;
- the continuing availability of government support, whether through subsidies, loans, guarantees, equity investments or otherwise;
- availability of financing and other circumstances affecting airline liquidity, including covenants in financings, terms imposed by credit card issuers, collateral posting requirements contained in fuel hedging contracts and the ability of airlines to make or refinance principal payments as they come due;
- geopolitical and other events, including war, acts or threats of terrorism, outbreaks of epidemic diseases and natural disasters;
- aircraft accidents;
- operating costs, including the price and availability of jet fuel, labor costs and insurance costs and coverages;
- restrictions in labor contracts and labor difficulties;
- economic conditions, including recession, financial system distress and currency fluctuations in the countries and regions in which the lessee operates or from which the lessee obtains financing;
- changing political conditions, including risk of rising protectionism, restrictions on immigration or imposition of new trade barriers;
- cyber risk, including information hacking, viruses and malware; and
- governmental regulation of, or affecting the air transportation business, including noise regulations, emissions regulations, climate change initiatives, and aircraft age limitations.

These factors, and others, may lead to defaults by our customers, or may delay or prevent aircraft deliveries or transitions, result in payment restructurings or other lease term restructurings, and may increase our costs from repossessions and reduce our revenues due to downtime or lower re-lease rates.

We bear the risk of re-leasing and selling our aircraft in order to meet our debt obligations, finance our growth and operations, pay dividends and, ultimately, realize upon the investment in the aircraft in our portfolio.

We bear the risk of re-leasing and selling or otherwise disposing of our aircraft in order to continue to generate revenues. In certain cases we commit to purchase aircraft that are not subject to lease and therefore are subject to lease placement risk. Because only a portion of an aircraft's value is covered by contractual cash flows from an operating lease, we are exposed to the risk that the residual value of the aircraft will not be sufficient to permit us to fully recover or realize a gain on our investment in the aircraft and to the risk that we may have to record impairment charges. Further, our ability to re-lease, lease or sell aircraft on favorable terms, or at all, or without significant off-lease time and transition costs is likely to be adversely impacted by risks affecting the airline industry generally. Other factors that may affect our ability to realize upon the investment in our aircraft and that may increase the likelihood of impairment charges, include higher fuel prices which may reduce demand for older, less fuel efficient aircraft, additional environmental regulations, age restrictions, customer preferences and other factors that may effectively shorten the useful life of older aircraft.

We own and lease long-lived assets and have written down the value of some of our assets in prior years, and if market conditions worsen, or in the event of a customer default, we may be required to record further write-downs.

We test our assets for recoverability whenever events or changes in circumstances indicate that the carrying amounts for such assets are not recoverable from their expected, undiscounted cash flows. We also perform a fleet-wide recoverability assessment annually. This recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry as well as from information received from third party sources.

If anticipated aircraft lease cash flows or sales values worsen due to a decline in market conditions, or if a lessee defaults, we may have to reassess the carrying value of one or more of our aircraft. For example, as aircraft approach the end of their economic useful lives, their carrying values may be more susceptible to non-recoverable declines in value because such assets will have a shorter opportunity in which to benefit from a market recovery. At December 31, 2016, our monitoring list consisted of thirteen aircraft with a total net book value of $549.2 million, which represents aircraft that may be more susceptible to future impairments. As such, it is possible that additional impairments may be triggered for these aircraft and any such impairment amounts may be material.

Our financial reporting for lease revenue may be significantly impacted by a proposed new model for lease accounting.

On February 25, 2016, the FASB issued Accounting Standards Codification ("ASC") 842, "Leases," which replaced the existing guidance in ASC 840, Leases ("ASC 840"). The accounting for leases by lessors basically remained unchanged from the concepts that existed in ASC 840 accounting. The FASB decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct finance lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the forthcoming revenue recognition standard, which evaluates whether a sale has occurred from the customer's perspective. The standard will be effective for public entities beginning after December 15, 2018. The standard is applied on a "modified retrospective" basis. We plan to adopt the standard on its required effective date of January 1, 2019. We are evaluating the impact that ASC 842 will have on our consolidated financial statements and related disclosures. Although we do not believe that the adoption of the standard will significantly impact our existing or potential lessees' economic decisions to lease aircraft, the ultimate impact on our existing or potential lessees remains uncertain.

Our ability to obtain debt financing and our cost of debt financing is, in part, dependent upon our credit ratings and a credit downgrade could adversely impact our financial results.

Our ability to obtain debt financing and our cost of debt financing is dependent, in part, on our credit ratings. Maintaining our credit ratings depends in part on strong financial results and in part on other factors, including the outlook of the ratings agencies on our sector and on the market generally. A credit rating downgrade may result in higher pricing or less favorable terms under secured financings, including ECA backed financings, or may make it more difficult or more costly for us to

raise debt financing in the unsecured bond market. Credit rating downgrades may therefore make it more difficult and/or more costly to satisfy our funding requirements. In addition, any future tightening or regulation of financial institutions (such as BASEL 4), including increasing capital reserves, could impact our ability to raise funds in the commercial bank loan market in the future.

An increase in our borrowing costs may adversely affect our earnings and cash available for distribution to our shareholders.

Our aircraft are financed under long-term debt financings. As these financings mature, we will be required to either refinance these instruments by entering into new financings, which could result in higher borrowing costs, or repay them by using cash on hand or cash from the sale of our assets.

Departure of key officers could harm our business and financial results.

Our senior management's reputations and relationships with lessees, sellers, buyers and financiers of aircraft are a critical element of our business. We encounter intense competition for qualified employees from other companies in the aircraft leasing industry, and we believe there are only a limited number of available qualified executives in our industry. The Company seeks to retain a pipeline of senior management personnel with superior talent to provide continuity of succession, including for the Chief Executive Officer position and other senior positions. In addition, our Board of Directors is involved in succession planning, including review of short- and long-term succession plans for the Chief Executive Officer and other senior positions. Our future success depends, to a significant extent, upon the continued service of our senior management personnel, including the Chief Executive Officer and his potential successors, and if we lose one or more of these individuals, our business could be adversely affected.

We may not be able to pay or maintain dividends, or we may choose not to pay dividends, and the failure to pay or maintain dividends may adversely affect our share price.

On October 28, 2016, our Board of Directors declared a regular quarterly dividend of $0.26 per common share, or an aggregate of approximately $20.4 million, which was paid on December 15, 2016 to holders of record on November 29, 2016. This dividend may not be indicative of the amount of any future quarterly dividends. Our ability to pay, maintain or increase cash dividends to our shareholders is subject to the discretion of our Board of Directors and will depend on many factors, including: our ability to comply with financial covenants in our financing documents that limit our ability to pay dividends and make certain other restricted payments; the difficulty we may experience in raising, and the cost of, additional capital and our ability to finance our aircraft acquisition commitments; our ability to re-finance our long-term financings; our ability to negotiate and enforce favorable lease rates and other contractual terms; the level of demand for our aircraft in the lease placement or sales markets; the economic condition of the commercial aviation industry generally; the financial condition and liquidity of our lessees; unexpected or increased aircraft maintenance or other expenses; the level and timing of capital expenditures, principal repayments and other capital needs; maintaining our credit ratings, our results of operations, financial condition and liquidity; legal restrictions on the payment of dividends, including a statutory dividend test and other limitations under Bermuda law; and general business conditions and other factors that our Board of Directors deems relevant. Some of these factors are beyond our control. In the future, we may choose to not pay dividends or may not be able to pay dividends, maintain our current level of dividends, or increase them over time. The failure to maintain or pay dividends may adversely affect our share price.

We are subject to risks related to our indebtedness that may limit our operational flexibility and our ability to compete with our competitors.

As of December 31, 2016, our total indebtedness was approximately $4.5 billion, representing approximately 71.1% of our total capitalization. Aircastle Limited has guaranteed most of this indebtedness and we are responsible on a full recourse basis for timely payment when due and compliance with covenants under the related debt documentation. As a result of our substantial amount of indebtedness, we may be unable to generate sufficient cash to pay, when due, the principal of, interest on or other amounts due with respect to our indebtedness, and our substantial amount of indebtedness may increase our vulnerability to adverse economic and industry conditions, reduce our flexibility in planning for or reaction to changes in the business environment or in our business or industry, and adversely affect our cash flow and our ability to operate our business and compete with our competitors.

Our indebtedness subjects us to certain risks, including:

- 29% of our net book value serves as collateral for our secured indebtedness, and the terms of certain of our indebtedness require us to use proceeds from sales of aircraft, in part, to repay amounts outstanding under such indebtedness;
- our failure to comply with the terms of our indebtedness, including restrictive covenants contained therein, may result in additional interest being due or defaults that could result in the acceleration of the principal, and unpaid interest on, the defaulted debt, as well as the forfeiture of any aircraft pledged as collateral; and
- non-compliance with covenants prohibiting certain investments and other restricted payments, including limitations on our ability to pay dividends, repurchase our common shares, raise additional capital or refinance our existing debt, may reduce our operational flexibility and limit our ability to refinance or grow the business.

Risks Related to Our Long-term Financings

The provisions of our long-term financings require us to comply with financial and other covenants. Our compliance with these ratios, tests and covenants depends upon, among other things, the timely receipt of lease payments from our lessees and upon our overall financial performance.

- ECA Financings. Our ECA Financings contain a $500 million minimum net worth covenant and also contain, among other customary provisions, a material adverse change default and a cross-default to certain other financings of the Company.
- Bank Financings. Our secured bank financings contain, among other customary provisions, a $500 million minimum net worth covenant, a cross-default to certain other financings of the Company, and for one portfolio financing, a minimum debt service coverage ratio of 1.15.
- Senior Notes. Our senior notes indentures impose operating and financial restrictions on our activities. These restrictions limit our ability to, or in certain cases prohibit us from, incurring or guaranteeing additional indebtedness, refinancing our existing indebtedness, paying dividends, repurchasing our common shares, making other restricted payments, making certain investments or entering into joint ventures and a cross-default to certain other financings of the Company.
- Unsecured Revolving Credit Facilities and Loan. Our unsecured revolving credit facilities/loan contain $750 million minimum net worth covenants, minimum unencumbered asset ratios, minimum interest coverage ratios and cross-defaults to certain other financings of the Company.

The terms of our financings also restrict our ability to incur or guarantee additional indebtedness or engage in mergers, amalgamations or consolidations among our subsidiary companies or between a subsidiary company and a third party or otherwise dispose of all or substantially all of our assets.

We are subject to various risks and requirements associated with transacting business in foreign jurisdictions.

The international nature of our business exposes us to trade and economic sanctions and other restrictions imposed by the U.S. and other governments. The U.S. Departments of Justice, Commerce and Treasury, as well as other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the Foreign Corrupt Practices Act (“FCPA”), and other federal statutes, sanctions and regulations, including those established by the Office of Foreign Assets Control (“OFAC”) and, increasingly, similar or more restrictive foreign laws, rules and regulations, including the U.K. Bribery Act (“UKBA”), which may also apply to us. By virtue of these laws and regulations, and under laws and regulations in other jurisdictions, we may be obliged to limit our business activities, we may incur costs for compliance programs and we may be subject to enforcement actions or penalties for noncompliance. In recent years, U.S. and foreign governments have increased their oversight and enforcement activities with respect to these laws, and we expect the relevant agencies to continue to increase these activities.

We have compliance policies and training programs in place for our employees with respect to FCPA, OFAC Regulations, UKBA and similar laws, but there can be no assurance that our employees, consultants or agents will not engage in conduct for which we may be held responsible. Violations of FCPA, OFAC Regulations, UKBA and other laws, sanctions or regulations may result in severe criminal or civil penalties, and we may be subject to other liabilities.

13

We are dependent upon information technology systems, which are subject to disruption, damage, failure and risks associated with implementation and integration.

We are dependent upon information technology systems to manage, process, store and transmit information associated with our operations, which may include proprietary business information and personally identifiable information of our customers and employees. Our information technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, computer viruses, security breaches, cyber-attacks, employee error, natural disasters and defects in design. Damage, disruption, or failure of one or more information technology systems may result in interruptions to our operations in the interim or may require a significant investment to fix or replace them or may result in significant damage to our reputation. Although various measures have been implemented to manage our risks related to the information technology systems and network disruptions, a cyber-attack could lead to the loss of sensitive information, including our own proprietary information or that of our customers and employees, and could harm our reputation and result in lost revenues and additional costs and potential liabilities.

Risks Related to Our Aviation Assets

The variability of supply and demand for aircraft could depress lease rates for our aircraft, which would have an adverse effect on our financial results and growth prospects.

The aircraft leasing and sales industry has experienced periods of aircraft oversupply and undersupply. In recent years, we believe the market has been characterized by oversupply of certain older, less fuel efficient aircraft and certain freighter aircraft types. More recently, the values of certain types of wide-body aircraft have been under stress but it is unclear whether this is a temporary market imbalance or a long term trend. The oversupply of a specific type of aircraft in the market is likely to depress aircraft lease rates for, and the value of, that type of aircraft.

The supply and demand for aircraft is affected by various cyclical and non-cyclical factors that are not under our control, including:

- passenger and air cargo demand;
- operating costs, including fuel costs, and general economic conditions affecting our lessees' operations;
- geopolitical events, including war, prolonged armed conflict and acts of terrorism;
- outbreaks of communicable diseases and natural disasters;
- governmental regulation;
- interest rates;
- foreign exchange rates;
- tariffs and other restrictions on trade;
- airline restructurings and bankruptcies;
- the availability of credit;
- changes in control of, or restructurings of, other aircraft leasing companies;
- manufacturer production levels and technological innovation;
- discounting by manufacturers on aircraft types nearing end of production;
- climate change initiatives, technological change, aircraft noise and emissions regulations, aircraft age limits and other factors leading to reduced demand for, early retirement or obsolescence of aircraft models;
- manufacturers merging, exiting the industry or ceasing to produce aircraft types;
- new-entrant manufacturers producing additional aircraft models, or existing manufacturers producing newly engined aircraft models or new aircraft models, in competition with existing aircraft models;
- reintroduction into service of aircraft previously in storage; and
- airport and air traffic control infrastructure constraints.

These and other factors may produce sharp decreases or increases in aircraft values and lease rates, which would impact our cost of acquiring aircraft and our ability to grow the business, or which may result in lease defaults and also prevent the aircraft from being re-leased or sold on favorable terms. This could have an adverse effect on our financial results and growth prospects.

14

Other factors that increase the risk of decline in aircraft value and lease rates could have an adverse effect on our financial results and growth prospects.

In addition to factors linked to the aviation industry generally, other factors that may affect the value and lease rates of our aircraft include:

- the age of the aircraft;
- the particular maintenance and operating history of the airframe and engines;
- the number of operators using that type of aircraft;
- whether the aircraft is subject to a lease and, if so, whether the lease terms are favorable to us;
- applicable airworthiness directives or manufacturer's service bulletins that have not yet been performed to the aircraft;
- grounding orders or other regulatory action that could prevent or limit utilization of our aircraft;
- any regulatory and legal requirements that must be satisfied before the aircraft can be purchased, sold or re-leased; and
- compatibility of our aircraft configurations or specifications with those desired by the operators of other aircraft of that type.

Any decrease in the values of and lease rates for commercial aircraft which may result from the above factors or other unanticipated factors may have a material adverse effect on our financial results and growth prospects.

The advent of superior aircraft technology and higher production levels could cause our existing aircraft portfolio to become outdated and therefore less desirable.

As manufacturers introduce technological innovations and new types of aircraft, including the Boeing 787, the Airbus A350, the Bombardier C Series and re-engined and/or replacement types for the Boeing 737, Boeing 777, Airbus A320, Airbus A330 and Embraer E-Jet families of aircraft, certain aircraft in our existing aircraft portfolio may become less desirable to potential lessees or purchasers. This next generation of aircraft is expected to deliver improved fuel consumption and reduced noise and emissions with lower operating costs compared to current-technology aircraft. The Boeing 787 is currently in production while the Boeing 777X is expected to enter service in 2020-2021. The first variant of the Airbus A350 entered service in December 2014. The Airbus A320neo and the Bombardier C Series entered service in 2016. The Boeing 737 MAX family of aircraft is expected to enter service in 2017 and first deliveries for the Airbus A330neo and Embraer's second generation of E-Jets, the E-2 family, are expected to begin in 2018. Further, Commercial Aircraft Corporation of China Ltd., Mitsubishi and Russia's United Aircraft Corporation are developing aircraft models that will compete with the Airbus A319, the Boeing 737 and the Embraer E-Jet.

The introduction of these new models, and the potential resulting overcapacity in aircraft supply, could adversely affect the residual values and the lease rates for our aircraft and our ability to lease or sell our aircraft on favorable terms, or at all.

The effects of energy, emissions, and noise regulations and policies may negatively affect the airline industry. This may cause lessees to default on their lease payment obligations to us and may limit the market for certain aircraft in our portfolio.

Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. For example, jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with noise level standards. In addition to the current requirements, the United States and ICAO have adopted a new, more stringent set of standards for noise levels which applies to engines manufactured or certified on or after January 1, 2006. Currently, U.S. regulations would not require any phase-out of aircraft that qualify with the older standards applicable to engines manufactured or certified prior to January 1, 2006, but the E.U. has established a framework for the imposition of operating limitations on aircraft that do not comply with the new standards. These regulations could limit the economic life of the aircraft and engines, reduce their value, limit our ability to lease or sell these non-compliant aircraft and engines or, if engine modifications are permitted, require us to make significant additional investments in the aircraft and engines to make them compliant.

In addition to stringent noise restrictions, the U.S. and other jurisdictions have imposed stringent limits on aircraft engine emissions, such as NOx, CO and CO2, consistent with current ICAO standards. European countries have

relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. The E.U. has

included the aviation sector in its emissions trading scheme ("ETS"), and has attempted to apply the ETS to flights outside of European airspace. This effort has been opposed by the U.S. and other countries. The E.U. suspended the ETS for flights from or to non- European countries in 2013, but absent amendment, the ETS applies to flights outside of Europe in 2017. Finally, ICAO has also adopted a resolution developing a global market-based measure to control CO2 emission from international aviation, which begins in 2021. As noted above, the U.S. EPA announced in 2016 its intent to promulgate and adopt a rule to incorporate these new standards into domestic law.

Additionally, in 2015, over 190 countries, including the United States, reached an agreement to reduce global GHG emissions at the United Nations Framework Convention on Climate. The agreement does not expressly reference aviation, but if the agreement is implemented in the United States and other countries there could be an adverse direct or indirect effect on the aviation industry as a whole.

Over time, it is possible that governments will adopt additional regulatory requirements and/or market-based policies that are intended to reduce energy usage, emissions, and noise levels from aircraft. Such initiatives may be based on concerns regarding climate change, energy security, public health, local impacts, or other factors, and may also impact the global market for certain aircraft and cause behavioral shifts that result in decreased demand for air travel. These concerns could also result in greater limitations on the operation of our fleet, particularly aircraft equipped with older technology engines.

Compliance with current or future regulations, taxes or duties could cause our lessees to incur higher costs and lead to higher ticket prices, which could mean lower demand for travel and adverse impacts on the financial condition of our lessees. Such compliance may also affect our lessees' ability to make rental and other lease payments and limit the market for aircraft in our portfolio, which could have other negative effects on our financial position.

The older age, or older technology, of some of our aircraft may expose us to higher than anticipated maintenance related expenses.

As of December 31, 2016, 9% of our aircraft portfolio, based on net book value, was fifteen years or older. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Additionally, older aircraft typically are less fuel-efficient than newer aircraft and may be more difficult to re-lease or sell, particularly if, due to increasing production rates by aircraft manufacturers or airline insolvencies or other distress, older aircraft are competing with newer aircraft in the lease or sale market. Expenses like fuel, aging aircraft inspections, maintenance or modification programs and related airworthiness directives could make the operation of older aircraft less economically feasible and may result in increased lessee defaults. We may also incur some of these increased maintenance expenses and regulatory costs upon acquisition or re-leasing of our aircraft. Re-leasing larger wide-body aircraft may result in higher reinvestment and maintenance expenditures than re-leasing narrow-body aircraft.

The concentration of aircraft types in our aircraft portfolio could lead to adverse effects on our business and financial results should any difficulties specific to these particular types of aircraft occur.

Our owned aircraft portfolio is concentrated in certain aircraft types. Should any of these aircraft types (or other types we acquire in the future) or aircraft manufacturers encounter technical, financial or other difficulties, it would cause a decrease in value of these aircraft, an inability to lease the aircraft on favorable terms or at all, or a potential grounding of these aircraft, which may adversely impact our financial results, to the extent the affected aircraft types comprise a significant percentage of our aircraft portfolio.

We operate in a highly competitive market for investment opportunities in aviation assets and for the leasing and sale of aircraft.

We compete with other operating lessors, airlines, aircraft manufacturers, financial institutions, aircraft brokers and other investors with respect to aircraft acquisitions, leasing and sales. The aircraft leasing industry is highly competitive and may be divided into three basic activities: (i) aircraft acquisition; (ii) leasing or re-leasing of aircraft; and (iii) aircraft sales. Competition varies among these three basic activities.

A number of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk or residual value

assessments, which could allow them to consider a wider variety of investments, establish more relationships, bid more aggressively on aviation assets available for sale and offer lower lease rates or sales prices than we can. Some of our competitors may provide financial services, maintenance services or other inducements to potential lessees or buyers that we cannot provide. As a

result of competitive pressures, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objectives. We are beginning to see a greater supply of certain aircraft, engines and parts being offered for sale in the part-out market as other leasing companies start addressing the older aircraft in their portfolios. Additionally, the barriers to entry in the aircraft acquisition and leasing market are comparatively low, and new entrants with private equity, hedge fund, Asian bank or other funding sources appear from time to time. We may not be able to compete effectively against present and future competitors in the aircraft acquisition, leasing or sales market.

Risks Related to our Order of New Embraer E-Jet E2 Aircraft

We have lease commitments for three of the 25 Embraer E-Jet E2 aircraft that we contracted to purchase from Embraer and are scheduled for delivery between the fourth quarter of 2018 and 2021. We do not yet have lease commitments for the remaining deliveries nor have we put financing in place for any of the Embraer E-Jet E-2 aircraft deliveries. Our ability to lease these aircraft on favorable terms, if at all, may be adversely affected by desirability of this new aircraft type and risks to the commercial airline industry generally. If we are unable to obtain the necessary financing or otherwise satisfy our contractual obligations to Embraer, we will be subject to several potential risks, including:

- forfeiting advance deposits and progress payments to Embraer, as well as incurring certain significant costs related to these commitments such as actual damages and legal, accounting and financial advisory expenses;
- defaulting on any future lease commitments we may have entered into with respect to these aircraft, which could result in monetary damages and strained relationships with lessees;
- failing to realize the benefits of purchasing and leasing such aircraft; and
- risking harm to our business reputation, which would make it more difficult to purchase and lease aircraft in the future on agreeable terms, if at all.

In addition, the Embraer E-Jet E2 is a new aircraft variant under development and is not yet in production. While the Embraer E-Jet E2 aircraft will incorporate a modified version of the recently introduced Pratt & Whitney geared turbofan engine, this version is also not in production. Airframe and engine manufacturers have occasionally experienced delays and technical difficulties in bringing new aircraft and engine types to market. If any aircraft for which we have made future lease commitments is delayed or if Embraer is unable to produce the aircraft in compliance with the performance specifications, some or all of our affected lessees might be able to terminate their leases with respect to such aircraft. Our purchase agreement with Embraer and the anticipated future leases for these aircraft contain certain cancellation rights related to delays in delivery. Any such termination could strain our relations with those lessees going forward. Lastly, we will rely on Embraer to return any advance deposits and progress payments if they are unable to meet their obligations to us, and we may not be able to recover such amounts if Embraer defaults or becomes insolvent. Any of these events could materially and adversely affect our financial results and operations.

Risks Related to Our Leases

If lessees are unable to fund their maintenance obligations on our aircraft, we may incur increased costs at the conclusion of the applicable lease.

The standards of maintenance observed by the various lessees and the condition of the aircraft at the time of lease or sale may affect the future values and rental rates for our aircraft.

Under our leases, the relevant lessee is generally responsible for maintaining the aircraft and complying with all governmental requirements applicable to the lessee and the aircraft, including, without limitation, operational, maintenance, and registration requirements and airworthiness directives, although in certain cases we may agree to share certain of these costs. Failure of a lessee to perform required aircraft maintenance or required airworthiness directives could result in a decrease in value of such aircraft, an adverse effect on our ability to lease the aircraft at favorable rates or at all, or a potential grounding of such aircraft, and will likely require us to incur increased maintenance and modification costs upon the expiration or earlier termination of the applicable lease, which could be substantial, to restore such aircraft to an acceptable condition. If any of our aircraft are not subject to a lease, we would be required to bear the entire cost of maintaining that aircraft and performing any required airworthiness

directives.

Certain of our leases provide that the lessee is required to make periodic payments to us during the lease term in order to provide cash reserves for the major maintenance. In these leases there is an associated liability for us to reimburse the

lessee after such maintenance is performed. A substantial number of our leases do not provide for any periodic maintenance reserve payments to be made to us. Typically, these lessees are required to make payments at the end of the lease term. However, in the event such lessees default, the value of the aircraft could be negatively affected by the maintenance condition and we may be required to fund the entire cost of performing major maintenance on the relevant aircraft without, in either case, having received compensating maintenance payments from these lessees. Even if we receive maintenance payments, these payments may not cover the entire expense of the scheduled maintenance they are intended to fund. In addition, maintenance payments typically cover only certain scheduled maintenance requirements and do not cover all required maintenance and all scheduled maintenance. As a result, we may incur unanticipated or significant costs at the conclusion of a lease.

Failure to pay certain potential additional operating costs could result in the grounding or arrest of our aircraft and prevent the re-lease, sale or other use of our aircraft.

As in the case of maintenance costs, we may incur other operational costs upon a lessee default or where the terms of the lease require us to pay a portion of those costs. Such costs include:

- the costs of casualty, liability and political risk insurance and the liability costs or losses when insurance coverage has not been or cannot be obtained as required, or is insufficient in amount or scope;
- the costs of licensing, exporting or importing an aircraft, airport charges, customs duties, air navigation charges, landing fees and similar governmental or quasi-governmental impositions, which can be substantial;
- penalties and costs associated with the failure of lessees to keep aircraft registered under all appropriate local requirements or obtain required governmental licenses, consents and approvals; and
- carbon taxes or other fees, taxes or costs imposed under emissions limitations, climate change regulations or other initiatives.

The failure to pay certain of these costs can result in liens on the aircraft and the failure to register the aircraft can result in a loss of insurance. These matters could result in the grounding or arrest of the aircraft and prevent the re-lease, sale or other use of the aircraft until the problem is cured.

Our lessees may have inadequate insurance coverage or fail to fulfill their respective indemnity obligations, which could result in us not being covered for claims asserted against us.

By virtue of holding title to the aircraft, lessors may be held strictly liable for losses resulting from the operation of aircraft or may be held liable for those losses based on other legal theories. Liability may be placed on an aircraft lessor in certain jurisdictions around the world even under circumstances in which the lessor is not directly controlling the operation of the relevant aircraft.

Lessees are required under our leases to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and hull all risk and hull war risk insurance on the aircraft at agreed upon levels. However, they are not generally required to maintain political risk insurance. Following the terrorist attacks of September 11, 2001, aviation insurers significantly reduced the amount of insurance coverage available to airlines for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. At the same time, they significantly increased the premiums for such third-party war risk and terrorism liability insurance and coverage in general. As a result, the amount of such third-party war risk and terrorism liability insurance that is commercially available at any time may be below the amount stipulated in our leases.

Our lessees' insurance, including any available governmental supplemental coverage, may not be sufficient to cover all types of claims that may be asserted against us. Any inadequate insurance coverage or default by lessees in fulfilling their indemnification or insurance obligations will reduce the proceeds that would be received by us upon an event of loss under the respective leases or upon a claim under the relevant liability insurance.

Failure to obtain certain required licenses and approvals could negatively affect our ability to re-lease or sell aircraft.

A number of our lessees must obtain licenses, consents or approvals in order to import or operate the aircraft or comply with the leases. These include consents from governmental or regulatory authorities for certain payments under the leases and for the import, export or deregistration of the aircraft. Subsequent changes in applicable law or

administrative practice

18

may increase such requirements and a governmental consent, once given, might be withdrawn. Furthermore, consents needed in connection with future re-leasing or sale of an aircraft may not be forthcoming. Any of these events could adversely affect our ability to re-lease or sell aircraft.

Due to the fact that many of our lessees operate in emerging markets, we are indirectly subject to many of the economic and political risks associated with competing in such markets.

Emerging markets are countries which have less developed economies that are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets, unfavorable legal systems, change in law regarding recognition of contracts or ownership rights, changes in governments or government policy and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by our lessees and the resulting instability may adversely affect our ownership interest in an aircraft or the ability of lessees which operate in these markets to meet their lease obligations and these lessees may be more likely to default than lessees that operate in developed economies. For the year ended December 31, 2016, 41 of our lessees, which operated 119 aircraft and generated 68% of our lease rental revenue, are domiciled or habitually based in emerging markets.

Risks Related to Our Lessees

Lessee defaults could materially adversely affect our business, financial condition and results of operations.

As a general matter, airlines with weak capital structures are more likely than well-capitalized airlines to seek operating leases, and, at any point in time, investors should expect a varying number of lessees and sub-lessees to experience payment difficulties. As a result of their weak financial condition and lack of liquidity, a portion of lessees over time may be significantly in arrears in their rental or maintenance payments. This is likely to be the case in the future and with other lessees and sub-lessees of our aircraft as well, particularly in a difficult economic or operating environment. These liquidity issues will be more likely to lead to airline failures in the context of financial system distress, volatile fuel prices, and economic slowdown, with additional liquidity being more difficult and expensive to source. Given the size of our aircraft portfolio, we expect that from time to time some lessees will be slow in making, or will fail to make, their payments in full under their leases.

We may not correctly assess the credit risk of each lessee or may not be in a position to charge risk-adjusted lease rates, and lessees may not be able to continue to perform their financial and other obligations under our leases in the future. A delayed, reduced or missed rental payment from a lessee decreases our revenues and cash flow and may adversely affect our ability to make payments on our indebtedness or to comply with debt service coverage or interest coverage ratios. While we may experience some level of delinquency under our leases, default levels may increase over time, particularly as our aircraft portfolio ages and if economic conditions deteriorate. A lessee may experience periodic difficulties that are not financial in nature, which could impair its performance of maintenance obligations under the leases. These difficulties may include the failure to perform required aircraft maintenance and labor-management disagreements or disputes.

In the event that a lessee defaults under a lease, any security deposit paid or letter of credit provided by the lessee may not be sufficient to cover the lessee’s outstanding or unpaid lease obligations and required maintenance and transition expenses.

Adverse currency movements could negatively affect our lessees’ ability to honor the terms of their leases and could materially adversely affect our business, financial condition and results of operations.

Many of our lessees are exposed to currency risk due to the fact that they earn revenues in their local currencies while a significant portion of their liabilities and expenses, including fuel, debt service, and lease payments are denominated in U.S. dollars. In the case of a devaluation of the local currency, our lessees may not be able to increase revenue sufficiently to offset the impact of exchange rates on these expenses. This is particularly true for non-U.S. airlines whose operations are primarily domestic. This difference is magnified in the event of an appreciating U.S. dollar, as we have seen over the course of the last year, due to the strengthening of the U.S. economy and the expectation of rising U.S. interest rates. Currency volatility, particularly in emerging market countries, could impact the ability of some of our customers to meet their contractual obligations in a timely manner. Shifts in foreign exchange rates can

be significant, are difficult to predict, and can occur quickly.

If our lessees encounter financial difficulties and we decide to restructure our leases with those lessees, this could result in less favorable leases and in significant reductions in our cash flow or adversely affect our financial results.
When a lessee is late in making payments, fails to make payments in full or in part under the lease or has otherwise advised us that it will in the future fail to make payments in full or in part under the lease, we may elect to or be required to restructure the lease. Restructuring may involve anything from a simple rescheduling of payments to the termination of a lease without receiving all or any of the past due amounts. If any requests for payment restructuring or rescheduling are made and granted, reduced or deferred rental payments may be payable over all or some part of the remaining term of the lease, although the terms of any revised payment schedules may be unfavorable and such payments may not be made. We may be unable to agree upon acceptable terms for any requested restructurings and as a result may be forced to exercise our remedies under those leases. If we, in the exercise of our remedies, repossess the aircraft, we may not be able to re-lease the aircraft promptly at favorable rates, or at all.
The terms and conditions of payment restructurings or reschedulings may result in significant reductions of rental payments, which may adversely affect our cash flows or our financial results.
Significant costs resulting from lease defaults could have a material adverse effect on our business.
Although we have the right to repossess the aircraft and to exercise other remedies upon a lessee default, repossession of an aircraft after a lessee default would lead to significantly increased costs for us. Those costs include legal and other expenses of court or other governmental proceedings, particularly if the lessee is contesting the proceedings or is in bankruptcy, to obtain possession and/or de-registration of the aircraft and flight and export permissions. Delays resulting from any of these proceedings would also increase the period of time during which the relevant aircraft is not generating revenue. In addition, we may incur substantial maintenance, refurbishment or repair costs that a defaulting lessee has failed to incur or pay and that are necessary to put the aircraft in suitable condition for re-lease or sale and we may be required to pay off liens, claims, taxes and other governmental charges on the aircraft to obtain clear possession and to remarket the aircraft for re-lease or sale. We may also incur maintenance, storage or other costs while we have physical possession of the aircraft.
We may also suffer other adverse consequences as a result of a lessee default and any termination of the lease and the repossession of the related aircraft. Our rights upon a lessee default vary significantly depending upon the jurisdiction, including the need to obtain a court order for repossession of the aircraft and/or consents for de-registration or re-export of the aircraft. When a defaulting lessee is in bankruptcy, protective administration, insolvency or similar proceedings, additional limitations may apply. Certain jurisdictions will give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or to assign it to a third party, or will entitle the lessee or another third party to retain possession of the aircraft without paying lease rentals or without performing all or some of the obligations under the relevant lease. Certain of our lessees are owned in whole or in part by government-related entities, which could complicate our efforts to repossess the relevant aircraft. Accordingly, we may be delayed in, or prevented from, enforcing certain of our rights under a lease and in re-leasing or selling the affected aircraft.
If we repossess an aircraft, we will not necessarily be able to export or de-register and profitably redeploy the aircraft.
For instance, where a lessee or other operator flies only domestic routes in the jurisdiction in which the aircraft is registered, repossession may be more difficult, especially if the jurisdiction permits the lessee or the other operator to resist de-registration. Significant costs may also be incurred in retrieving or recreating aircraft records required for registration of the aircraft and obtaining a certificate of airworthiness for the aircraft.
Airline reorganizations could have an adverse effect on our financial results.
As a result of economic conditions, significant volatility in oil prices and financial markets distress, airlines may be forced to reorganize. Historically, airlines involved in reorganizations have undertaken substantial fare discounting to maintain cash flows and to encourage continued customer loyalty. Such fare discounting has in the past led to lower profitability for all airlines. Bankruptcies and reduced demand may lead to the grounding of significant numbers of aircraft and negotiated reductions in aircraft lease rental rates, with the effect of depressing aircraft market values. Additional grounded aircraft and lower market values would adversely affect our ability to sell certain of our aircraft on favorable terms, or at all, or re-lease other aircraft at favorable rates comparable to the then current market conditions, which collectively would have an adverse effect on our financial results. We may not recover any of our

claims or damages against an airline under bankruptcy or insolvency protection.

If our lessees fail to appropriately discharge aircraft liens, we might find it necessary to pay such claims, which could have a negative effect on our cash position and our business.

In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, air navigation charges (including charges imposed by Eurocontrol), landing charges, crew wages, repairer's charges, salvage or other liens, are likely, depending on the jurisdiction in question, to attach to the aircraft. These liens may secure substantial sums that may, in certain jurisdictions or for certain types of liens (particularly "fleet liens"), exceed the value of the relevant aircraft. Although the financial obligations relating to these liens are the responsibility of our lessees, if they fail to fulfill their obligations, these liens may attach to our aircraft and ultimately become our responsibility. Until these liens are discharged, we may be unable to repossess, re-lease or sell the aircraft or unable to avoid detention or forfeiture of the aircraft.

Our lessees may not comply with their obligations under their respective leases to discharge liens arising during the terms of their leases, whether or not due to financial difficulties. If they do not do so, we may, in some cases, find it necessary to pay the claims secured by any liens in order to repossess the aircraft.

Risks associated with the concentration of our lessees in certain geographical regions could harm our business or financial results.

Our business is sensitive to local economic and political conditions that can influence the performance of lessees located in a particular region.

European Concentration

Twenty-six lessees in Europe accounted for 66 aircraft, totaling 23% of the net book value of our aircraft at December 31, 2016. Eleven aircraft, representing 3% of the net book value of our aircraft at December 31, 2016, were leased to a customer in Spain. Commercial airlines in Europe continue to face increased competitive pressures due to the expansion of low cost carriers, industry consolidation, as well as the growth of strong airlines in the Middle East. Several of the continent's larger airlines have announced comprehensive restructuring efforts, including significant cost cutting measures.

Asian Concentration

Twenty-three lessees in Asia accounted for 61 aircraft totaling, 38% of the net book value of our aircraft at December 31, 2016. Growth in most of Asia has been strong, driven in large part by emerging economies. Asian airlines continue to face competition from new entrants and the growth of low cost carriers in the region. There is also risk of oversupply in the future driven by large outstanding order books of some Asian airlines. Demand weaknesses, due to slowing economic growth in the region, could adversely affect the Asian airlines industry. Nine lessees in southeast Asia accounted for 34 aircraft, totaling 25% of the net book value of our aircraft at December 31, 2016.

North American Concentration

Ten lessees in North America accounted for 26 aircraft, totaling 8% of the net book value of our aircraft at December 31, 2016. Consolidation among major airlines in the U.S. has helped drive capacity discipline and pricing power, but despite recent improvements in the financial results of many carriers, airlines remain highly susceptible to macroeconomic and geopolitical factors outside their control.

South American Concentration

Six lessees in South America accounted for 23 aircraft, totaling 18% of the net book value of our aircraft at December 31, 2016. The region's largest economy, Brazil, has suffered from depressed commodity prices, currency devaluation and a stalled economy, which has forced a reduction in capacity by the country's airlines. Two lessees in Brazil accounted for fifteen aircraft, totaling 8% of the net book value of our aircraft at December 31, 2016.

Middle East and African Concentration

Six lessees in the Middle East and Africa accounted for fourteen aircraft totaling 11% of the net book value of our aircraft at December 31, 2016. Middle Eastern lessees, particularly Gulf-based carriers, have a large number of aircraft on order and continue to capitalize on the region's favorable geographic position as an East-West transfer hub. In recent years, a number of countries in the Middle East and North Africa experienced significant political instability, negatively impacting tourism and air travel. Continued unrest and instability would again negatively impact the financial performance of airlines operating to, from, and within this region.

21

Risks Related to the Aviation Industry

Fuel prices significantly impact the profitability of the airline industry. If fuel prices rise in the future, our lessees might not be able to meet their lease payment obligations, which would have an adverse effect on our financial results and growth prospects.

Fuel costs represent a major expense to airlines. Fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events and currency/exchange rates. As a result, fuel costs are not within the control of lessees and significant changes would materially affect their operating results.

While fuel prices have significantly declined since 2013, there can be no assurance that lower fuel prices will persist. Due to the competitive nature of the airline industry, airlines have been, and may continue to be, unable to pass on increases in fuel prices to their customers by increasing fares in a manner that fully compensates for the costs incurred. Higher and more volatile fuel prices may also have an impact on consumer confidence and spending, and thus may adversely impact demand for air transportation. In addition, airlines may not be able to successfully manage their exposure to fuel price fluctuations. If fuel prices increase due to future terrorist attacks, acts of war, armed hostilities, rebellion or political instability, natural disasters or for any other reason, they are likely to cause our lessees to incur higher costs and/or generate lower revenues, resulting in an adverse impact on their financial condition and liquidity. Fuel cost volatility may contribute to the reluctance of airlines to make future commitments to leased aircraft and reduce the demand for lease aircraft. Consequently, these conditions may: (i) affect our lessees' ability to make rental and other lease payments; (ii) result in lease restructurings and/or aircraft repossessions; (iii) increase our costs of re-leasing or selling our aircraft; or (iv) impair our ability to re-lease or sell our aircraft on a timely basis at favorable rates or terms, or at all.

If the effects of terrorist attacks and geopolitical conditions adversely impact the financial condition of the airlines, our lessees might not be able to meet their lease payment obligations, which would have an adverse effect on our financial results and growth prospects.

War, armed hostilities or terrorist attacks, or the fear of such events, could decrease demand for air travel or increase the operating costs of our customers. Terrorist incidents, including the attacks at Belgian and Turkish airports, the situations in Iraq, Egypt and Syria, and other international tensions, such as with North Korea and territorial disputes in East Asia, may lead to regional or broader international instability. Future terrorist attacks, war or armed hostilities, large protests or government instability, or the fear of such events, could further negatively impact the airline industry and may have an adverse effect on the financial condition and liquidity of our lessees, aircraft values and rental rates and may lead to lease restructurings or aircraft repossessions, all of which could adversely affect our financial results.

Terrorist attacks and geopolitical conditions have negatively affected the airline industry, and concerns about geopolitical conditions and further terrorist attacks could continue to negatively affect airlines (including our lessees) for the foreseeable future, depending upon various factors, including: (i) higher costs to the airlines due to the increased security measures; (ii) decreased passenger demand and revenue due to safety concerns or the inconvenience of additional security measures; (iii) the price and availability of jet fuel; (iv) higher financing costs and difficulty in raising the desired amount of proceeds on favorable terms, or at all; (v) the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance has been or will continue to be available; (vi) the ability of airlines to reduce their operating costs and conserve financial resources, taking into account the increased costs incurred as a consequence of terrorist attacks and geopolitical conditions, including those referred to above; and (vii) special charges recognized by some airlines, such as those related to the impairment of aircraft and other long lived assets stemming from the above conditions.

Economic conditions and regulatory changes resulting from the United Kingdom's ("U.K") possible exit from the E.U. and the new administration in the U.S. could have an adverse effect on our business and results of operations.

In June 2016, voters in the U.K. approved a referendum to exit from the E.U., known as Brexit. If the U.K. initiates a Brexit process, its effects on us will depend on the resulting agreements regarding trade and travel made between the United Kingdom and European Union. In the U.S., the new administration and incoming Congress could effect

significant changes in, or create uncertainty regarding, governmental policies, the regulatory environment and many other areas that could impact the Company, including but not limited to changes to existing trade agreements, import and export regulations, immigration, tariffs and customs duties, tax regulations, environmental regulations and other areas that become subject to significant changes.

Brexit and U.S. political changes could result in adverse consequences, such as instability in financial markets, deterioration in economic conditions, volatility in currency exchange rates or adverse impact to air travel and the air freight market. These impacts may negatively impact the airline and finance industries and may have an adverse effect on our ability to borrow, the financial condition of our lessees, aircraft values and rental rates and may lead to lease restructurings or aircraft repossessions, all of which could adversely affect our financial results.

Epidemic diseases, severe weather conditions, natural disasters or their perceived effects may negatively impact the airline industry and our lessees' ability to meet their lease payment obligations to us, which, in turn, could have an adverse effect on our financial results.

Over the past several years, there have been outbreaks of epidemic diseases which have spread to other parts of the world. If an outbreak of epidemic diseases were to occur, numerous responses, including travel restrictions, might be necessary to combat the spread of the disease. Even if restrictions are not implemented, it is likely that passengers would voluntarily choose to reduce travel. There have been several outbreaks of epidemic diseases which have spread to other parts of the world in the last ten years, although their impact was relatively limited. Additional outbreaks of epidemic diseases, or the fear of such events, could result in travel bans or could have an adverse effect on our financial results. Similarly, demand for air travel or the inability of airlines to operate to or from certain regions due to severe weather conditions or natural disasters, such as floods, earthquakes or volcanic eruptions, could have an adverse effect on our lessees' ability to their lease payment obligations to us, which could negatively impact our financial results.

Risks Related to Our Organization and Structure

If the ownership of our common shares continues to be highly concentrated, it may prevent minority shareholders from influencing significant corporate decisions and may result in conflicts of interest.

As of February 7, 2017, Marubeni owns 21,605,347 shares, or 27.5% of our common shares. Although the Shareholder Agreement, dated as of June 6, 2013, among us, Marubeni and a subsidiary of Marubeni (as amended and restated from time to time, the "Shareholder Agreement"), imposes certain restrictions on Marubeni's and its affiliates' ability to make additional acquisitions of our common shares, Marubeni, nonetheless, may be able to influence fundamental corporate matters and transactions, including the election of directors; mergers or amalgamations (subject to prior board approval); consolidations or acquisitions; the sale of all or substantially all of our assets; in certain circumstances, the amendment of our bye-laws; and our winding up and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favored by our other shareholders. The interests of Marubeni may not always coincide with our interests or the interests of our other shareholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our company. Also, Marubeni may seek to cause us to take courses of action that, in its judgment, could enhance its investment in us, but which might involve risks to our other shareholders or adversely affect us or our other shareholders. In addition, under the Shareholder Agreement, based on the current ownership of our common shares by Marubeni and the current size of our Board of Directors, Marubeni is entitled to designate three directors for election to our Board of Directors. As a result of these or other factors, the market price of our common shares could decline or shareholders might not receive a premium over the then-current market price of our common shares upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our common shares because investors may perceive disadvantages in owning shares in a company with a significant shareholder.

We are a holding company with no operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations.

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends to our shareholders. Although there are currently no material legal restrictions on our operating subsidiaries ability to distribute assets to us, legal restrictions, including governmental regulations and contractual obligations, could restrict or impair our operating subsidiaries ability to pay dividends or make loan or other distributions to us. Our subsidiaries

are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions.

We are a Bermuda company, and it may be difficult for securityholders to enforce judgments against us or our directors and executive officers.

We are a Bermuda exempted company and, as such, the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of securityholders under Bermuda law may differ from the rights of securityholders of companies incorporated in other jurisdictions. A substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on those persons in the United States or to enforce in the United States judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. securities laws. Uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions, including the United States, against us or our directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against us or our directors or officers under the securities laws of other jurisdictions.

Our bye-laws restrict shareholders from bringing legal action against our officers and directors.

Our bye-laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud or dishonesty.

We have anti-takeover provisions in our bye-laws that may discourage a change of control.

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include:

- provisions providing for a classified board of directors with staggered three-year terms;
- provisions regarding the election of directors, classes of directors, the term of office of directors and amalgamations to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 66% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;
- provisions in our bye-laws dealing with the removal of directors and corporate opportunity to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 80% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;
- provisions providing for the removal of directors by a resolution, including the affirmative votes of at least 80% of all votes attaching to all shares in issue entitling the holder to vote on such resolution;
- provisions providing for our Board of Directors to determine the powers, preferences and rights of our preference shares and to issue such preference shares without shareholder approval;
- provisions providing for advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings; and
- no provision for cumulative voting in the election of directors; all the directors standing for election may be elected by our shareholders by a plurality of votes cast at a duly convened annual general meeting, the quorum for which is two or more persons present in person or by proxy at the start of the meeting and representing in excess of 50% of all votes attaching to all shares in issue entitling the holder to vote at the meeting.

In addition, these provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and/or our Board of Directors. Public shareholders who might desire to participate in these types of transactions may not have an opportunity to do so. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control or change our management and Board of Directors and, as a result, may adversely affect the market price of our common shares and your ability to realize any potential change of control premium.

24

There are provisions in our bye-laws that may require certain of our non-U.S. shareholders to sell their shares to us or to a third party.

Our bye-laws provide that if our Board of Directors determines that we or any of our subsidiaries do not meet, or in the absence of repurchases of shares will fail to meet, the ownership requirements of a limitation on benefits article of any bilateral income tax treaty with the U.S. applicable to us, and that such tax treaty would provide material benefits to us or any of our subsidiaries, we generally have the right, but not the obligation, to repurchase, at fair market value (as determined pursuant to the method set forth in our bye-laws), common shares from any shareholder who beneficially owns more than 5% of our issued and outstanding common shares and who fails to demonstrate to our satisfaction that such shareholder is either a U.S. citizen or a qualified resident of the U.S. or the other contracting state of any applicable tax treaty with the U.S. (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty).

We will have the option, but not the obligation, to purchase all or a part of the shares held by such shareholder (to the extent the Board of Directors, in the reasonable exercise of its discretion, determines it is necessary to avoid or cure adverse consequences), provided that the Board of Directors will use its reasonable efforts to exercise this option equitably among similarly situated shareholders (to the extent feasible under the circumstances).

Instead of exercising the repurchase right described above, we will have the right, but not the obligation, to cause the transfer to, and procure the purchase by, any U.S. citizen or a qualified resident of the U.S. or the other contracting state of the applicable tax treaty (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty) of the number of issued and outstanding common shares beneficially owned by any shareholder that are otherwise subject to repurchase under our bye-laws as described above, at fair market value (as determined in the good faith discretion of our Board of Directors).

Our joint ventures may have an adverse effect on our business.

Our joint ventures, which are referred to in “Other Aviation Assets and Alternative New Business Approaches” above, involve significant risks that may not be present with other methods of ownership, including:

- we may not realize a satisfactory return on our investment or the joint ventures may divert management’s attention from our business;
- our joint venture partners could have investment goals that are not consistent with our investment objectives, including the timing, terms and strategies for any investments;
- our joint venture partners might fail to fund their share of required capital contributions or fail to fulfill their obligations as a joint venture partner; and
- our joint venture partners may have competing interests in our markets that could create conflict of interest issues, particularly if aircraft owned by the joint ventures are being marketed for lease or sale at a time when the Company also has comparable aircraft available for lease or sale.

As of February 7, 2017, Teachers’ owns 10.0% of our outstanding common shares.

Risks Related to Our Common Shares

The market price and trading volume of our common shares may be volatile or may decline regardless of our operating performance, which could result in rapid and substantial losses for our shareholders.

If the market price of our common shares declines significantly, shareholders may be unable to resell their shares at or above their purchase price. The market price or trading volume of our common shares could be highly volatile and may decline significantly in the future in response to various factors, many of which are beyond our control, including:

- variations in our quarterly or annual operating results;
- failure to meet any earnings estimates;
- actual or perceived reduction in our growth or expected future growth;
- actual or anticipated accounting issues;
- publication of research reports about us, other aircraft lessors or the aviation industry or the failure of securities analysts to cover our common shares or the decision to suspend or terminate coverage in the future;
- additions or departures of key management personnel;

25

- increased volatility in the capital markets and more limited or no access to debt financing, which may result in an increased cost of, or less favorable terms for, debt financing or may result in sales to satisfy collateral calls or other pressure on holders to sell our shares;
- redemptions, or similar events affecting funds or other investors holding our shares, which may result in large block trades that could significantly impact the price of our common shares;
- adverse market reaction to any indebtedness we may incur or preference or common shares we may issue in the future;
- changes in or elimination of our dividend;
- actions by shareholders;
- changes in market valuations of similar companies;
- announcements by us, our competitors or our suppliers of significant contracts, acquisitions, disposals, strategic partnerships, joint ventures or capital commitments;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations affecting the aviation industry or enforcement of these laws and regulations, or announcements relating to these matters; and
- general market, political and economic conditions and local conditions in the markets in which our lessees are located.

In addition, the equity markets in general have frequently experienced substantial price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. Changes in economic conditions in the U.S., Europe or globally could also impact our ability to grow profitably. These broad market and industry factors may materially affect the market price of our common shares, regardless of our business or operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

Future debt, which would be senior to our common shares upon liquidation, and additional equity securities, which would dilute the percentage ownership of our then current common shareholders and may be senior to our common shares for the purposes of dividends and liquidation distributions, may adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by incurring debt or issuing additional equity securities, including commercial paper, medium-term notes, senior or subordinated notes or loans and series of preference shares or common shares. Upon liquidation, holders of our debt investments and preference shares and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings would dilute the holdings of our then current common shareholders and could reduce the market price of our common shares, or both. Preference shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments. Restrictive provisions in our debt and/or preference shares could limit our ability to make a distribution to the holders of our common shares. Because our decision to incur more debt or issue additional equity securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future capital raising activities. Thus, holders of our common shares bear the risk of our future debt and equity issuances reducing the market price of our common shares and diluting their percentage ownership.

The market price of our common shares could be negatively affected by sales of substantial amounts of our common shares in the public markets.

As of February 7, 2017, there were 78,556,466 shares issued and outstanding, all of which are freely transferable, except for any shares held by our "affiliates," as that term is defined in Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"). Approximately 37.5% of our outstanding common shares are held by our affiliates and can be resold into the public markets in the future in accordance with the requirements of Rule 144 under the Securities Act.

One affiliate, Marubeni, currently holds 27.5% of our outstanding common shares. Beginning in July 2016, pursuant to the occurrence of certain events set forth in the Shareholders Agreement, Marubeni and permitted third-party transferees have the ability to cause us to register the resale of their common shares into the public markets. Another investor, Teachers',

currently holds 10.0% of our outstanding common shares and has the ability to cause us to register the resale of their common shares into the public markets.

The issuance of additional common shares in connection with acquisitions or otherwise will dilute all other shareholdings.

As of February 7, 2017, we had an aggregate of 153,960,290 common shares authorized but unissued and not reserved for issuance under our incentive plan. We may issue all of these common shares without any action or approval by our shareholders. We intend to continue to actively pursue acquisitions of aviation assets and may issue common shares in connection with these acquisitions. Any common shares issued in connection with our acquisitions, our incentive plan, and the exercise of outstanding share options or otherwise would dilute the percentage ownership held by existing shareholders.

Risks Related to Taxation

If Aircastle were treated as engaged in a trade or business in the United States, it would be subject to U.S. federal income taxation on a net income basis, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.

If, contrary to expectations, Aircastle were treated as engaged in a trade or business in the United States, the portion of its net income, if any, that was "effectively connected" with such trade or business would be subject to U.S. federal income taxation at a maximum rate of 35%. In addition, Aircastle would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

If there is not sufficient trading in our shares, or if 50% of our shares are held by certain 5% shareholders, we could lose our eligibility for an exemption from U.S. federal income taxation on rental income from our aircraft used in "international traffic" and could be subject to U.S. federal income taxation which would adversely affect our business and result in decreased cash available for distribution to our shareholders.

We expect that we are currently eligible for an exemption under Section 883 of the Internal Revenue Code of 1986, as amended (the "Code"), which provides an exemption from U.S. federal income taxation with respect to rental income derived from aircraft used in international traffic by certain foreign corporations. No assurances can be given that we will continue to be eligible for this exemption as our stock is traded on the market and changes in our ownership or the amount of our shares that are traded could cause us to cease to be eligible for such exemption. To qualify for this exemption in respect of rental income, the lessor of the aircraft must be organized in a country that grants a comparable exemption to U.S. lessors (Bermuda and Ireland each do), and certain other requirements must be satisfied. We can satisfy these requirements in any year if, for more than half the days of such year, our shares are primarily and regularly traded on a recognized exchange and certain shareholders, each of whom owns 5% or more of our shares (applying certain attribution rules), do not collectively own more than 50% of our shares. Our shares will be considered to be primarily and regularly traded on a recognized exchange in any year if: (i) the number of trades in our shares effected on such recognized stock exchanges exceed the number of our shares (or direct interests in our shares) that are traded during the year on all securities markets; (ii) trades in our shares are effected on such stock exchanges in more than de minimis quantities on at least 60 days during every calendar quarter in the year; and (iii) the aggregate number of our shares traded on such stock exchanges during the taxable year is at least 10% of the average number of our shares outstanding in that class during that year. If our shares cease to satisfy these requirements, then we may no longer be eligible for the Section 883 exemption with respect to rental income earned by aircraft used in international traffic. If we were not eligible for the exemption under Section 883 of the Code, we expect that the U.S. source rental income of Aircastle Bermuda generally would be subject to U.S. federal taxation, on a gross income basis, at a rate of not in excess of 4% as provided in Section 887 of the Code. If, contrary to expectations, Aircastle Bermuda did not comply with certain administrative guidelines of the Internal Revenue Service, such that 90% or more of Aircastle Bermuda's U.S. source rental income were attributable to the activities of personnel based in the United States, Aircastle Bermuda's U.S. source rental income would be treated as income effectively connected with the conduct of a trade or business in the United States. In such case, Aircastle Bermuda's U.S. source rental income would be subject to U.S. federal income taxation on its net income at a maximum rate of

35% as well as state and local taxation. In addition, Aircastle Bermuda would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

One or more of our Irish subsidiaries could fail to qualify for treaty benefits, which would subject certain of their income to U.S. federal income taxation, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.

Qualification for the benefits of the double tax treaty between the United States and Ireland (the "Irish Treaty") depends on many factors, including being able to establish the identity of the ultimate beneficial owners of our common shares. Each of the Irish subsidiaries may not satisfy all the requirements of the Irish Treaty and thereby may not qualify each year for the benefits of the Irish Treaty or may be deemed to have a permanent establishment in the United States. Moreover, the provisions of the Irish Treaty may change. Failure to so qualify, or to be deemed to have a permanent establishment in the United States, could result in the rental income from aircraft used for flights within the United States being subject to increased U.S. federal income taxation. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

We may become subject to an increased rate of Irish taxation which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

Our Irish subsidiaries and affiliates are expected to be subject to corporation tax on their income from leasing, managing and servicing aircraft at the 12.5% tax rate applicable to trading income. This expectation is based on certain assumptions, including that we will maintain at least the current level of our business operations in Ireland. If we are not successful in achieving trading status in Ireland, the non-trading income activities of our Irish subsidiaries and affiliates would be subject to tax at the rate of 25% and capital gains would be taxed at the rate of 35%, which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

We may be subject to an increased rate of Singapore taxation which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

Our Singapore subsidiaries are subject to Singapore income tax on their income from leasing, managing and servicing aircraft. Singapore's authorities have awarded our Singapore subsidiaries a reduced rate of tax until July 2017, provided that we satisfy certain conditions and requirements. If we cannot meet such conditions and requirements, or if the award is not renewed, we would be subject to additional Singapore income tax. This would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

We may become subject to income or other taxes in the non-U.S. jurisdictions in which our aircraft operate, where our lessees are located or where we perform certain services which would adversely affect our business and result in decreased cash available for distributions to shareholders.

Certain Aircastle entities are expected to be subject to the income tax laws of Ireland, Mauritius, Singapore and the United States. In addition, we may be subject to income or other taxes in other jurisdictions by reason of our activities and operations, where our aircraft operate or where the lessees of our aircraft (or others in possession of our aircraft) are located. Although we have adopted operating procedures to reduce the exposure to such taxation, we may be subject to such taxes in the future and such taxes may be substantial. In addition, if we do not follow separate operating guidelines relating to managing a portion of our aircraft portfolio through offices in Ireland and Singapore, income from aircraft not owned in such jurisdictions would be subject to local tax. Changes in tax law could impose withholding taxes on lease payments during the term of a lease. Our leases typically require our lessees to indemnify us in respect of taxes but some leases may not require such indemnification or a lessee may fail to make such indemnification payment. The imposition of such taxes could adversely affect our business and result in decreased earnings available for distribution to our shareholders.

In addition, the Organization for Economic Co-operation and Development has undertaken the Base Erosion and Profit Shifting ("BEPS") project, which aims to restructure the taxation scheme currently affecting multinational entities. If the proposals recommended under BEPS are implemented, the tax rules to which we are subject may increase our liability for non-U.S. taxes.

We expect to continue to be a passive foreign investment company ("PFIC") and may be a controlled foreign corporation ("CFC") for U.S. federal income tax purposes.

We expect to continue to be treated as a PFIC and may be a CFC for U.S. federal income tax purposes. If you are a U.S. person and do not make a qualified electing fund ("QEF") election with respect to us and each of our PFIC subsidiaries, unless we are a CFC and you own 10% of our voting shares, you would be subject to special deferred tax and interest charges with respect to certain distributions on our common shares, any gain realized on a disposition of our common shares and

certain other events. The effect of these deferred tax and interest charges could be materially adverse to you. Alternatively, if you are such a shareholder and make a QEF election for us and each of our PFIC subsidiaries, or if we are a CFC and you own 10% or more of our voting shares, you will not be subject to those charges, but could recognize taxable income in a taxable year with respect to our common shares in excess of any distributions that we make to you in that year, thus giving rise to so-called “phantom income” and to a potential out-of-pocket tax liability. Distributions made to a U.S. person that is an individual will not be eligible for taxation at reduced tax rates generally applicable to dividends paid by certain United States corporations and “qualified foreign corporations” on or after January 1, 2003. The more favorable rates applicable to regular corporate dividends could cause individuals to perceive investment in our shares to be relatively less attractive than investment in the shares of other corporations, which could adversely affect the value of our shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 19,200 square feet of office space in Stamford, Connecticut for our corporate operations. The lease for the Stamford facility expires in December 2017. We lease approximately 3,380 square feet of office space in Dublin, Ireland and approximately 2,600 square feet of office space in Singapore for our operations in Europe and Asia. The lease for our Irish office expires in June 2026, and the lease for our Singapore office expires in July 2019. We believe our current facilities are adequate for our current needs and that suitable additional space will be available as and when needed.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material legal or adverse regulatory proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant

Executive officers are elected by our Board of Directors, and their terms of office continue until the next annual meeting of the board or until their successors are elected and have been duly qualified. There are no family relationships among our executive officers.

Set forth below is information pertaining to our executive officers who held office as of February 7, 2017:

Ron Wainshal, 52, became our Chief Executive Officer in May 2005 and a member of our Board in May 2010 and is currently on medical leave. Prior to joining Aircastle, Mr. Wainshal was in charge of the Asset Management group of General Electric Capital Aviation Services (“GECAS”) from 2003 to 2005. After joining GECAS in 1998, Mr. Wainshal led many of GECAS’ U.S. airline restructuring efforts and its bond market activities, and played a major marketing and structured finance role for GECAS in the Americas. Before joining GECAS, he was a principal and co-owner of a financial advisory company specializing in transportation infrastructure from 1994 to 1998 and prior to that held positions at Capstar Partners and The Transportation Group in New York and Ryder System in Miami. He received a B.S. in Economics from the University of Pennsylvania's Wharton School and an MBA from the University of Chicago’s Booth Graduate School of Business.

Michael Inglese, 55, became our Chief Financial Officer in April 2007 and has been Acting Chief Executive Officer since January 6, 2017. Prior to joining the Company, Mr. Inglese served as an Executive Vice President and Chief Financial Officer of PanAmSat Holding Corporation, where he served as Chief Financial Officer from June 2000 until the closing of PanAmSat's sale to Intelsat in July 2006. Mr. Inglese joined PanAmSat in May 1998 as Vice President, Finance after serving as Chief Financial Officer for DIRECTV Japan, Inc. He is a Chartered Financial Analyst who holds a B.S. in Mechanical Engineering from Rutgers University College of Engineering and his MBA from Rutgers Graduate School of Business Management.

Michael Kriedberg, 55, became our Chief Commercial Officer in April 2013. Prior to joining the Company, Mr. Kriedberg served as an Executive Vice President, Aviation Financing Operations of GECAS from August 2009. From January 2008 to August 2009, Mr. Kriedberg was the Chief Investment Officer of GE Capital Corporation ("GECC") and President of the Bank Loan Group division of GECC from August 2006 to January 2008. Mr. Kriedberg holds a B.S. in Economics from SUNY Albany and a Master's degree in Accounting from Pace University.

Christopher L. Beers, 52, became our General Counsel in November 2014. Prior to joining Aircastle, Mr. Beers held senior positions at GE Capital since 2000, including Senior Vice President and Associate General Counsel at GECAS from 2009 to 2014, and Senior Vice President and General Counsel of GE Transportation Finance from 2006 to 2009. Previously, Mr. Beers was a Senior Associate at the law firm of Milbank Tweed Hadley and McCloy in New York City. Mr. Beers holds a B.S. in Economics from Arizona State University and a J.D. from Pace Law School.

Joseph Schreiner, 59, became our Executive Vice President, Technical in October 2004. Prior to joining Aircastle, Mr. Schreiner oversaw the technical department at AAR Corp, a provider of products and services to the aviation and defense industries from 1998 to 2004 where he managed aircraft and engine evaluations and inspections, aircraft lease transitions, reconfiguration and heavy maintenance. Prior to AAR, Mr. Schreiner spent nineteen years at Boeing (McDonnell-Douglas) in various technical management positions. Mr. Schreiner received a B.S. from the University of Illinois and an MBA from Pepperdine University.

Aaron Dahlke, 48, became our Chief Accounting Officer in June 2005. Prior to that, Mr. Dahlke was Vice President and Controller of Boullioun Aviation Services Inc. from January 2003 to May 2005. Prior to Boullioun, Mr. Dahlke was at ImageX.com, Inc. and Ernst & Young LLP. He received a B.S. in Accounting from California State University, San Bernardino. He is a Certified Public Accountant.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTER AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares are listed for trading on the New York Stock Exchange under the symbol "AYR." As of February 7, 2017, there were 26,838 record holders of our common shares.

The following table sets forth the quarterly high and low prices of our common shares on the New York Stock Exchange for the periods indicated since our initial public offering and dividends during such periods:

	High	Low	Dividends Declared per Share ($)
Year Ended December 31, 2016:			
First Quarter	$22.49	$15.06	$ 0.240
Second Quarter	$22.74	$18.82	$ 0.240
Third Quarter	$22.95	$18.56	$ 0.240
Fourth Quarter	$22.99	$18.26	$ 0.260
Year Ended December 31, 2015:			
First Quarter	$23.82	$19.64	$ 0.220
Second Quarter	$25.52	$22.15	$ 0.220
Third Quarter	$24.70	$18.50	$ 0.220
Fourth Quarter	$23.49	$19.13	$ 0.240

Our ability to pay, maintain or increase cash dividends to our shareholders is subject to the discretion of our Board of Directors and will depend on many factors, including the difficulty we may experience in raising capital in a market that has experienced significant volatility in recent years and our ability to finance our aircraft acquisition commitments; our ability to negotiate favorable lease and other contractual terms; the level of demand for our aircraft; the economic condition of the commercial aviation industry generally; the financial condition and liquidity of our lessees; the lease rates we are able to charge and realize; our leasing costs; unexpected or increased expenses; the level and timing of capital expenditures; principal repayments and other capital needs; the value of our aircraft portfolio; our compliance with loan to value, debt service coverage, interest rate coverage and other financial covenants in our financings; our results of operations, financial condition and liquidity; general business conditions; restrictions imposed by our securitizations or other financings; legal restrictions on the payment of dividends, including a statutory dividend test and other limitations under Bermuda law; and other factors that our Board of Directors deems relevant. Some of these factors are beyond our control and a change in any such factor could affect our ability to pay dividends on our common shares. In the future we may not choose to pay dividends or may not be able to pay dividends, maintain our current level of dividends, or increase them over time. Increases in demand for our aircraft and operating lease payments may not occur and may not increase our actual cash available for dividends to our common shareholders. The failure to maintain or pay dividends may adversely affect our share price.

Issuer Purchases of Equity Securities

In February 2016, our Board of Directors authorized the repurchase of $100.0 million of the Company's common shares. During the fourth quarter of 2016, we purchased our common shares as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs[1]
	(Dollars in thousands, except per share amounts)			
October 1 through 31	—	$ —	—	$ 96,656
November 1 through 30	41,000	18.75	41,000	95,888
December 1 through 31	—	—	—	95,888
Total	41,000	$ 18.75	41,000	$ 95,888

_____

(1) Under our current repurchase program, we have purchased an aggregate of 217,574 common shares at an aggregate cost of $4.1 million, including commissions.

Performance Graph

The following stock performance graph shall not be deemed "filed" with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act of 1933, as amended.

The following graph compares the cumulative five year total return to holders of our common shares relative to the cumulative total returns of the S&P Midcap 400 Index and a customized peer group over the five year period ended December 31, 2016. The peer group consists of three companies: AerCap Holdings NV (NYSE: AER), Air Lease Corporation (NYSE: AL) and FLY Leasing Limited (NYSE: FLY). An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common shares, the S&P Midcap 400 Index and in the peer group on December 31, 2011, and the relative performance of each is tracked through December 31, 2016. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance. We believe that the S&P Midcap 400 Index is more representative of our peers and as such, we utilize the S&P Midcap 400 Index as one of the metrics for our performance share-based compensation as part of our long-term incentive plan.

* $100 invested on December 31, 2011 in stock or index, including reinvestment of dividends.

	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Aircastle Limited	$127.29	$103.77	$165.60	$192.80	$196.31	$205.19
S&P Midcap 400	98.27	117.88	157.37	172.74	168.98	204.03
Peer Group	82.53	103.24	203.09	210.89	226.50	222.69

ITEM 6. SELECTED FINANCIAL DATA

The selected historical consolidated financial, operating and other data as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 presented in this table are derived from our audited consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2013 and 2012 presented in this table are derived from our audited consolidated financial statements and related notes thereto, which are not included in this Annual Report. You should read these tables along with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements and the related notes thereto included elsewhere in this Annual Report.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands, except share data)				
Selected Financial Data:					
Consolidated Statements of Income:					
Lease rental revenue	$725,220	$733,417	$714,654	$644,929	$623,503
Total revenues	772,958	819,202	818,602	708,645	686,572
Selling, general and administrative expenses	61,872	56,198	55,773	53,436	48,370
Depreciation	305,216	318,783	299,365	284,924	269,920
Interest, net	255,660	243,577	238,378	243,757	222,808
Net income	151,453	121,729	100,828	29,781	32,868
Earnings per common share — Basic:					
Net income	$1.92	$1.50	$1.25	$0.40	$0.46
Earnings per common share — Diluted:					
Net income	$1.92	$1.50	$1.25	$0.40	$0.46
Cash dividends declared per share	$0.98	$0.90	$0.82	$0.695	$0.615
Other Operating Data:					
EBITDA	$734,989	$707,524	$658,606	$600,088	$546,285
Adjusted EBITDA	767,953	832,105	792,283	717,209	647,622
Adjusted net income	168,527	142,271	167,642	59,260	57,009
Consolidated Statements of Cash Flows:					
Cash flows provided by operations	$468,092	$526,285	$458,786	$424,037	$427,277
Cash flows used in investing activities	(646,155)	(864,662)	(861,602)	(682,933)	(741,909)
Cash flows provided by (used in) financing activities	477,738	324,625	(82,141)	295,292	637,327
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$455,579	$155,904	$169,656	$654,613	$618,217
Flight equipment held for lease, net of accumulated depreciation	6,247,585	5,867,062	5,579,718	5,044,410	4,662,661
Net investment in finance and sales-type leases	260,853	201,211	106,651	145,173	119,951
Total assets	7,244,665	6,569,964	6,175,146	6,199,429	5,757,073
Borrowings from secured and unsecured financings, net of debt issuance costs	4,506,245	4,041,156	3,744,587	3,684,897	3,543,589
Shareholders’ equity	1,834,314	1,779,500	1,720,335	1,645,407	1,415,626

Other Data:					
Number of aircraft owned and managed on behalf of our joint ventures (at the end of period)	206	167	152	162	159
Total debt to total capitalization	71.1 %	69.4 %	68.5 %	69.1 %	71.5 %
Total unencumbered assets	$5,069,955	$4,084,134	$3,510,588	$3,309,821	$2,709,915

We define EBITDA as income from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-U.S. GAAP measure is helpful in identifying trends in our performance. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed. EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure, or expenses, of the organization. EBITDA is one of the metrics used by senior management and the Board of Directors to review the consolidated financial performance of our business.

We define Adjusted EBITDA as EBITDA (as defined above) further adjusted to give effect to adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes. Adjusted EBITDA is a material component of these covenants.

The table below shows the reconciliation of net income to EBITDA and Adjusted EBITDA for the years ended December 31, 2016, 2015, 2014, 2013 and 2012.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Net income	$151,453	$121,729	$100,828	$29,781	$32,868
Depreciation	305,216	318,783	299,365	284,924	269,920
Amortization of net lease premiums (discounts) and lease incentives	10,353	10,664	6,172	32,411	12,844
Interest, net	255,660	243,577	238,378	243,757	222,808
Income tax provision	12,307	12,771	13,863	9,215	7,845
EBITDA	$734,989	$707,524	$658,606	$600,088	$546,285
Adjustments:					
Impairment of aircraft	28,585	119,835	93,993	117,306	96,454
Loss on extinguishment of debt	—	—	36,570	—	—
Non-cash share-based payment expense	7,901	5,537	4,244	4,569	4,232
Gain on mark-to-market of interest rate derivative contracts	(3,522)	(791)	(1,130)	(4,754)	(597)
Contract termination expense	—	—	—	—	1,248
Adjusted EBITDA	$767,953	$832,105	$792,283	$717,209	$647,622

Management believes that Adjusted Net Income (“ANI”) when viewed in conjunction with the Company’s results under U.S. GAAP and the below reconciliation, provides useful information about operating and period-over-period performance, and provides additional information that is useful for evaluating the underlying operating performance of our business without regard to periodic reporting elements related to interest rate derivative accounting, changes related to refinancing activity and non-cash share-based payment expense.

For additional information regarding the limitations of these non-GAAP measures, see "Limitations of EBITDA, Adjusted EBITDA and ANI" below.

The table below shows the reconciliation of net income to ANI for the years ended December 31, 2016, 2015, 2014, 2013 and 2012.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Net income	$151,453	$121,729	$100,828	$29,781	$32,868
Loss on extinguishment of debt[2]	—	—	36,570	—	—
Ineffective portion and termination of cash flow hedges[1]	—	455	660	2,393	2,893
Gain on mark-to-market of interest rate derivative contracts[2]	(3,522)	(791)	(1,130)	(4,754)	(597)
Loan termination payment[1]	4,960	—	—	2,954	—
Write-off of deferred financing fees[1]	2,880	—	—	3,975	3,034
Stock compensation expense[3]	7,901	5,537	4,244	4,569	4,232
Term Financing No. 1 hedge loss amortization charges[1]	—	4,401	14,854	17,843	13,331
Securitization No. 1 hedge loss amortization charges[1]	4,855	10,940	11,616	2,499	—
Contract termination expense	—	—	—	—	1,248
Adjusted net income	$168,527	$142,271	$167,642	$59,260	$57,009

———————

(1) Included in Interest, net.
(2) Included in Other income (expense).
(3) Included in Selling, general and administrative expenses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with Item 6. "Selected Financial Data" and our historical consolidated financial statements and the notes thereto appearing elsewhere in this report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under Item 1A. — "Risk Factors" and elsewhere in this report. Please see "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" for a discussion of the uncertainties, risks and assumptions associated with these statements. Our consolidated financial statements are prepared in accordance with U.S. GAAP and, unless otherwise indicated, the other financial information contained in this report has also been prepared in accordance with U.S. GAAP. Unless otherwise indicated, all references to "dollars" and "$" in this report are to, and all monetary amounts in this report are presented in, U.S. dollars.

OVERVIEW

Aircastle acquires, leases, and sells commercial jet aircraft to airlines throughout the world. As of December 31, 2016, we owned and managed on behalf of our joint ventures 206 aircraft that were leased to 71 lessees located in 36 countries. Our aircraft are managed by an experienced team based in the United States, Ireland and Singapore. Our aircraft are subject to net leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in certain cases, we are obligated to pay a portion of specified maintenance or modification costs. As of December 31, 2016, the net book value was $6.51 billion compared to $6.07 billion at the end of 2015. Our revenues and net income for the year ended December 31, 2016 were $773.0 million and $151.5 million respectively, and for the fourth quarter 2016 were $204.7 million and $67.7 million, respectively.

Revenues

Our revenues are comprised primarily of operating lease rentals on flight equipment held for lease, revenue from retained maintenance payments related to lease expirations, lease termination payments, lease incentive amortization and interest recognized from finance and sales-type leases.

Typically, our aircraft are subject to net leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs arising during the term of the lease. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on a number of factors, including the creditworthiness of our lessees and the occurrence of restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues.

Under an operating lease, the lessee will be responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon their completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in recognition of our obligation in the lease to refund such payments, and therefore we do not recognize maintenance revenue during the lease. Maintenance revenue recognition would occur at the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. The amount of maintenance revenue

we recognize in any reporting period is inherently volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay. This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

Operating Expenses

Operating expenses are comprised of depreciation of flight equipment held for lease, interest expense, selling, general and administrative expenses, aircraft impairment charges and maintenance and other costs. Because our operating lease terms generally require the lessee to pay for operating, maintenance and insurance costs, our portion of maintenance and other costs relating to aircraft reflected in our statement of income primarily relates to expenses for unscheduled lease transitions.

Income Tax Provision

We obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily Ireland, Singapore and the United States.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes, unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

Acquisitions and Sales

During 2016, we acquired 60 aircraft for $1.6 billion. At December 31, 2016, we had commitments to acquire 28 aircraft for $1.08 billion, including 25 new Embraer E-Jet E-2 aircraft from Embraer, with delivery beginning in 2018. These amounts include estimated amounts for pre-delivery deposits, contractual price escalations and other adjustments. As of February 7, 2017, we have commitments to acquire 28 aircraft for $1.08 billion.

During 2016, we sold 30 aircraft and other flight equipment for $755.9 million, which resulted in a net gain of $39.1 million.

The following table sets forth certain information with respect to the aircraft owned and managed on behalf of our joint ventures by us as of December 31, 2016, 2015 and 2014:

AIRCASTLE AIRCRAFT INFORMATION (dollars in millions)

Owned Aircraft	As of December 31, 2016		As of December 31, 2015[1]		As of December 31, 2014[1]	
Flight Equipment Held for Lease	$ 6,508		$ 6,068		$ 5,686	
Unencumbered Flight Equipment included in Flight Equipment Held for Lease	$ 4,614		$ 3,928		$ 3,341	
Number of Aircraft	193		162		148	
Number of Unencumbered Aircraft	156		118		95	
Number of Lessees	71		53		54	
Number of Countries	36		34		34	
Weighted Average Age (years)[2]	7.9		7.5		8.4	
Weighted Average Remaining Lease Term (years)[2]	5.1		5.9		5.4	
Weighted Average Fleet Utilization during the Fourth Quarter[3]	99.0	%	99.7	%	99.9	%
Weighted Average Fleet Utilization for the Year Ended[3]	98.9	%	99.3	%	99.6	%
Portfolio Yield for the Fourth Quarter[4]	12.4	%	12.6	%	13.3	%
Portfolio Yield for the Year Ended[4]	12.4	%	12.7	%	13.4	%
Managed Aircraft on behalf of Joint Ventures						
Flight Equipment	$ 689		$ 484		$ 505	
Number of Aircraft	13		5		5	

(1) Calculated using net book value at period end.

(2) Weighted by net book value.

(3) Aircraft on-lease days as a percent of total days in period weighted by net book value.

(4) Lease rental revenue, interest income and cash collections on our net investment in finance and sales-type leases for the period as a percent of the average net book value for the period; quarterly information is annualized. Based on the growing level of finance and sales-type lease revenue, management revised the calculation of portfolio yield to include our net investment in finance and sales-type leases in the average net book value and to include the interest income and cash collections on our net investment in finance and sales-type leases in lease rentals.

Our owned aircraft portfolio as of December 31, 2016 is listed in Exhibit 99.1 to this report.

PORTFOLIO DIVERSIFICATION

	Owned Aircraft as of December 31, 2016			Owned Aircraft as of December 31, 2015		
	Number of Aircraft		% of Net Book Value[1]	Number of Aircraft		% of Net Book Value[1]
Aircraft Type						
Passenger:						
Narrow-body	155		56 %	118		46 %
Wide-body	30		36 %	33		44 %
Total Passenger	185		92 %	151		90 %
Freighter	8		8 %	11		10 %
Total	193		100 %	162		100 %
Manufacturer						
Airbus	103		51 %	87		53 %
Boeing	85		47 %	70		45 %
Embraer	5		2 %	5		2 %
Total	193		100 %	162		100 %
Regional Diversification						
Asia and Pacific	61		38 %	49		39 %
Europe	66		23 %	64		26 %
Middle East and Africa	14		11 %	9		10 %
North America	26		8 %	17		6 %
South America	23		18 %	22		19 %
Off-lease	3	[2]	2 %	1	[3]	— %
Total	193		100 %	162		100 %

(1) Calculated using net book value at year end.

(2) Consisted of one Airbus A330-200 aircraft, which was delivered on lease to a customer in February 2017, and two Airbus A321-200 aircraft which are subject to a commitment to lease.

(3) Consisted of one Boeing 777-200ER aircraft that was sold during the second quarter of 2016.

Our largest customer represents 6% of the net book value at December 31, 2016. Our top fifteen customers for aircraft we owned at December 31, 2016, representing 88 aircraft and 59% of the net book value, are as follows:

Percent of Net Book Value	Customer	Country	Number of Aircraft
Greater than 6% per customer	Avianca Brazil	Brazil	10
	Lion Air	Indonesia	12
3% to 6% per customer	LATAM	Chile	3
	South African Airways	South Africa	4
	Thai Airways	Thailand	2
	Singapore Airlines	Singapore	4
	Air Asia X	Malaysia	3
	Air Berlin	Germany	11
	Emirates	United Arab Emirates	2
	AirBridge Cargo[(1)]	Russia	2
	Iberia	Spain	11
	Garuda	Indonesia	4
Less than 3% per customer	Jet Airways	India	8
	Avianca	Colombia	2
	easyJet	United Kingdom	10
	Total top 15 customers		88
	All other customers		105
	Total all customers		193

(1) Guaranteed by Volga-Dnepr Airlines. We have one additional aircraft on lease with an affiliated airline.

Finance

Aircastle Limited is a publicly-listed company, and our shares have been trading on the New York Stock Exchange since August 2006. Since our inception in late 2004, we raised approximately $1.7 billion in equity capital from private and public investors. We also obtained $12.9 billion in debt capital from a variety of sources including export credit agency-backed debt, commercial bank debt, the aircraft securitization markets and the unsecured bond market. The diversity and global nature of our financing sources demonstrates our ability to adapt to changing market conditions and seize new growth opportunities.

We intend to fund new investments through cash on hand, funds generated from operations, maintenance payments received from lessees, secured borrowings for aircraft, draws on our revolving credit facilities and proceeds from any future aircraft sales. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from operations and asset sales. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See “Liquidity and Capital Resources — Secured Debt Financings” and “Liquidity and Capital Resources — Unsecured Debt Financings” below.

Comparison of the year ended December 31, 2016 to the year ended December 31, 2015:

	Year Ended December 31,	
	2016	2015
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	$725,220	$733,417
Finance and sales-type lease revenue	17,190	7,658
Amortization of net lease discounts and lease incentives	(10,353)	(10,664)
Maintenance revenue	33,590	71,049
Total lease rentals	765,647	801,460
Other revenue	7,311	17,742
Total revenues	772,958	819,202
Expenses:		
Depreciation	305,216	318,783
Interest, net	255,660	243,577
Selling, general and administrative	61,872	56,198
Impairment of aircraft	28,585	119,835
Maintenance and other costs	7,773	11,502
Total operating expenses	659,106	749,895
Other income:		
Gain on sale of flight equipment	39,126	58,017
Other	3,527	919
Total other income	42,653	58,936
Income from continuing operations before income taxes	156,505	128,243
Income tax provision	12,307	12,771
Earnings of unconsolidated equity method investment, net of tax	7,255	6,257
Net income	$151,453	$121,729

Revenues:

Total revenues decreased by $46.2 million, for the year ended December 31, 2016 as compared to the year ended December 31, 2015, primarily as a result of the following:

Lease rental revenue. The decrease in lease rental revenue of $8.2 million for the year ended December 31, 2016 as compared to the same period in 2015 was primarily the result of decreases in revenue of:

- $100.3 million due to sales of 56 aircraft since December 31, 2015; and
- $14.8 million due to lease extensions, amendments, transitions and other changes.

These decreases were partially offset by a $106.9 million increase in revenue, reflecting the 52 aircraft purchased in 2016 and 34 aircraft purchased in 2015.

Finance and sales-type lease revenue. For the year ended December 31, 2016, $17.2 million of interest income from finance and sales-type leases was recognized as compared to $7.7 million in 2015, due to the net addition of aircraft subject to finance and sales-type leases.

Amortization of net lease discounts and lease incentives.

	Year Ended December 31,	
	2016	2015
	(Dollars in thousands)	
Amortization of lease incentives	$(6,223)	$(9,897)
Amortization of lease premiums	(13,744)	(10,922)
Amortization of lease discounts	9,614	10,155
Amortization of net lease discounts and lease incentives	$(10,353)	$(10,664)

As more fully described above under “Revenues,” lease incentives represent our estimated portion of the lessee's cost for heavy maintenance, overhaul or replacement of certain high-value components which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases and, conversely, if a related lease terminates, the related unused lease incentive liability will reduce the amortization of lease incentives. The decrease in amortization of lease incentives of $3.7 million for the year ended December 31, 2016 as compared to the same period in 2015 was primarily attributable to changes in estimates related to engines for three freighter aircraft of $9.3 million and the sale of nine aircraft for $2.1 million, partially offset by $7.7 million in reversals related to the transition of thirteen aircraft and the sale of one aircraft.

As more fully described above under “Revenues,” lease premiums represent the present value of the amount above current lease rates for acquired aircraft with attached leases. The increase in amortization of lease premiums of $2.8 million for the year ended December 31, 2016 as compared to the same period in 2015 resulted primarily from sixteen aircraft purchased during 2015 and 2016.

Maintenance revenue. For the year ended December 31, 2016, we recorded $33.6 million of maintenance revenue, primarily from eleven scheduled lease terminations. For 2015, we recorded $62.0 million of maintenance revenue from seventeen scheduled lease terminations and $9.1 million from one unscheduled lease termination.

Other revenue was $7.3 million during the year ended December 31, 2016, comprised of $5.1 million recognized in additional fees paid by lessees in connection with early termination and amendment of leases and $2.1 million in administrative fees from the Lancaster and IBJ Air joint ventures. For the year ended December 31, 2015, other revenue was $17.7 million, which was primarily due to $12.9 million recognized in additional fees paid by lessees in connection with early termination of leases, $3.2 million in fees related to other lease revenue and $1.5 million in administrative fees from the Lancaster joint venture.

Operating Expenses:

Total operating expenses decreased by $90.8 million, for the year ended December 31, 2016 as compared to the year ended December 31, 2015 primarily as a result of the following:

Depreciation expense decreased by $13.6 million for the year ended December 31, 2016 over the same period in 2015. The net decrease is primarily the result of a $59.9 million decrease in depreciation for aircraft sales. This decrease was offset by:

- $41.3 million increase in depreciation for aircraft acquired;
- $3.8 million increase due to capitalized aircraft improvements; and
- $1.2 million increase due to changes to asset lives and residual values.

Interest, net consisted of the following:

	Year Ended December 31,	
	2016	2015
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities[1]	$228,774	$204,326
Hedge ineffectiveness losses	—	455
Amortization of deferred losses related to interest rate derivatives	9,662	24,023
Amortization of deferred financing fees and debt discount[2]	18,508	14,878
Interest expense	256,944	243,682
Less: Interest income	(1,140)	(105)
Less: Capitalized interest	(144)	—
Interest, net	$255,660	$243,577

(1) Includes $5.0 million in loan termination fees related to the sale of two aircraft during the year ended December 31, 2016.

(2) Includes $2.9 million in deferred financing fees written off related to the sale of two aircraft during the year ended December 31, 2016.

Interest, net increased by $12.1 million over the year ended December 31, 2015. The net increase is primarily a result of higher interest on borrowings of $24.4 million, driven by an increase from higher weighted average debt outstanding, a $3.6 million increase in amortization of deferred financing fees, including $2.9 million written off due to the sale of two aircraft, and $5.0 million in loan termination fees related to the sale of two aircraft during the year ended December 31, 2016 as compared to 2015. These increases were partially offset by a $14.4 million decrease in amortization of interest rate derivatives related to deferred losses.

Selling, general and administrative expenses for the year ended December 31, 2016 increased by $5.7 million over the same period in 2015 due primarily to higher personnel and rent costs. Non-cash share-based payment expense was $7.9 million and $5.5 million for the years ended December 31, 2016 and 2015, respectively.

Impairment of aircraft was $28.6 million during the year ended December 31, 2016. Impairment of aircraft was $119.8 million during the year ended December 31, 2015. See “Summary of Recoverability Assessment and Other Impairments” below for a detailed discussion of the related impairment charges for these aircraft.

Maintenance and other costs were $7.8 million for the year ended December 31, 2016, a decrease of $3.7 million over the same period in 2015. The net decrease is primarily related to lower maintenance costs related to unscheduled terminations and transitions.

Other Income:

Total other income for the year ended December 31, 2016 was $42.7 million of income as compared to $58.9 million of expense versus the same period in 2015. The decrease of $16.3 million is primarily a result of:

Gain on sale of flight equipment decreased by $18.9 million, to $39.1 million for 2016, as compared to net gains of $58.0 million for 2015. During 2016, we recorded gains totaling $50.9 million that were partially offset by losses totaling $11.8 million. During 2015, we recorded gains totaling $61.2 million and losses of $3.2 million.

Income Tax Provision:

Our provision for income taxes for the years ended December 31, 2016 and 2015 was $12.3 million and $12.8 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland, Singapore and the United States. The decrease in our income tax provision of approximately $0.5 million for the year ended December 31, 2016 as compared to the same period in 2015 was primarily attributable to changes in operating income subject to tax in Ireland, Singapore, the United States and other jurisdictions.

44

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. In addition, we have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

Other Comprehensive Income:

	Year Ended December 31,	
	2016	2015
	(Dollars in thousands)	
Net income	$151,453	$121,729
Net change in fair value of derivatives, net of tax expense of $0 and $35, respectively	(1)	1,224
Derivative loss reclassified into earnings	9,662	24,023
Total comprehensive income	$161,114	$146,976

Other comprehensive income was $161.1 million for the year ended December 31, 2016, an increase of $14.1 million from the $147.0 million of other comprehensive income for the year ended December 31, 2015. Other comprehensive income for the year ended December 31, 2016 primarily consisted of:

- $151.5 million of net income; and
- $9.7 million of amortization of deferred net losses reclassified into earnings primarily related to terminated interest rate derivatives.

Other comprehensive income for the year ended December 31, 2015 primarily consisted of:

- $121.7 million of net income;
- a $1.2 million gain from a change in fair value of interest rate derivatives, net of taxes, which is due primarily to net settlements for the year ended December 31, 2015, including a slight gain due to an upward shift in the 1 Month LIBOR forward curve; and
- $24.0 million of amortization of deferred net losses reclassified into earnings primarily related to terminated interest rate derivatives.

Summary of Recoverability Assessment and Other Impairments

Recoverability Assessment

We completed our annual recoverability assessment of wide-body and freighter aircraft during the second quarter and narrow-body aircraft fleet during the third quarter. We also performed aircraft-specific analyses where there were changes in circumstances, such as approaching lease expirations.

The recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management’s experience in the aircraft leasing industry, as well as information received from third-party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors.

In our third quarter 2016 assessment, we reduced economic lives and residuals for all six older Boeing 757-200 aircraft, which we intend to sell at lease end. As a result, we recorded impairment charges totaling $2.2 million relating to two of these aircraft held as operating leases and impairment losses totaling $2.6 million relating to three of these aircraft held as finance leases.

During the second quarter of 2016, we reduced forecasted cash flows for older Airbus A330 aircraft to reflect lower rental expectations given weak demand and increased competition from newer units. As a result, we recorded impairment charges totaling $11.7 million and maintenance revenue of $4.0 million relating to one sixteen year old Airbus A330-200 aircraft approaching lease expiry.

In our 2015 assessment, we reduced forecasted future cash flows for our six Boeing 747-400 converted freighter aircraft not subject to sales agreements, all of which were more than twenty years old. Our new forecast reflected the persisting glut of supply in the air cargo market resulting from weak growth in demand combined with the growth in capacity arising from new production air freighters and higher belly capacity in latest generation wide-body passenger aircraft. In addition to these market-wide impacts, our older freighters were affected specifically by the imposition of age limits in certain countries and by lower utilization levels.

As a result, we determined that each of our older converted freighter aircraft was on its last lease, and we reduced our residual value assumptions for these aircraft and expect to scrap them following lease expiry. During the third quarter of 2015, we therefore impaired four of these aircraft, which had an aggregate net book value as of August 31, 2015 of $115.9 million, writing down their book values by a total of $34.6 million, with a fair value date of September 1, 2015. For one of these aircraft, we recorded maintenance revenue of $5.9 million, as we no longer planned to reinvest these funds.

Other Impairments

In the third quarter of 2016, we reduced forecasted cash flows for three Boeing 747-400 converted freighter aircraft due to a change in planned engine maintenance events. These three aircraft are nearing the end of their economic lives and leases. As a result, we recorded impairment charges totaling $5.5 million, maintenance revenue of $5.6 million and reversed lease incentives of $2.4 million.

Also in the third quarter of 2016, we impaired one Airbus A321-200 aircraft for which we had a sales agreement, resulting in an impairment charge of $1.7 million. This aircraft was classified as Held for sale in Other assets at September 30, 2016 and sold for its recorded value in October 2016.

In the second quarter of 2016, we entered into an agreement to sell two older Boeing 747-400 converted freighter aircraft to the lessee resulting in an impairment charge of $5.1 million. These two aircraft were classified as Held for sale at June 30, 2016 in Other assets and were subsequently sold in July 2016.

In December 2015, one of our Airbus A330-300 aircraft was returned to us early as a result of a lease termination. We elected not to reinvest in certain major maintenance needed to release this aircraft and instead have classified it as Held for sale. As a result, we recorded an impairment of $16.9 million for this aircraft, partially offset by maintenance revenue of $9.1 million, reversed lease incentives of $4.5 million and other revenue of $1.8 million.

In the third quarter of 2015, Malaysian Airline System (“MAS”) informed us that it was effectively rejecting the lease on our Boeing 777-200ER aircraft as part of its restructuring. This aircraft, which was manufactured in 1998, was the only aircraft we had on lease to MAS. We repossessed it in October 2015. We reduced the carrying value of this aircraft to our best estimate of scrap value. This write-down resulted in an impairment charge of $37.8 million, partially offset by $1.2 million of other revenue from a letter of credit we drew following the lease rejection. This aircraft was sold in the second quarter of 2016.

Also in the third quarter of 2015, we modified the lease agreement with respect to one Airbus A321-200 aircraft. We elected not to reinvest in certain major maintenance events during the lease term, and the lessee agreed to release its rights to certain maintenance payments. As a result, we recorded an impairment charge of $6.1 million and maintenance revenue of $7.1 million for this aircraft.

In the second quarter of 2015, we impaired two McDonnell Douglas MD-11 freighter aircraft and one Boeing 737-800 aircraft and recorded impairment charges totaling $24.0 million and maintenance revenue of $18.2 million.

46

Other than the aircraft discussed above, management believes that the net book value of each of our aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by that aircraft, and accordingly, no other aircraft were impaired as a consequence of this recoverability assessment. However, if our estimates or assumptions change, we may revise our cash flow assumptions and record future impairment charges. While we believe that the estimates and related assumptions used in the recoverability assessment are appropriate, actual results could differ from those estimates.

Aircraft Monitoring List

At December 31, 2016, we considered six freighter aircraft and seven passenger aircraft with a total net book value of $549.2 million to be more susceptible to failing our recoverability assessments due to their sensitivity to changes in contractual cash flows, future cash flow estimates and aircraft residual or scrap values.

The majority of the aircraft on the Monitoring List by net book value are freighters. Three of the freighters are Boeing 747-400 models that were converted from passenger to cargo configuration and are in excess of 22 years old. It is assumed they will be sold for scrap as their leases expire over the next two years.

The other three freighter aircraft on the Monitoring List are Boeing 747-400 extended range “factory” freighter models that are less than ten years old. Our useful life assumptions for these aircraft were reduced during our recoverability assessment two years ago. We expect rental levels will drop from current levels over the next two years once the current leases expire or rentals are reset.

The seven passenger aircraft on the Monitoring List consist of three twenty-year old Boeing 757 aircraft, which we anticipate selling as they come off lease; the other four aircraft are older Airbus A330-200s that are either on lease or subject to a lease commitment. Future rental assumptions for these Airbus A330-200 aircraft were reduced as part of the recoverability assessment completed during the second quarter of 2016.

Comparison of the year ended December 31, 2015 to the year ended December 31, 2014:

	Year Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	$733,417	$714,654
Finance and sales-type lease revenue	7,658	10,906
Amortization of net lease discounts and lease incentives	(10,664)	(6,172)
Maintenance revenue	71,049	88,006
Total lease rentals	801,460	807,394
Other revenue	17,742	11,208
Total revenues	819,202	818,602
Expenses:		
Depreciation	318,783	299,365
Interest, net	243,577	238,378
Selling, general and administrative	56,198	55,773
Impairment of aircraft	119,835	93,993
Maintenance and other costs	11,502	7,239
Total operating expenses	749,895	694,748
Other income (expense):		
Gain on sale of flight equipment	58,017	23,146
Loss on extinguishment of debt	—	(36,570)
Other	919	1,207
Total other income (expense)	58,936	(12,217)
Income from continuing operations before income taxes	128,243	111,637
Income tax provision	12,771	13,863
Earnings of unconsolidated equity method investment, net of tax	6,257	3,054
Net income	$121,729	$100,828

Revenues:

Total revenues increased by $0.6 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014, primarily as a result of the following:

Lease rental revenue. The increase in lease rental revenue of $18.8 million for the year ended December 31, 2015 as compared to the same period in 2014 was primarily the result of $171.1 million of revenue consisting of $97.4 million, reflecting the full year impact of 31 aircraft purchased in 2014, and $73.7 million, reflecting the partial year impact of 42 aircraft purchased in 2015.

This increase was offset partially by a decrease in revenue of:

- $118.6 million, consisting of $67.5 million due to the sale of 41 aircraft in 2014 and $51.1 million from the sale of 29 aircraft in 2015;
- $27.1 million due to lease extensions, amendments and transitions; and
- $6.6 million from the effect of lease terminations and other changes.

Finance and sales-type lease revenue. For the year ended December 31, 2015, $7.7 million of interest income from finance and sales-type leases was recognized as compared to $10.9 million of interest income from finance and sales-type leases recorded for the same period in 2014 due to the sale of three aircraft during 2015 and six aircraft during 2014, partially offset by the addition of six aircraft in 2015.

Amortization of net lease discounts and lease incentives.

	Year Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Amortization of lease incentives	$(9,897)	$(6,584)
Amortization of lease premiums	(10,922)	(9,099)
Amortization of lease discounts	10,155	9,511
Amortization of net lease discounts and lease incentives	$(10,664)	$(6,172)

As more fully described above under “Revenues,” lease incentives represent our estimated portion of the lessee’s cost for heavy maintenance, overhaul or replacement of certain high-value components which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases and, conversely, if a related lease terminates, the related unused lease incentive liability will reduce the amortization of lease incentives. The increase in amortization of lease incentives of $3.3 million for the year ended December 31, 2015 as compared to the same period in 2014 was primarily attributable to $7.1 million of lease incentive amortization related to aircraft that were transitioned during the year ended December 31, 2015, partially offset by the reversal of $4.5 million of lease incentive amortization related to the early termination of one lease.

As more fully described above under “Revenues,” lease premiums represent the present value of the amount above current lease rates for acquired aircraft with attached leases. The increase in amortization of lease premiums of $1.8 million for the year ended December 31, 2015 as compared to the same period in 2014 resulted primarily from eleven aircraft purchased during 2015 and 13 aircraft purchased during 2014.

Maintenance revenue. For the year ended December 31, 2015, we recorded $62.0 million of maintenance revenue from seventeen scheduled lease terminations and $9.1 million from one unscheduled lease termination. For 2014, we recorded $42.6 million of maintenance revenue from 25 scheduled lease terminations and $45.4 million from unscheduled lease terminations related to ten aircraft.

Other revenue was $17.7 million during the year ended December 31, 2015, which was primarily due to $12.9 million recognized in additional fees paid by lessees in connection with early termination of leases, $3.2 million in fees related to other lease revenue and $1.5 million in administrative fees from the joint venture with Teachers’. For the year ended December 31, 2014, other revenue was $11.2 million, which was primarily due to $10.2 million recognized in additional fees paid by lessees in connection with early termination of leases and $1.0 million in administrative fees from the joint venture with Teachers’.

Operating Expenses:

Total operating expenses increased by $55.1 million, for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily as a result of the following:

Depreciation expense increased by $19.4 million for the year ended December 31, 2015 over the same period in 2014. The net increase is primarily the result of:

- a $56.4 million increase in depreciation for aircraft acquired;
- a $10.3 million increase due to changes to asset lives and residual values; and
- a $5.5 million increase due to capitalized aircraft improvements.

This increase was offset by a $52.8 million decrease in depreciation for aircraft sales.

49

Interest, net consisted of the following:

	Year Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities	$204,326	$189,135
Hedge ineffectiveness losses	455	738
Amortization of deferred losses related to interest rate derivatives	24,023	34,979
Amortization of deferred financing fees and notes discount	14,878	13,961
Interest Expense	243,682	238,813
Less interest income	(105)	(435)
Interest, net	$243,577	$238,378

Interest, net increased by $5.2 million over the year ended December 31, 2014. This increase was due to higher interest of $15.2 million primarily resulting from higher weighted average debt outstanding for the year ended December 31, 2015 versus the prior year, offset primarily by lower amortization of interest rate derivatives related to deferred losses of $11.0 million.

Selling, general and administrative expenses for the year ended December 31, 2015 increased by $0.4 million over the same period in 2014 due primarily to an increase in personnel costs and professional services. Non-cash share-based expense was $5.5 million and $4.2 million for the years ended December 31, 2015 and 2014, respectively.

Impairment of aircraft was $119.8 million during the year ended December 31, 2015. See “Summary of Recoverability Assessment and Other Impairments” above for a detailed discussion of the related impairment charge for these aircraft. Impairment of aircraft was $94.0 million during the year ended December 31, 2014.

Maintenance and other costs were $11.5 million for the year ended December 31, 2015, an increase of $4.3 million over the same period in 2014. The net increase is primarily related to higher maintenance costs of $1.3 million related to scheduled terminations and $4.1 million related to unscheduled terminations and transitions, partially offset by a decrease in other costs of $1.2 million for the year ended December 31, 2015 versus the same period in 2014.

Other Income:

Total other income (expense) for the year ended December 31, 2015 was $58.9 million of income as compared to $12.2 million of expense versus the same period in 2014. The increase of $71.2 million is primarily a result of:

Gain on sale of flight equipment increased $34.9 million, to $58.0 million for 2015, as compared to gains of $23.1 million for 2014. During 2015, we recorded gains totaling $61.2 million that were partially offset by losses totaling $3.2 million. During 2014, we recorded gains totaling $46.6 million and losses of $23.4 million.

Loss on extinguishment of debt of $36.6 million in 2014 relates to the early payment of our 9.75% Senior Notes due 2018 in April, 2014. We did not record any loss on extinguishment of debt in 2015.

Income Tax Provision:

Our provision for income taxes for the years ended December 31, 2015 and 2014 was $12.8 million and $13.9 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland, Singapore and the United States. The decrease in our income tax provision of approximately $1.1 million for the year ended December 31, 2015 as compared to the same period in 2014 was primarily attributable to changes in operating income subject to tax in Ireland, Singapore, the United States and other jurisdictions.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes unless they operate within the U.S., in which case they may be

50

subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. In addition, we have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

Other Comprehensive Income:

	Year Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Net income	$121,729	$100,828
Net change in fair value of derivatives, net of tax expense of $35 and $828, respectively	1,224	2,466
Derivative loss reclassified into earnings	24,023	34,979
Total comprehensive income	$146,976	$138,273

Other comprehensive income was $147.0 million for the year ended December 31, 2015, an increase of $8.7 million from the $138.3 million of other comprehensive income for the year ended December 31, 2014. Other comprehensive income for the year ended December 31, 2015 primarily consisted of:

- $121.7 million of net income;
- a $1.2 million gain from a change in fair value of interest rate derivatives, net of taxes, which is due primarily to net settlements for the year ended December 31, 2015, including a slight gain due to an upward shift in the 1 Month LIBOR forward curve; and
- $24.0 million of amortization of deferred net losses reclassified into earnings primarily related to terminated interest rate derivatives.

Other comprehensive income for the year ended December 31, 2014 primarily consisted of:

- $100.8 million of net income;
- a $2.5 million gain from a change in fair value of interest rate derivatives, net of taxes, which is due primarily to net settlements for the year ended December 31, 2014 partially offset by a slight loss due to a downward shift in the 1 Month LIBOR forward curve; and
- $35.0 million of amortization of deferred net losses reclassified into earnings primarily related to terminated interest rate derivatives.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Our estimates and assumptions are based on historical experiences and currently available information. Actual results may differ from such estimates under different conditions, sometimes materially. A summary of our significant accounting policies is presented in the notes to our consolidated financial statements included elsewhere in this Annual Report. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and results and require our most subjective judgments, estimates and assumptions. Our most critical accounting policies and estimates are described below.

Lease Revenue Recognition

Our operating lease rentals are recognized on a straight-line basis over the term of the lease. We will neither recognize revenue nor record a receivable from a customer when collectability is not reasonably assured. Estimating whether collectability is reasonably assured requires some level of subjectivity and judgment. When collectability is not reasonably assured, the customer is placed on non-accrual status and revenue is recognized when cash payments are received. Management determines whether customers should be placed back on accrual status when we are reasonably assured that payments will be received in a timely manner. The accrual/non-accrual status of a customer is maintained at a level deemed appropriate based on factors such as the customer's credit rating, payment performance, financial condition and requests for modifications of lease terms and conditions. Events or circumstances outside of historical customer patterns can also result in changes to a customer's accrual status.

Maintenance Payments and Maintenance Revenue

Under our leases, the lessee must pay operating expenses accrued or payable during the term of the lease, which would normally include maintenance, overhaul, fuel, crew, landing, airport and navigation charges; certain taxes, licenses, consents and approvals; aircraft registration; and insurance premiums. Typically, our aircraft are subject to net operating leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease, and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on a number of factors, including the credit-worthiness of our lessees and the occurrence of delinquencies, restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues.

Under an operating lease, the lessee will be responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in recognition of our obligation in the lease to refund such payments, and therefore we do not recognize maintenance revenue during the lease. Maintenance revenue recognition would occur at the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. If a lease requires end of lease term maintenance payments, typically the lessee would be required to pay us for its utilization of the aircraft during the lease; however, in some cases, we may owe a net payment to the lessee in the event heavy maintenance is performed and paid for by the lessee during the lease term and the aircraft is returned to us in better condition that at lease inception. End of lease term maintenance payments made to us are recognized as maintenance revenue, and end of lease term maintenance payments we make to a lessee are recorded as contra maintenance revenue.

The amount of maintenance revenue or contra maintenance revenue we recognize in any reporting period is inherently volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

Lease Incentives and Amortization

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of

our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay.

This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability, which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability, and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset, which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

Flight Equipment Held for Lease and Depreciation

Flight equipment held for lease is stated at cost and depreciated using the straight-line method, typically over a 25-year life from the date of manufacture for passenger aircraft and over a 30 to 35-year life for freighter aircraft, depending on whether the aircraft is a converted or purpose-built freighter, to estimated residual values. Estimated residual values are generally determined to be approximately 15% of the manufacturer's estimated realized price for passenger aircraft when new and 5% to 10% for freighter aircraft when new. Management may make exceptions to this policy on a case-by-case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of value. Examples of situations where exceptions may arise include but are not limited to:

- flight equipment where estimates of the manufacturers' realized sales prices are not relevant (e.g., freighter conversions);
- flight equipment where estimates of the manufacturers' realized sales prices are not readily available; and
- flight equipment which may have a shorter useful life due to obsolescence.

In accounting for flight equipment held for lease, we make estimates about the expected useful lives, the fair value of attached leases, acquired maintenance assets or liabilities and the estimated residual values. In making these estimates, we rely upon actual industry experience with the same or similar aircraft types and our anticipated utilization of the aircraft. As part of our due diligence review of each aircraft we purchase, we prepare an estimate of the expected maintenance payments and any excess costs which may become payable by us, taking into consideration the then-current maintenance status of the aircraft and the relevant provisions of any existing lease.

For planned major maintenance activities for aircraft off-lease, the Company capitalizes the actual maintenance costs by applying the deferral method. Under the deferral method, we capitalize the actual cost of major maintenance events, which are depreciated on a straight-line basis over the period until the next maintenance event is required.

For purchase and lease back transactions, we account for the transaction as a single arrangement. We allocate the consideration paid based on the fair value of the aircraft and lease. The fair value of the lease may include a maintenance premium and a lease premium or discount.

When we acquire an aircraft with a lease, determining the fair value of the attached lease requires us to make assumptions regarding the current fair values of leases for specific aircraft. We estimate a range of current lease rates of like aircraft in order to determine if the attached lease is within a fair value range. If a lease is below or above the range of current lease rates, we present value the estimated amount below or above fair value range over the remaining term of the lease. The resulting lease discount or premium is amortized into lease rental income over the remaining term of the lease.

Impairment of Flight Equipment

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis, at least annually. In addition, a recoverability assessment is performed whenever events or changes in circumstances, or indicators, indicate that the carrying amount or net book value of an asset may not be recoverable. Indicators may include, but are not limited to, a significant lease restructuring or early lease termination, significant air traffic decline, the introduction of newer technology aircraft or engines, an aircraft type is no longer in production or a significant airworthiness directive is issued. When we perform a recoverability assessment, we measure whether the estimated future undiscounted net cash flows expected to be generated by the aircraft exceed its net book value. The undiscounted cash flows consist of cash flows from currently contracted leases, future projected lease rates, transition costs, estimated down time and estimated residual or scrap values for an aircraft. In the event that an aircraft does not meet the recoverability test, the aircraft will be adjusted to fair value, resulting in an impairment charge.

Management develops the assumptions used in the recoverability analysis based on current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry,

as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in contracted lease rates, residual values, economic conditions, technology, airline demand for a particular aircraft type and other risk factors discussed in Item 1A. “Risk Factors.” See further discussion of our aircraft more susceptible to failing our recoverability assessment under “Summary of Recoverability Assessment and Other Impairments” above and “Fair Value Measurements” below.

Net Investment in Finance and Sales-Type Leases

If a lease meets specific criteria at the inception or at any lease modification date, we recognize the lease as a Net investment in finance and sales-type leases on our Consolidated Balance Sheets. For sales-type leases, we recognize the difference between the net book value of the aircraft and the Net investment in finance and sales-type leases as a gain or loss on sale of fight equipment, less any initial direct costs and lease incentives. The Net investment in finance and sales-type leases consists of lease receivables, less the unearned income, plus the estimated unguaranteed residual value of the leased flight equipment at the lease end date. The unearned income is recognized as Finance and sales-type lease revenue in our Consolidated Statements of Income over the lease term in a manner that produces a constant rate of return on the Net investment in finance and sales-type leases.

Collectability of finance and sales-type leases is evaluated periodically on an individual customer level. The evaluation of the collectability of the finance and sales-type leases considers the credit of the lessee and the value of the underlying aircraft. An allowance for credit losses is established if there is evidence that we will be unable to collect all amounts due according to the original contractual terms of the Net investment in finance and sales-type leases. At December 31, 2016, we had no allowance for credit losses for our Net investment in finance and sales-type leases. When collectability is not reasonably assured, the customer is placed on non-accrual status, and revenue is recognized when cash payments are received.

Fair Value Measurements

We measure the fair value of certain assets and liabilities on a non-recurring basis, when U.S. GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include aircraft. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft impaired are based on an income approach that uses Level 3 inputs, which include our assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

Income Taxes

Aircastle uses an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount estimated by us to be realizable. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

See Note 1 - Summary of Significant Accounting Policies - Organization and Basis of Presentation in the Notes to Consolidated Financial Statements below.

RECENTLY PROPOSED ACCOUNTING PRONOUNCEMENTS

See Note 1 - Summary of Significant Accounting Policies - Proposed Accounting Pronouncements in the Notes to Consolidated Financial Statements below.

LIQUIDITY AND CAPITAL RESOURCES

Our business is very capital intensive, requiring significant investments in order to expand our fleet and to maintain and improve our existing portfolio. Our operations generate a significant amount of cash, primarily from lease rentals and maintenance collections. We have also met our liquidity and capital resource needs by utilizing several sources over time, including:

- various forms of borrowing secured by our aircraft, including bank term facilities, limited recourse securitization financings, and ECA-backed financings for new aircraft acquisitions;
- unsecured indebtedness, including our current unsecured revolving credit facilities, term loan and senior notes;
- sales of common shares; and
- asset sales.

Going forward, we expect to continue to seek liquidity from these sources and other sources, subject to pricing and conditions we consider satisfactory.

During 2016, we met our liquidity and capital resource needs with $468.1 million of cash flow from operations, $500.0 million in gross proceeds from the issuance of our Senior Notes due 2023, a $120.0 million term loan, $434.3 million in full-recourse term financing and $755.9 million of cash from aircraft sales.

In addition, we increased our existing revolving credit facility from $600.0 million to $675.0 million, and we extended the maturity of that facility by one year to May 2020. We also entered into a new $135.0 million revolving credit facility, maturing in November 2019, with a group of banks based in Asia.

As of December 31, 2016, the weighted average maturity of our secured and unsecured debt financings was 3.7 years and we are in compliance with all applicable covenants in our financings. We have also determined as of December 31, 2016 that our consolidated subsidiaries' restricted net assets, as defined by Rule 4-08(e)(3) of Regulation S-X, are less than 25% of our consolidated net assets.

We believe that cash on hand, payments received from lessees and other funds generated from operations, secured borrowings for aircraft, borrowings under our revolving credit facilities and other borrowings and proceeds from future aircraft sales will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. Our liquidity and capital resource needs include payments due under our aircraft purchase obligations, required principal and interest payments under our long-term debt facilities, expected capital expenditures, lessee maintenance payment reimbursements and lease incentive payments over the next twelve months.

Cash Flows

	Year Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Net cash flow provided by operating activities	$468,092	$526,285	$458,786
Net cash flow used in investing activities	(646,155)	(864,662)	(861,602)
Net cash flow provided by (used in) financing activities	477,738	324,625	(82,141)

Operating Activities:

Cash flow provided by operations was $468.1 million and $526.3 million for the years ended December 31, 2016 and 2015, respectively. The decrease in cash flow provided by operations of $58.2 million for the year ended December 31, 2016 versus the same period in 2015 was primarily a result of:

- a $29.7 million increase in cash paid for interest
- a $21.5 million decrease in cash from maintenance revenue;
- a $10.7 million decrease in cash from lease rentals, net of finance and sales-type leases; and
- a $4.0 million increase in cash paid for taxes.

These outflows were offset partially by decreases of $3.2 million in cash used for working capital and $3.7 million in cash paid for maintenance.

Cash flow provided by operations was $526.3 million and $458.8 million for the years ended December 31, 2015 and 2014, respectively. The increase in cash flow provided by operations of $67.5 million for the year ended December 31, 2015 versus the same period in 2014 was primarily a result of:

- $39.3 million increase in cash from maintenance revenue;
- $24.1 million increase in cash from lease rentals, net of finance and sales-type leases;
- $6.4 million decrease in cash paid for interest; and
- $7.1 million increase in cash from working capital.

These inflows were offset partially by a $7.6 million increase in cash paid for taxes.

Investing Activities:

Cash flow used in investing activities was $646.2 million and $864.7 million for the years ended December 31, 2016 and 2015, respectively. The net decrease in cash flow used in investing activities of $218.5 million for the year ended December 31, 2016 versus the same period in 2015 was primarily a result of:

- $193.4 million increase in proceeds from the sale of flight equipment;
- $22.6 million decrease in net investments in finance and sales-type leases; and
- $34.0 million increase in restricted cash and cash equivalents related to the sale of flight equipment.

These outflows were offset by:

- an $18.0 million increase in unconsolidated equity method investment in 2016;
- $10.4 million increase in the acquisition and improvement of flight equipment; and
- $2.8 million net increase in aircraft purchase deposits paid.

Cash flow used in investing activities was $864.7 million and $861.6 million for the years ended December 31, 2015 and 2014, respectively. The increase in cash flow used in investing activities of $3.1 million for the year ended December 31, 2015 versus the same period in 2014 was primarily a result of:

- $270.4 million decrease in proceeds from the sale of flight equipment;
- $78.1 million increase in net investments in finance and sales-type leases; and
- $6.8 million increase in aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits.

These outflows were offset partially by a $351.8 million decrease in the acquisition and improvement of flight equipment.

Financing Activities:

Cash flow provided by financing activities was $477.7 million and $324.6 million for the years ended December 31, 2016 and 2015, respectively. The net increase in cash flow provided by financing activities of $153.1 million for the year ended December 31, 2016 versus the same period in 2015 was primarily a result of:

- $92.6 million decrease in securitization and term debt financing repayments;
- $79.3 million increase in proceeds from secured and unsecured financings; and
- $10.2 million increase in restricted cash and cash equivalents related to financing activities.

These inflows were offset partially by:

- $16.5 million increase in shares repurchased;
- $7.0 million increase in deferred financing costs; and
- $4.2 million increase in dividends paid.

Cash flow provided by financing activities was $324.6 million for the year ended December 31, 2015 as compared to cash flow used in financing activities of $82.1 million for the year ended December 31, 2014. The net increase in cash flow provided by financing activities of $406.8 million for the year ended December 31, 2015 versus the same period in 2014 was primarily a result of:

- a $335.9 million decrease in debt repayments primarily due to the repayment of Securitization No. 1 in February 2014 and repayment of our 9.75% Senior Notes due 2018 in April 2014, inclusive of debt extinguishment costs;
- a $93.1 million decrease in maintenance and security deposits returned, net of deposits received; and
- a $33.4 million decrease in payments for terminated cash flow hedges in 2014.

These inflows were offset partially by:

- a $28.2 million decrease in proceeds from notes and debt financings;
- an $18.8 million increase in issuances of common shares, net of repurchased shares; and
- a $6.5 million increase in dividends.

Debt Obligations

For complete information on our debt obligations, please refer to Note 7 - “Borrowings from Secured and Unsecured Debt” Financings in the Notes to Consolidated Financial Statements below.

Contractual Obligations

Our contractual obligations consist of principal and interest payments on variable and fixed rate liabilities, interest payments on interest rate derivatives, aircraft acquisition and rent payments pursuant to our office leases. Total contractual obligations increased to approximately $6.50 billion at December 31, 2016 from $6.30 billion at December 31, 2015 due primarily to an increase in borrowings, partially offset by a decrease in purchase obligations for aircraft to be acquired.

The following table presents our actual contractual obligations and their payment due dates as of December 31, 2016.

	Payments Due by Period as of December 31, 2016				
Contractual Obligations	Total	1 year or less	2-3 years	4-5 years	More than 5 years
	(Dollars in thousands)				
Principal payments:					
Senior Notes due 2017-2023	$3,200,000	$500,000	$900,000	$800,000	$1,000,000
DBJ Term Loan	120,000	—	120,000	—	—
Revolving Credit Facilities	—	—	—	—	—
ECA Financings	305,276	42,580	89,755	96,254	76,687
Bank Financings	936,192	140,946	185,596	172,882	436,768
Total principal payments	4,561,468	683,526	1,295,351	1,069,136	1,513,455
Interest payments on debt obligations[1]	852,798	214,470	356,986	200,016	81,326
Office leases[2]	3,408	1,205	843	418	942
Purchase obligations[3]	1,081,228	170,252	551,935	359,041	—
Total	$6,498,902	$1,069,453	$2,205,115	$1,628,611	$1,595,723

(1) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at December 31, 2016.

(2) Represents contractual payment obligations for our office leases in Stamford, Connecticut; Dublin, Ireland and Singapore.

(3) At December 31, 2016, we had commitments to acquire 28 aircraft for $1.08 billion, including 25 new E-Jet E-2 aircraft from Embraer, with delivery beginning in 2018. In January 2017, we amended our contract with Embraer to reschedule some of the aircraft delivery dates. These amounts include estimated amounts for pre-delivery deposits, contractual price escalations and other adjustments. As of February 7, 2017, we have commitments to acquire 28 aircraft for $1.08 billion.

57

Capital Expenditures

From time to time, we make capital expenditures to maintain or improve our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the years ended December 31, 2016, 2015 and 2014, we incurred a total of $31.5 million, $36.5 million and $14.0 million, respectively, of capital expenditures (including lease incentives) related to the acquisition and improvement of aircraft.

As of December 31, 2016, the weighted average age (by net book value) of our aircraft was approximately 7.9 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Our lease agreements call for the lessee to be primarily responsible for maintaining the aircraft. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft or a lessee fails to meet its maintenance obligations under the lease agreement. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by or on behalf of the lessee.

Actual maintenance payments to us by lessees in the future may be less than projected as a result of a number of factors, including defaults by the lessees. Maintenance reserves may not cover the entire amount of actual maintenance expenses incurred and, where these expenses are not otherwise covered by the lessees, there can be no assurance that our operational cash flow and maintenance reserves will be sufficient to fund maintenance requirements, particularly as our aircraft age. See Item 1A. “Risk Factors — Risks Related to Our Business — Risks related to our leases — If lessees are unable to fund their maintenance obligations on our aircraft, we may incur increased costs at the conclusion of the applicable lease.”

Off-Balance Sheet Arrangements

We entered into two joint venture arrangements in order to help expand our base of new business opportunities. Neither of these joint ventures qualifies for consolidated accounting treatment. The assets and liabilities of these entities are not included in our Consolidated Balance Sheets and we record our net investment under the equity method of accounting. See Note 5 - “Unconsolidated Equity Method Investment” in the Notes to Unaudited Consolidated Financial Statements below.

We hold a 30% equity interest in our Lancaster joint venture and a 25% equity interest in our joint venture with IBJ Air. At December 31, 2016, the net book value of our two joint ventures’ thirteen aircraft was approximately $689 million.

Foreign Currency Risk and Foreign Operations

At December 31, 2016 all of our leases are payable to us in U.S. dollars. However, we incur Euro- and Singapore dollar-denominated expenses in connection with our subsidiaries in Ireland and Singapore. For the year ended December 31, 2016, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated approximately $15.8 million in U.S. dollar equivalents and represented approximately 26% of total selling, general and administrative expenses. Our international operations are a significant component of our business strategy and permit us to more effectively source new aircraft, service the aircraft we own and maintain contact with our lessees. Therefore, it is likely that our international operations and our exposure to foreign currency risk will increase over time. Although we have not yet entered into foreign currency hedges because our exposure to date has not been significant, if our foreign currency exposure increases we may enter into hedging transactions in the future to mitigate this risk. For the years ended December 31, 2016, 2015 and 2014, we incurred insignificant net gains and losses on foreign currency transactions.

Hedging

For complete information on our derivative instruments, please refer to Note 14 "Other Assets"and Note 16 - “Accumulated Other Comprehensive Loss” in the Notes to Consolidated Financial Statements below.

58

Inflation

Inflation affects our lease rentals, asset values and costs, including selling, general and administrative expenses and other expenses. We do not believe that our financial results have been, or will be, adversely affected by inflation in a material way.

Management's Use of EBITDA and Adjusted EBITDA

We define EBITDA as income from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-U.S. GAAP measure is helpful in identifying trends in our performance.

This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals, as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure, or expenses, of the organization. EBITDA is one of the metrics used by senior management and the Board of Directors to review the consolidated financial performance of our business.

We define Adjusted EBITDA as EBITDA (as defined above) further adjusted to give effect to adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes. Adjusted EBITDA is a material component of these covenants.

The table below shows the reconciliation of net income to EBITDA for the years ended December 31, 2016, 2015 and 2014, respectively.

	Year Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Net income	$151,453	$121,729	$100,828
Depreciation	305,216	318,783	299,365
Amortization of net lease discounts and lease incentives	10,353	10,664	6,172
Interest, net	255,660	243,577	238,378
Income tax provision	12,307	12,771	13,863
EBITDA	$734,989	$707,524	$658,606
Adjustments:			
Impairment of aircraft	28,585	119,835	93,993
Loss on extinguishment of debt	—	—	36,570
Non-cash share-based payment expense	7,901	5,537	4,244
Gain on mark-to-market of interest rate derivative contracts	(3,522)	(791)	(1,130)
Adjusted EBITDA	$767,953	$832,105	$792,283

Management's Use of Adjusted Net Income ("ANI")

Management believes that ANI, when viewed in conjunction with the Company's results under U.S. GAAP and the below reconciliation, provides useful information about operating and period-over-period performance, and provides additional information that is useful for evaluating the underlying operating performance of our business without regard to periodic reporting elements related to interest rate derivative accounting, changes related to refinancing activity and non-cash share-based payment expense.

The table below shows the reconciliation of net income to ANI for the years ended December 31, 2016, 2015 and 2014, respectively.

	Year Ended December 31,		
	2016	2015	2014
	(Dollars in thousands)		
Net income	$151,453	$121,729	$100,828
Loss on extinguishment of debt[2]	—	—	36,570
Ineffective portion and termination of cash flow hedges[1]	—	455	660
Gain on mark-to-market of interest rate derivative contracts[2]	(3,522)	(791)	(1,130)
Loan termination fee[1]	4,960	—	—
Write-off of deferred financing fees[1]	2,880	—	—
Non-cash share-based payment expense[3]	7,901	5,537	4,244
Term Financing No. 1 hedge loss amortization charges[1]	—	4,401	14,854
Securitization No. 1 hedge loss amortization charges[1]	4,855	10,940	11,616
Adjusted net income	$168,527	$142,271	$167,642

(1) Included in Interest, net.
(2) Included in Other income (expense).
(3) Included in Selling, general and administrative expenses.

	Year Ended December 31,		
Weighted-average shares:	2016	2015	2014
Common shares outstanding	78,161,494	80,489,391	80,389,349
Restricted common shares	653,944	615,611	588,077
Total weighted-average shares	78,815,438	81,105,002	80,977,426

	Year Ended December 31,		
Percentage of weighted-average shares:	2016	2015	2014
Common shares outstanding	99.17 %	99.24 %	99.27 %
Restricted common shares[1]	0.83 %	0.76 %	0.73 %
Total	100.00 %	100.00 %	100.00 %

	Year Ended December 31,		
	2016	2015	2014
Weighted-average common shares outstanding — Basic	78,161,494	80,489,391	80,389,349
Effect of dilutive shares[2]	42,785	—	—
Weighted-average common shares outstanding — Diluted	78,204,279	80,489,391	80,389,349

	Year Ended December 31,		
Adjusted net income allocation:	2016	2015	2014
	(Dollars in thousands, except per share amounts)		
Adjusted net income	$ 168,527	$ 142,271	$ 167,642
Less: Distributed and undistributed earnings allocated to restricted common shares[1]	(1,398)	(1,080)	(1,217)
Adjusted net income allocable to common shares — Basic and Diluted	$ 167,129	$ 141,191	$ 166,425
Adjusted net income per common share — Basic	$ 2.14	$ 1.75	$ 2.07
Adjusted net income per common share — Diluted	$ 2.14	$ 1.75	$ 2.07

(1) For the years ended December 31, 2016, 2015 and 2014, distributed and undistributed earnings to restricted shares is 0.83%, 0.76% and 0.73%, respectively, of net income. The amount of restricted share forfeitures for all periods

presented is immaterial to the allocation of distributed and undistributed earnings.

(2) For the year ended December 31, 2016, dilutive shares represented contingently issuable shares related to the Company's Performance Share Units, or "PSUs." For the years ended December 31, 2015 and 2014, we had no dilutive shares.

Limitations of EBITDA, Adjusted EBITDA and ANI

An investor or potential investor may find EBITDA, Adjusted EBITDA and ANI important measures in evaluating our performance, results of operations and financial position. We use these non-U.S. GAAP measures to supplement our U.S. GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

EBITDA, Adjusted EBITDA and ANI have limitations as analytical tools and should not be viewed in isolation or as substitutes for U.S. GAAP measures of earnings (loss). Material limitations in making the adjustments to our earnings (loss) to calculate EBITDA, Adjusted EBITDA and ANI, and using these non-U.S. GAAP measures as compared to U.S. GAAP net income (loss), income (loss) from continuing operations and cash flows provided by or used in operations, include:

- depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our aircraft, which affects the aircraft's availability for use and may be indicative of future needs for capital expenditures;
- the cash portion of income tax (benefit) provision generally represents charges (gains), which may significantly affect our financial results;
- elements of our interest rate derivative accounting may be used to evaluate the effectiveness of our hedging policy;
- hedge loss amortization charges related to Term Financing No. 1 and Securitization No. 1; and
- adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes.

EBITDA, Adjusted EBITDA and ANI are not alternatives to net income (loss), income (loss) from operations or cash flows provided by or used in operations as calculated and presented in accordance with U.S. GAAP. You should not rely on these non-U.S. GAAP measures as a substitute for any such U.S. GAAP financial measure. We strongly urge you to review the reconciliations to U.S. GAAP net income (loss), along with our consolidated financial statements included elsewhere in this report. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA, Adjusted EBITDA and ANI are not measures of financial performance under U.S. GAAP and are susceptible to varying calculations, EBITDA, Adjusted EBITDA and ANI as presented in this report, may differ from and may not be comparable to similarly titled measures used by other companies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. These risks are highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our lease agreements, floating rate debt obligations and interest rate derivatives. Rent payments under our aircraft lease agreements typically do not vary during the term of the lease according to changes in interest rates. However, our borrowing agreements generally require payments based on a variable interest rate index, such as LIBOR. Therefore, to the extent our borrowing costs are not fixed, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding increase in rents or cash flow from our securities. Changes in interest rates may also impact our net book value as our interest rate derivatives are periodically marked-to-market through shareholders' equity. Generally, we are exposed to loss on our fixed pay interest rate derivatives to the extent interest rates decrease below their contractual fixed rate.

The relationship between spreads on derivative instruments may vary from time to time, resulting in a net aggregate book value increase or decrease. Changes in the general level of interest rates can also affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

Sensitivity Analysis

The following discussion about the potential effects of changes in interest rates is based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts on our financial condition and results of operations. Although we believe a sensitivity analysis provides the most meaningful analysis permitted by the rules and regulations of the SEC, it is

61

constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential interest expense impacts on our financial instruments and, in particular, does not address the mark-to-market impact on our interest rate derivatives. It also does not include a variety of other potential factors that could affect our business as a result of changes in interest rates.

A hypothetical 100-basis point increase/decrease in our variable interest rates would increase/decrease the minimum contracted rentals on our portfolio as of December 31, 2016 by $3.6 million and $3.6 million, respectively, over the next twelve months. As of December 31, 2016, a hypothetical 100-basis point increase/decrease in our variable interest rate on our borrowings would result in an interest expense increase/decrease of $6.6 million and $6.0 million, respectively, net of amounts received from our interest rate derivatives, over the next twelve months. In September 2016, we purchased an interest rate cap for $2.3 million to hedge approximately 70% of our floating rate interest exposure. The interest rate cap is set at 2% and has a starting notional balance of $430.0 million and reduces over time to $215.0 million. The cap matures in September 2021.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and notes thereto, referred to in Item 15(A)(1) of this Form 10-K, are filed as part of this report and appear in this Form 10-K beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management’s Evaluation of Disclosure Controls and Procedures

The term “disclosure controls and procedures” is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) as appropriate, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company’s management, including the CEO and CFO, of the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2016. Based on that evaluation, the Company’s management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2016.

Management’s Annual Report on Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016. The assessment was based on criteria established in the framework Internal Control — Integrated Framework, issued by the Committee of

62

Sponsoring Organizations ("COSO") of the Treadway Commission (2013 framework) (the COSO criteria). Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Ernst & Young LLP, the independent registered public accounting firm that audited our Consolidated Financial Statements included in this Annual Report on Form 10-K, audited the effectiveness of our controls over financial reporting as of December 31, 2016. Ernst & Young LLP has issued its report which is included below.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Aircastle Limited

We have audited Aircastle Limited and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Aircastle Limited and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aircastle Limited and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Aircastle Limited and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 of Aircastle Limited and subsidiaries and our report dated February 14, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Stamford, Connecticut

February 14, 2017

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The name, age and background of each of our directors nominated for election will be contained under the caption "Election of Directors" in our Proxy Statement for our 2017 Annual General Meeting of Shareholders ("2017 Proxy Statement"). The identification of our Audit Committee and our Audit Committee financial experts will be contained in our 2017 Proxy Statement under the captions "CORPORATE GOVERNANCE — Committees of the Board of Directors — The Audit Committee." Information regarding our Code of Business Ethics and Conduct, any material amendments thereto and any related waivers will be contained in our 2017 Proxy Statement under the captions "CORPORATE GOVERNANCE — Code of Business Conduct and Ethics." All of the foregoing information is incorporated herein by reference. The Code of Business Conduct and Ethics is posted on Aircastle's Website at www.aircastle.com under Investors — Corporate Governance. Pursuant to Item 401(b) of Regulation S-K, the requisite information pertaining to our executive officers is reported immediately following Item 4 of Part I of this report. Information on compliance with Section 16(a) of the Exchange Act will be contained in our 2017 Proxy Statement under the captions "OWNERSHIP OF AYR COMMON SHARES — Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information on compensation of our directors and certain named executive officers will be contained in our 2017 Proxy Statement under the captions "Directors' Compensation" and "EXECUTIVE COMPENSATION," respectively, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information on the number of shares of Aircastle's common shares beneficially owned by each director, each named executive officer and by all directors and executive officers as a group will be contained under the captions "OWNERSHIP OF THE COMPANY'S COMMON SHARES — Security Ownership by Management" and information on each beneficial owner of more than 5% of Aircastle's common shares is contained under the captions "OWNERSHIP OF THE COMPANY'S COMMON SHARES — Security Ownership of Certain Beneficial Owners" in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information relating to certain transactions between Aircastle and its affiliates and certain other persons will be set forth under the caption "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS" in our 2017 Proxy Statement and is incorporated herein by reference.

Information relating to director independence will be set forth under the caption "PROPOSAL NUMBER ONE — ELECTION OF DIRECTORS — Director Independence" in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information relating to audit fees, audit-related fees, tax fees and all other fees billed in fiscal 2016 and by Ernst & Young LLP, for services rendered to Aircastle is set forth under the caption "INDEPENDENT AUDITOR FEES" in the

2017 Proxy Statement and is incorporated herein by reference. In addition, information relating to the pre-approval policies and procedures of the Audit Committee is set forth under the caption “INDEPENDENT AUDITOR FEES — Pre-Approval Policies and Procedures” in our 2017 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) 1. Consolidated Financial Statements.

The following is a list of the “Consolidated Financial Statements” of Aircastle Limited and its subsidiaries included in this Annual Report on Form 10-K, which are filed herewith pursuant to Item 8:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015.

Consolidated Statements of Income for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

Consolidated Statements of Cash Flows for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

Consolidated Statements of Changes in Shareholders’ Equity for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules.

There are no Financial Statement Schedules filed as part of this Annual Report, since the required information is included in the Consolidated Financial Statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

3. Exhibits.

The exhibits filed herewith are listed on the Exhibit Index filed as part of this report on Form 10-K.

(B) EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3.1	Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
3.2	Amended Bye-laws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-3 (No. 333-182242) filed on June 20, 2012).
4.1	Specimen Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
4.2	Indenture, dated as of April 4, 2012, by and between Aircastle Limited and Wells Fargo Bank, National Association as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 5, 2012).
4.3	Indenture, dated as of November 30, 2012, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 30, 2012).
4.4	Amended and Restated Shareholder Agreement, dated as of February 18, 2015, by and between Aircastle Limited and Marubeni Corporation (incorporated by reference to Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2015).
4.5	Amendment Agreement No. 1 to the Amended and Restated Shareholder Agreement, dated as of September 23, 2016, by and between Aircastle Limited and Marubeni Corporation (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 26, 2016).
4.6	Indenture, dated as of December 5, 2013, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee Citigroup Global Markets, Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC and RBC Capital Markets, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 6, 2013).
4.7	First Supplemental Indenture, dated as of December 5, 2013, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 6, 2013).
4.8	Second Supplemental Indenture, dated as of March 26, 2014, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 26, 2014).
4.9	Third Supplemental Indenture, dated as of January 15, 2015, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 15, 2015).
4.10	Fourth Supplemental Indenture, dated as of March 24, 2016, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 24, 2016).

10.1	Form of Restricted Share Purchase Agreement (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.2	Form of Amended Restricted Share Grant Letter under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan(incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K filed on March 5, 2010). #
10.3	Form of Amended Restricted Share Agreement for Certain Executive Officers under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K filed on March 10, 2011). #
10.4	Form of Amended International Employee Restricted Share Unit Agreement under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed on March 5, 2010). #

Exhibit No.	Description of Exhibit
10.5	Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25 2006). #
10.6	Letter Agreement, dated as of February 24, 2006, by and between Aircastle Advisor LLC and Joseph Schreiner (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
10.7	Letter Agreement, dated as of July 13, 2010, by and between Aircastle Advisor LLC and Ron Wainshal (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 15, 2010). #
10.8	Form of Senior Executive Employment Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 8, 2010). #
10.9	Form of Amended and Restated Indemnification Agreement with directors and officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 8, 2011).
10.10	Registration Rights Agreement, dated as of April 4, 2012, by and among Aircastle Limited and Goldman, Sachs & Co., Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, as representatives of the several Initial Purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 5, 2012).
10.11	Share Purchase Agreement, dated as of August 7, 2012, by and among Aircastle Limited and the Fortress Shareholders named therein (incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed on August 13, 2012).
10.12	Registration Rights Letter Agreement dated as of August 10, 2012, by and between Aircastle Limited and Ontario Teachers' Pension Plan Board (incorporated by reference to Exhibit 1.3 of the Company's Current Report on Form 8-K filed on August 13, 2012).
10.13	Registration Rights Agreement, dated as of November 30, 2012, by and among Aircastle Limited and J.P. Morgan Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co and RBC Capital Markets, LLC, as representatives of the several Initial Purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 30, 2012).
10.14	Third Amended and Restated Credit Agreement, dated as of March 28, 2016, by and among Aircastle Limited, the several lenders from time to time parties thereto, and Citibank N.A., in its capacity as agent for the lenders (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2016).
10.15	Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 23, 2014).#
10.16	Form of Restricted Share Agreement for Certain Executive Officers Under the Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on

	Form 10-Q filed on November 4, 2014). #
10.17	Form of Non-Officer Director Restricted Share Agreement Under the Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 4, 2014).#
10.18	Form of Performance Share Unit Agreement for Certain Executive Officers under the Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2016). #
10.19	Purchase Agreement COM0270-15, dated as of June 12, 2015, by and between Aircastle Holding Corporation and Embraer S.A. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2015).Ø
10.20	Amendment No. 1 to Purchase Agreement COM0270-15, dated as of June 22, 2016, by and between Aircastle Holding Corporation and Embraer S. A. *Ø

Exhibit No.	Description of Exhibit
10.21	Amendment No. 2 to Purchase Agreement COM0270-15, dated as of November 11, 2016, by and between Aircastle Holding Corporation and Embraer S.A. *Ø
10.22	Amendment No. 3 to Purchase Agreement COM0270-15, dated as of January 13, 2017, by and between Aircastle Holding Corporation and Embraer S.A. *Ø
10.23	Amendment No. 1 to Letter Agreement COM0271-15 in Purchase Agreement COM0270-15, dated as of November 11, 2016, by and between Aircastle Holding Corporation and Embraer S.A. *Ø
10.24	Letter Agreement, dated as of October 4, 2016, by and between Aircastle Advisor LLC and Aaron Dahlke (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 7, 2016). #
12.1	Computation of Ratio of Earnings to Fixed Charges *
21.1	Subsidiaries of the Registrant *
23.1	Consent of Ernst & Young LLP *
31.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 *
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
99.1	Owned Aircraft Portfolio at December 31, 2016 *
101	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015; (ii) Consolidated Statements of Income for the years ended December 31, 2016, December 31, 2015 and December 31, 2014; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, December 31, 2015 and December 31, 2014; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2016, December 31, 2015 and December 31, 2014; (v) Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2016, December 31, 2015 and December 31, 2014; and (vi) Notes to Consolidated Financial Statements *

Management contract or compensatory plan or arrangement.
* Filed herewith.
Ø Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

ITEM 16. FORM 10-K SUMMARY
None.
Index to Financial Statements

	Page No.
Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	E - 4
Consolidated Balance Sheets as of December 31, 2016 and 2015	E - 5
Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014	E - 6
Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014	E - 7
Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014	E - 8
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2016, 2015, and 2014	E - 9
Notes to Consolidated Financial Statements	E - 10

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders of
Aircastle Limited

We have audited the accompanying consolidated balance sheets of Aircastle Limited and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aircastle Limited and subsidiaries at December 31, 2016 and 2015 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aircastle Limited and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 14, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Stamford, Connecticut
February 14, 2017

Aircastle Limited and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except share data)

	December 31, 2016	2015
ASSETS		
Cash and cash equivalents	$455,579	$155,904
Accounts receivable	6,035	8,566
Restricted cash and cash equivalents	53,238	98,137
Restricted liquidity facility collateral	—	65,000
Flight equipment held for lease, net of accumulated depreciation of $1,224,899 and $1,306,024, respectively	6,247,585	5,867,062
Net investment in finance and sales-type leases	260,853	201,211
Unconsolidated equity method investment	72,977	50,377
Other assets	148,398	123,707
Total assets	$7,244,665	$6,569,964
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Borrowings from secured financings, net of debt issuance costs	$1,219,034	$1,146,238
Borrowings from unsecured financings, net of debt issuance costs	3,287,211	2,894,918
Accounts payable, accrued expenses and other liabilities	127,527	131,058
Lease rentals received in advance	62,225	67,327
Liquidity facility	—	65,000
Security deposits	122,597	115,642
Maintenance payments	591,757	370,281
Total liabilities	5,410,351	4,790,464
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preference shares, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common shares, $0.01 par value, 250,000,000 shares authorized, 78,593,133 shares issued and outstanding at December 31, 2016; and 80,232,260 shares issued and outstanding at December 31, 2015	786	802
Additional paid-in capital	1,521,190	1,550,337
Retained earnings	315,890	241,574
Accumulated other comprehensive loss	(3,552)	(13,213)
Total shareholders' equity	1,834,314	1,779,500
Total liabilities and shareholders' equity	$7,244,665	$6,569,964

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

Aircastle Limited and Subsidiaries
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2016	2015	2014
Revenues:			
Lease rental revenue	$725,220	$733,417	$714,654
Finance and sales-type lease revenue	17,190	7,658	10,906
Amortization of net lease discounts and lease incentives	(10,353)	(10,664)	(6,172)
Maintenance revenue	33,590	71,049	88,006
Total lease rentals	765,647	801,460	807,394
Other revenue	7,311	17,742	11,208
Total revenues	772,958	819,202	818,602
Expenses:			
Depreciation	305,216	318,783	299,365
Interest, net	255,660	243,577	238,378
Selling, general and administrative (including non-cash share-based payment expense of $7,901, $5,537 and $4,244, respectively)	61,872	56,198	55,773
Impairment of aircraft	28,585	119,835	93,993
Maintenance and other costs	7,773	11,502	7,239
Total expenses	659,106	749,895	694,748
Other income (expense):			
Gain on sale of flight equipment	39,126	58,017	23,146
Loss on extinguishment of debt	—	—	(36,570)
Other	3,527	919	1,207
Total other income (expense)	42,653	58,936	(12,217)
Income from continuing operations before income taxes and earnings of unconsolidated equity method investment	156,505	128,243	111,637
Income tax provision	12,307	12,771	13,863
Earnings of unconsolidated equity method investment, net of tax	7,255	6,257	3,054
Net income	$151,453	$121,729	$100,828
Earnings per common share — Basic:			
Net income per share	$1.92	$1.50	$1.25
Earnings per common share — Diluted:			
Net income per share	$1.92	$1.50	$1.25
Dividends declared per share	$0.98	$0.90	$0.82

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

Aircastle Limited and Subsidiaries
Consolidated Statements of Comprehensive Income
(Dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income	$151,453	$121,729	$100,828
Other comprehensive income, net of tax:			
Net change in fair value of derivatives, net of tax expense of $0, $35 and $828, respectively	(1)	1,224	2,466
Net derivative loss reclassified into earnings	9,662	24,023	34,979
Other comprehensive income	9,661	25,247	37,445
Total comprehensive income	$161,114	$146,976	$138,273

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

Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$151,453	$121,729	$100,828
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	305,216	318,783	299,365
Amortization of deferred financing costs	18,508	14,878	13,961
Amortization of net lease discounts and lease incentives	10,353	10,664	6,172
Deferred income taxes	6,156	(6,889)	2,863
Non-cash share-based payment expense	7,901	5,537	4,244
Cash flow hedges reclassified into earnings	9,662	24,023	34,979
Security deposits and maintenance payments included in earnings	(23,123)	(35,843)	(107,031)
Gain on the sale of flight equipment	(39,126)	(58,017)	(23,146)
Loss on extinguishment of debt	—	—	36,570
Impairment of aircraft	28,585	119,835	93,993
Other	(6,867)	(896)	(878)
Changes on certain assets and liabilities:			
Accounts receivable	832	(5,406)	(509)
Other assets	(1,089)	(5,033)	(11,146)
Accounts payable, accrued expenses and other liabilities	(4,014)	7,255	1,345
Lease rentals received in advance	3,645	15,665	7,176
Net cash provided by operating activities	468,092	526,285	458,786
Cash flows from investing activities:			
Acquisition and improvement of flight equipment	(1,331,059)	(1,320,669)	(1,672,460)
Proceeds from sale of flight equipment	755,898	562,518	832,961
Restricted cash and cash equivalents related to sale of flight equipment	17,000	(17,000)	—
Aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits	(9,628)	(6,812)	—
Net investment in finance and sales-type leases	(78,892)	(91,648)	(14,258)
Collections on finance and sales-type leases	19,413	9,559	10,312
Unconsolidated equity method investment and associated costs	(18,048)	—	(18,255)
Other	(839)	(610)	98
Net cash used in investing activities	(646,155)	(864,662)	(861,602)
Cash flows from financing activities:			
Repurchase of shares	(37,337)	(20,881)	(2,092)
Proceeds from secured and unsecured debt financings	1,054,250	975,000	1,003,200
Repayments of secured and unsecured debt financings	(588,778)	(681,393)	(984,517)
Deferred financing costs	(18,890)	(11,881)	(15,843)
Restricted secured liquidity facility collateral	65,000	—	42,000
Liquidity facility	(65,000)	—	(42,000)
Restricted cash and cash equivalents related to financing activities	27,899	17,747	23,889
Debt extinguishment costs	—	—	(32,835)
Security deposits and maintenance payments received	171,672	152,391	178,805
Security deposits and maintenance payments returned	(51,658)	(33,398)	(152,900)
Payments for terminated cash flow hedges	—	—	(33,427)

Other	(2,283)	—	—
Dividends paid	(77,137)	(72,960)	(66,421)
Net cash provided by (used in) financing activities	477,738	324,625	(82,141)
Net increase (decrease) in cash and cash equivalents	299,675	(13,752)	(484,957)
Cash and cash equivalents at beginning of year	155,904	169,656	654,613
Cash and cash equivalents at end of year	$455,579	$155,904	$169,656

Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
(Dollars in thousands)

	Year Ended December 31,		
	2016	2015	2014
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	$224,705	$195,162	$201,611
Cash paid during the year for income taxes	$16,693	$12,716	$5,144
Supplemental disclosures of non-cash investing activities:			
Advance lease rentals, security deposits, and maintenance payments settled in sale of flight equipment	$77,835	$107,396	$84,215
Advance lease rentals, security deposits and maintenance payments assumed in asset acquisitions	$202,808	$13,307	$56,298
Term debt financings assumed in asset acquisitions	$—	$—	$39,061
Transfers from Flight equipment held for lease to Net investment in finance and sales-type leases and Other assets	$142,950	$40,327	$66,146

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

Aircastle Limited and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(Dollars in thousands, except share amounts)

	Common Shares		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance, December 31, 2013	80,806,975	$ 808	$1,562,106	$158,398	$ (75,905)	$1,645,407
Issuance of common shares to directors and employees	354,547	4	(4)	—	—	—
Repurchase of common shares from directors and employees	(178,273)	(2)	(2,090)	—	—	(2,092)
Amortization of share-based payments	—	—	4,244	—	—	4,244
Excess tax benefit from stock based compensation	—	—	924	—	—	924
Dividends declared	—	—	—	(66,421)	—	(66,421)
Net income	—	—	—	100,828	—	100,828
Net change in fair value of derivatives, net of $828 tax expense	—	—	—	—	2,466	2,466
Net derivative loss reclassified into earnings	—	—	—	—	34,979	34,979
Balance, December 31, 2014	80,983,249	810	1,565,180	192,805	(38,460)	1,720,335
Issuance of common shares to directors and employees	306,593	3	(3)	—	—	—
Repurchase of common shares from stockholders, directors and employees	(1,057,582)	(11)	(20,870)	—	—	(20,881)
Amortization of share-based payments	—	—	5,537	—	—	5,537
Excess tax benefit from stock based compensation	—	—	493	—	—	493
Dividends declared	—	—	—	(72,960)	—	(72,960)
Net income	—	—	—	121,729	—	121,729
Net change in fair value of derivatives, net of $35 tax expense	—	—	—	—	1,224	1,224
Net derivative loss reclassified into earnings	—	—	—	—	24,023	24,023
Balance, December 31, 2015	80,232,260	802	1,550,337	241,574	(13,213)	1,779,500
Issuance of common shares to stockholders, directors and employees	317,501	3	(3)	—	—	—
Repurchase of common shares from stockholders, directors and employees	(1,956,628)	(19)	(37,318)	—	—	(37,337)
Amortization of share-based payments	—	—	7,901	—	—	7,901
Excess tax benefit from stock based compensation	—	—	273	—	—	273
Dividends declared	—	—	—	(77,137)	—	(77,137)
Net income	—	—	—	151,453	—	151,453
Net change in fair value of derivatives, net of $0 tax expense	—	—	—	—	(1)	(1)

Net derivative loss reclassified into earnings	—	—	—	—	9,662	9,662
Balance, December 31, 2016	78,593,133	$ 786	$1,521,190	$315,890	$ (3,552)	$1,834,314

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

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Note 1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

Aircastle Limited ("Aircastle," the "Company," "we," "us" or "our") is a Bermuda exempted company that was incorporated o October 29, 2004 under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle's business is investing in aviation assets, including acquiring, leasing, managing and selling high-utility commercial jet aircraft. Aircastle is a holding company that conducts its business through subsidiaries. Aircastle directly or indirectly owns all of the outstanding common shares of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The Company manages, analyzes and reports on its business and results of operations on the basis of one operating segment: leasing, financing, selling and managing commercial flight equipment. Our chief executive officer is the chief operating decision maker.

The Company's management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of December 31, 2016 through the date on which the consolidated financial statements included in this Form 10-K were issued.

Effective January 1, 2016, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-02, Consolidation - Amendments to the Consolidation Analysis (Topic 810). The update amended the guidelines for determining whether certain legal entities should be consolidated and reduced the number of consolidation models. This new standard affected reporting entities that are required to evaluate whether they should consolidate certain legal entities. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Effective December 31, 2016, the Company adopted FASB ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). The standard requires management of public companies to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, disclose that fact. Management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). The standard did not have a material impact on our consolidated financial statements and related disclosures.

Effective January 1, 2017, the Company adopted FASB ASU No. 2016-06, Derivatives and Hedging (Topic 815), Contingent Put and Call Options in Debt Instruments. This update clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The update is applied on a modified retrospective approach to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Effective January 1, 2017, the Company adopted FASB ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting. This update affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The update is applied prospectively upon the effective date of increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Effective January 1, 2017, the Company adopted FASB ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). The update amends the guidelines for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Effective January 1, 2017, the Company adopted FASB ASU No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business. The update provides guidance to assist entities with evaluating when a set of

E - 10

transferred assets and activities is a business. The update is applied prospectively and requires no disclosures at transition. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Principles of Consolidation

The consolidated financial statements include the accounts of Aircastle and all of its subsidiaries. Aircastle consolidates five Variable Interest Entities ("VIEs") of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

We consolidate VIEs in which we have determined that we are the primary beneficiary. We use judgment when deciding (a) whether an entity is subject to consolidation as a VIE, (b) who the variable interest holders are, (c) the potential expected losses and residual returns of the variable interest holders, and (d) which variable interest holder is the primary beneficiary. When determining which enterprise is the primary beneficiary, we consider (1) the entity's purpose and design, (2) which variable interest holder has the power to direct the activities that most significantly impact the entity's economic performance, and (3) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. When certain events occur, we reconsider whether we are the primary beneficiary of VIEs. We do not reconsider whether we are a primary beneficiary solely because of operating losses incurred by an entity.

Risk and Uncertainties

In the normal course of business, Aircastle encounters several significant types of economic risk including credit, market, aviation industry and capital market risks. Credit risk is the risk of a lessee's inability or unwillingness to make contractually required payments and to fulfill its other contractual obligations. Market risk reflects the change in the value of derivatives and financings due to changes in interest rate spreads or other market factors, including the value of collateral underlying financings. Aviation industry risk is the risk of a downturn in the commercial aviation industry which could adversely impact a lessee's ability to make payments, increase the risk of unscheduled lease terminations and depress lease rates and the value of the Company's aircraft. Capital market risk is the risk that the Company is unable to obtain capital at reasonable rates to fund the growth of our business or to refinance existing debt facilities.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. While Aircastle believes that the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Aircastle considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Restricted cash and cash equivalents consists primarily of rent collections, maintenance payments and security deposits received from lessees pursuant to the terms of various lease agreements held in lockbox accounts in accordance with our financings. Changes in restricted cash related to the sale of flight equipment are reflected within investing activities of our Consolidated Statements of Cash Flows. Changes in restricted cash and cash equivalents related to rents, maintenance payments and security deposits are reflected within financing activities of our Consolidated Statements of Cash Flows.

Virtually all of our cash and cash equivalents and restricted cash and cash equivalents are held or managed by three major financial institutions.

Flight Equipment Held for Lease and Depreciation

Flight equipment held for lease is stated at cost and depreciated using the straight-line method, typically over a 25-year life from the date of manufacture for passenger aircraft and over a 30 to 35-year life for freighter aircraft,

depending on whether the aircraft is a converted or purpose-built freighter, to estimated residual values. Estimated residual values are

generally determined to be approximately 15% of the manufacturer's estimated realized price for passenger aircraft when new and 5% to 10% for freighter aircraft when new. Management may make exceptions to this policy on a case-by-case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of value. Examples of situations where exceptions may arise include but are not limited to:

- flight equipment where estimates of the manufacturer's realized sales prices are not relevant (e.g., freighter conversions);
- flight equipment where estimates of the manufacturers' realized sales prices are not readily available; and
- flight equipment which may have a shorter useful life due to obsolescence.

Major improvements and modifications incurred in connection with the acquisition of aircraft that are required to get the aircraft ready for initial service are capitalized and depreciated over the remaining life of the flight equipment. For planned major maintenance activities for aircraft off-lease, the Company capitalizes the actual maintenance costs by applying the deferral method. Under the deferral method, we capitalize the actual cost of major maintenance events, which are depreciated on a straight-line basis over the period until the next maintenance event is required.

In accounting for flight equipment held for lease, we make estimates about the expected useful lives, the fair value of attached leases, acquired maintenance assets or liabilities and the estimated residual values. In making these estimates, we rely upon actual industry experience with the same or similar aircraft types and our anticipated lessee's utilization of the aircraft.

For purchase and lease back transactions, we account for the transaction as a single arrangement. We allocate the consideration paid based on the fair value of the aircraft and lease. The fair value of the lease may include a maintenance premium and a lease premium or discount.

When we acquire an aircraft with a lease, determining the fair value of attached leases requires us to make assumptions regarding the current fair values of leases for specific aircraft. We estimate a range of current lease rates of like aircraft in order to determine if the attached lease is within a fair value range. If a lease is below or above the range of current lease rates, we present value the estimated amount below or above the fair value range over the remaining term of the lease. The resulting lease discount or premium is amortized into lease rental income over the remaining term of the lease.

Impairment of Flight Equipment

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis annually during the third quarter. In addition, a recoverability assessment is performed whenever events or changes in circumstances, or indicators, suggest that the carrying amount or net book value of an asset may not be recoverable. Indicators may include, but are not limited to, a significant lease restructuring or early lease termination, significant change in aircraft model's storage levels, the introduction of newer technology aircraft or engines, an aircraft type is no longer in production or a significant airworthiness directive is issued. When we perform a recoverability assessment, we measure whether the estimated future undiscounted net cash flows expected to be generated by the aircraft exceed its net book value. The undiscounted cash flows consist of cash flows from currently contracted lease rental and maintenance payments, future projected lease rates, transition costs, estimated down time, estimated residual or scrap values for an aircraft, economic conditions and other factors. In the event that an aircraft does not meet the recoverability test, the aircraft will be adjusted to fair value, resulting in an impairment charge. See Note 2 — Fair Value Measurements.

Management develops the assumptions used in the recoverability analysis based on current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in projected lease rental and maintenance payments, residual values, economic conditions, technology, airline demand for a particular aircraft type and other factors.

In monitoring the aircraft in our fleet for impairment charges, we identify those aircraft that are most susceptible to failing the recoverability assessment and monitor those aircraft more closely, which may result in more frequent recoverability assessments. The recoverability in the value of these aircraft is more sensitive to changes in contractual cash flows, future

cash flow estimates and residual values or scrap values for each aircraft. These are typically older aircraft for which lessee demand is declining.

Net Investment in Finance and Sales-Type Leases

If a lease meets specific criteria at the inception or at any lease modification date, we recognize the lease as a Net investment in finance and sales-type leases on our Consolidated Balance Sheets. For sales-type leases, we recognize the difference between the net book value of the aircraft and the Net investment in finance and sales-type leases as a gain or loss on sale of fight equipment, less any initial direct costs and lease incentives. The Net investment in finance and sales-type leases consists of lease receivables, less the unearned income, plus the estimated unguaranteed residual value of the leased flight equipment at the lease end date. The unearned income is recognized as Finance and sales-type lease revenue in our Consolidated Statements of Income over the lease term in a manner that produces a constant rate of return on the Net investment in finance and sales-type leases.

Collectability of finance and sales-type leases is evaluated periodically on an individual customer level. The evaluation of the collectability of the finance and sales-type leases considers the credit of the lessee and the value of the underlying aircraft. An allowance for credit losses is established if there is evidence that we will be unable to collect all amounts due according to the original contractual terms of the Net investment in finance and sales-type leases. At December 31, 2016, we had no allowance for credit losses for our Net investment in finance and sales-type leases. When collectability is not reasonably assured, the customer is placed on non-accrual status, and revenue is recognized when cash payments are received.

Unconsolidated Equity Method Investment

Aircastle accounts for its interest in an unconsolidated joint venture using the equity method as we do not control the joint venture entity. Under the equity method, the investment is initially recorded at cost and the carrying amount is affected by its share of the unconsolidated joint venture’s undistributed earnings and losses, and distributions of dividends and capital.

Security Deposits

Most of our operating leases require the lessee to pay Aircastle a security deposit or provide a letter of credit. Security deposits represent cash received from the lessee that is held on deposit until lease expiration. Aircastle’s operating leases also obligate the lessees to maintain flight equipment and comply with all governmental requirements applicable to the flight equipment, including without limitation, operational, maintenance, registration requirements and airworthiness directives.

Maintenance Payments

Typically, under an operating lease, the lessee is responsible for performing all maintenance but might be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Whether to permit a lessee to make maintenance payments at the end of the lease term, rather than requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the level of security deposit which may be provided by the lessee and market conditions at the time we enter into the lease. If a lease requires monthly maintenance payments, we would typically be obligated to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components to the extent of maintenance payments received in respect of the specific maintenance event, usually shortly following completion of the relevant work. If a lease requires end of lease term maintenance payments, typically the lessee would be required to pay us for its utilization of the aircraft during the lease; however, in some cases, we may owe a net payment to the lessee in the event heavy maintenance is performed and paid for by the lessee during the lease term and the aircraft is returned to us in better condition that at lease inception.

We record monthly maintenance payments by the lessee as accrued maintenance payments liabilities in recognition of our contractual commitment to refund such receipts. In these contracts, we do not recognize such maintenance payments as maintenance revenue during the lease. Reimbursements to the lessee upon the receipt of evidence of qualifying maintenance work are charged against the existing accrued maintenance payments liability. We currently defer maintenance revenue recognition of all monthly maintenance payments collected until the end of the lease, when we are able to determine the

amount, if any, by which the monthly maintenance payments received from a lessee exceed costs to be incurred by that lessee in performing heavy maintenance. End of lease term maintenance payments made to us are recognized as maintenance revenue, and end of lease term maintenance payments we make to a lessee are recorded as contra maintenance revenue.

Lease Incentives and Amortization

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated amount of the maintenance event cost and the estimated amounts the lessee is responsible to pay.

This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability, and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset, which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

Lease acquisition costs related to reconfiguration of the aircraft cabin, other lessee specific modifications and other direct costs are capitalized and amortized into revenue over the initial life of the lease, assuming no lease renewals, and are included in other assets.

Income Taxes

Aircastle uses an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount estimated by us to be realizable. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits.

Lease Revenue Recognition

We lease flight equipment under net operating leases with lease terms typically ranging from three to seven years. We generally do not offer renewal terms or purchase options in our leases, although certain of our operating leases allow the lessee the option to extend the lease for an additional term. Operating leases with fixed rentals and step rentals are recognized on a straight-line basis over the term of the initial lease, assuming no renewals. Operating lease rentals that adjust based on a London Interbank Offered Rate ("LIBOR") index are recognized on a straight-line basis over the period the rentals are fixed and accruable. Revenue is not recognized when collection is not reasonably assured. When collectability is not reasonably assured, the customer is placed on non-accrual status, and revenue is recognized when cash payments are received.

Comprehensive Income

Comprehensive income consists of net income and other gains and losses, net of income taxes, if any, affecting shareholders' equity that, under U.S. GAAP, are excluded from net income.

Share-Based Compensation

Aircastle recognizes compensation cost relating to share-based payment transactions in the financial statements based on the fair value of the equity instruments issued. Aircastle uses the straight-line method of accounting for compensation cost on share-based payment awards that contain pro-rata vesting provisions.

E - 14

Deferred Financing Costs

Deferred financing costs, which are included in borrowings from secured and unsecured financings, net of debt issuance costs, in the Consolidated Balance Sheets, are amortized using the interest method for amortizing loans over the lives of the relevant related debt.

Recent Accounting Pronouncements

On February 25, 2016, the FASB issued Accounting Standards Codification ("ASC") 842 ("ASC 842"), "Leases," which replaced the existing guidance in ASC 840, Leases. The accounting for leases by lessors basically remained unchanged from the concepts that existed in ASC 840 accounting. The FASB decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct finance lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the forthcoming revenue recognition standard, which evaluates whether a sale has occurred from the customer's perspective. The standard will be effective for public entities beginning after December 15, 2018. The standard is applied on a modified retrospective approach. We plan to adopt the standard on its required effective date of January 1, 2019. We are evaluating the impact that ASC 842 will have on our consolidated financial statements and related disclosures. We do not believe that the adoption of the standard will significantly impact our existing or potential lessees' economic decisions to lease aircraft.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. The standard affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The update is applied on a modified retrospective approach. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as early as the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The standard clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The update should be applied using a retrospective transition method to each period presented. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. The standard requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The update should be applied using a retrospective transition method to each period presented. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

On May 28, 2014, the FASB and the International Accounting Standards Board (the "IASB") (collectively, "the Boards"), jointly issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and related updates. Lease contracts within the scope of ASC 840, Leases, are specifically excluded from ASU No. 2014-09. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The standard is effective for public entities beginning after December 15, 2017. The standard allows for

either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. We plan to adopt the standard on its required effective date of January 1, 2018. The standard does not impact the accounting of our lease revenue, but may

impact the accounting of our other revenue and other income. While we are still performing our analysis, we do not expect the impact of this standard to be material to our consolidated financial statements and related disclosures.

Note 2. Fair Value Measurements

Fair value measurements and disclosures require the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize use of unobservable inputs. These inputs are prioritized as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.
- Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

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

- The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- The income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.
- The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

The following tables set forth our financial assets and liabilities as of December 31, 2016 and 2015 that we measured at fair value on a recurring basis by level within the fair value hierarchy. 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.

	Fair Value as of December 31, 2016	Fair Value Measurements at December 31, 2016 Using Fair Value Hierarchy			
		Level 1	Level 2	Level 3	Valuation Technique
Assets:					
Cash and cash equivalents	$ 455,579	$455,579	$—	$ —	Market
Restricted cash and cash equivalents	53,238	53,238	—	—	Market
Derivative assets	5,735	—	5,735	—	Market
Total	$ 514,552	$508,817	$5,735	$ —	
Liabilities:					
Derivative liabilities	$ —	$ —	$ —	$ —	Income

	Fair Value as of December 31, 2015	Fair Value Measurements at December 31, 2015 Using Fair Value Hierarchy			
		Level 1	Level 2	Level 3	Valuation Technique
Assets:					
Cash and cash equivalents	$ 155,904	$155,904	$ —	$ —	Market
Restricted cash and cash equivalents	98,137	98,137	—	—	Market
Derivative assets	—	—	—	—	Market
Total	$ 254,041	$254,041	$ —	$ —	
Liabilities:					
Derivative liabilities	$1,283	$ —	$1,283	$ —	Income

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, consist largely of money market securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy. Our interest rate derivative included in Level 2 consists of United States dollar-denominated interest rate cap, and their fair value is based on the market comparisons for similar instruments. We also considered the credit rating and risk of the counterparty providing the interest rate cap based on quantitative and qualitative factors.

For the years ended December 31, 2016 and 2015, we had no transfers into or out of Level 3.

We measure the fair value of certain assets and liabilities on a non-recurring basis, when U.S. GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include our investment in unconsolidated joint ventures and aircraft. We account for our investment in unconsolidated joint ventures under the equity method of accounting and record impairment when its fair value is less than its carrying value. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft in impairment tests are based on an income approach which uses Level 3 inputs, which include the Company's assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

Aircraft Valuation

Recoverability Assessment

We completed our annual recoverability assessment of wide-body and freighter aircraft during the second quarter and narrow-body aircraft fleet during the third quarter. We also performed aircraft-specific analyses where there were changes in circumstances, such as approaching lease expirations.

The recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry, as well as information received from third-party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors.

In our third quarter 2016 assessment, we reduced economic lives and residuals for all six older Boeing 757-200 aircraft, which we intend to sell at lease end. As a result, we recorded impairment charges totaling $2,167 relating to two of these aircraft held as operating leases and impairment losses totaling $2,618 relating to three of these aircraft held as finance leases.

During the second quarter of 2016, we reduced forecasted cash flows for older Airbus A330 aircraft to reflect lower rental expectations given weak demand and increased competition from newer units. As a result, we recorded impairment charges totaling $11,670 and maintenance revenue of $4,000 relating to one sixteen year old Airbus A330-200 approaching lease expiry.

In our 2015 assessment, we reduced forecasted future cash flows for our six Boeing 747-400 converted freighter aircraft not subject to sales agreements, all of which were more than twenty years old. Our new forecast reflected the persisting glut of supply in the air cargo market resulting from weak growth in demand combined with the growth in capacity arising from new production air freighters and higher belly capacity in latest generation wide-body passenger aircraft. In addition to these market-wide impacts, our older freighters were affected specifically by the imposition of age limits in certain countries and by lower utilization levels.

As a result, we determined that each of our older converted freighter aircraft was on its last lease, and we reduced our residual value assumptions for these aircraft and expect to scrap them following lease expiry. During the third quarter of 2015, we therefore impaired four of these aircraft, which had an aggregate net book value as of August 31, 2015 of $115,888, writing down their book values by a total of $34,575, with a fair value date of September 1, 2015. For one

of these aircraft, we recorded maintenance revenue of $5,858, as we no longer planned to reinvest these funds.

Other Impairments

In the third quarter of 2016, we reduced forecasted cash flows for three Boeing 747-400 converted freighter aircraft due to a change in planned engine maintenance events. These three aircraft are nearing the end of their economic lives and leases. As a result, we recorded impairment charges totaling $5,450, maintenance revenue of $5,596 and reversed lease incentives of $2,361.

Also in the third quarter of 2016, we impaired one Airbus A321-200 aircraft for which we had a sales agreement, resulting in an impairment charge of $1,712. This aircraft was classified as Held for sale in Other assets at September 30, 2016 and sold for its recorded value in October 2016.

In the second quarter of 2016, we entered into an agreement to sell two older Boeing 747-400 converted freighter aircraft to the lessee resulting in an impairment charge of $5,053. These two aircraft were classified as Held for sale at June 30, 2016 in Other assets and were subsequently sold in July 2016.

In December 2015, one of our Airbus A330-300 aircraft was returned to us early as a result of a lease termination. We elected not to reinvest in certain major maintenance needed to release this aircraft and instead have classified it as Held for sale. As a result, we recorded an impairment of $16,896 for this aircraft, partially offset by maintenance revenue of $9,055, reversed lease incentives of $4,487 and other revenue of $1,778.

In the third quarter of 2015, Malaysian Airline System (“MAS”) informed us that it was effectively rejecting the lease on our Boeing 777-200ER aircraft as part of its restructuring. This aircraft, which was manufactured in 1998, was the only aircraft we had on lease to MAS. We repossessed it in October 2015. We reduced the carrying value of this aircraft to our best estimate of scrap value. This write-down resulted in an impairment charge of $37,770, partially offset by $1,200 of other revenue from a letter of credit we drew following the lease rejection. This aircraft was sold in the second quarter of 2016.

Also in the third quarter of 2015, we modified the lease agreement with respect to one Airbus A321-200 aircraft. We elected not to reinvest in certain major maintenance events during the lease term, and the lessee agreed to release its rights to certain maintenance payments. As a result, we recorded an impairment charge of $6,058 and maintenance revenue of $7,109 for this aircraft.

In the second quarter of 2015, we impaired two McDonnell Douglas MD-11 freighter aircraft and one Boeing 737-800 aircraft and recorded impairment charges totaling $23,955 and maintenance revenue of $18,234.

Other than the aircraft discussed above, management believes that the net book value of each aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by that aircraft, and accordingly, no other aircraft were impaired as a consequence of this recoverability assessment. However, if our estimates or assumptions change, we may revise our cash flow assumptions and record future impairment charges. While we believe that the estimates and related assumptions used in the recoverability assessment are appropriate, actual results could differ from those estimates.

Financial Instruments

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, amounts borrowed under financings and interest rate derivatives. The fair value of cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short-term nature.

The fair values of our ECA Financings (as described in Note 6 - Variable Interest Entities below) and other secured bank financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our senior notes is estimated using quoted market prices.

E - 18

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

The carrying amounts and fair values of our financial instruments at December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Carrying Amount of Liability	Fair Value of Liability	Carrying Amount of Liability	Fair Value of Liability
Securitizations	$ —	$ —	$125,366	$123,696
Credit Facilities	120,000	120,000	225,000	225,000
ECA Financings	305,276	316,285	404,491	422,640
Bank Financings	933,541	925,783	636,970	653,699
Senior Notes	3,200,000	3,387,125	2,700,000	2,832,125

All of our financial instruments are classified as Level 2 with the exception of our senior notes, which are classified as Level 1.

Note 3. Lease Rental Revenues and Flight Equipment Held for Lease

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at December 31, 2016 were as follows:

Year Ended December 31,	Amount
2017	$710,158
2018	649,353
2019	551,588
2020	449,910
2021	374,428
Thereafter	877,208
Total	$3,612,645

The classification of regions in the tables below is determined based on the principal location of the lessee of each aircraft.

Geographic concentration of lease rental revenue earned from flight equipment held for lease was as follows:

	Year Ended December 31,		
Region	2016	2015	2014
Asia and Pacific	40 %	42 %	40 %
Europe	23 %	28 %	29 %
Middle East and Africa	12 %	9 %	9 %
North America	6 %	5 %	9 %
South America	19 %	16 %	13 %
Total	100 %	100 %	100 %

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

The following table shows the number of lessees with lease rental revenue of at least 5% and their combined total percentage of lease rental revenue for the years indicated:

Year Ended December 31,	2016		2015		2014	
	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue
Largest lessees by lease rental revenue	4	25 %	3	17 %	3	17 %

The following table sets forth revenue attributable to individual countries representing at least 10% of total revenue (including maintenance revenue) in any year based on each lessee's principal place of business for the years indicated:

Year Ended December 31,	2016		2015		2014	
Country	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Russia[1]	$—	— %	$—	— %	$86,512	11 %
Indonesia[2]	83,087	10 %	—	— %	—	— %

(1) Total revenue attributable to Russia was less than 10% for the years ended December 31, 2016 and 2015. For the year ended December 31, 2014, includes $29,867 of maintenance revenue related to early lease terminations.
(2) Total revenue attributable to Indonesia was less than 10% for the years ended December 31, 2015 and 2014.

Geographic concentration of net book value of flight equipment (including flight equipment held for lease and net investment in finance and sales-type leases, or "net book value") was as follows:

Region	December 31, 2016			December 31, 2015		
	Number of Aircraft	Net Book Value	%	Number of Aircraft	Net Book Value	%
Asia and Pacific	61	38	%	49	39	%
Europe	66	23	%	64	26	%
Middle East and Africa	14	11	%	9	10	%
North America	26	8	%	17	6	%
South America	23	18	%	22	19	%
Off-lease	3 [1]	2	%	1 [2]	—	%
Total	193	100	%	162	100	%

(1) Consisted of one Airbus A330-200 aircraft, which was delivered on lease to a customer in February 2017, and two Airbus A321-200 aircraft, which are subject to a commitment to lease.
(2) Consisted of one Boeing 777-200ER aircraft that was sold during the second quarter of 2016.

The following table sets forth net book value attributable to individual countries representing at least 10% of net book value based on each lessee's principal place of business as of:

Region	December 31, 2016			December 31, 2015		
	Net Book Value	Net Book Value	Number % of	Net Book Value	Net Book Value	Number % of

	Lessees				Lessees
Indonesia	$—	%	—	$661,178	11 % 3

At December 31, 2016 and 2015, the amounts of lease incentive liabilities recorded in maintenance payments on the Consolidated Balance Sheets were $14,931 and $21,432, respectively.

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Note 4. Net Investment in Finance and Sales-Type Leases

At December 31, 2016, our net investment in finance and sales-type leases consisted of: eight aircraft leased to two customers in the United States, one aircraft leased to a customer in the Netherlands, three aircraft leased to two customers in Germany, one aircraft leased to a customer in Spain and one aircraft leased to a customer in Sri Lanka.

The following table lists the components of our net investment in finance and sales-type leases at December 31, 2016:

	Amount
Total lease payments to be received	$180,840
Less: Unearned income	(79,932)
Estimated residual values of leased flight equipment (unguaranteed)	159,945
Net investment in finance and sales-type leases	$260,853

At December 31, 2016, minimum future lease payments on finance and sales-type leases are as follows:

Year Ending December 31,	Amount
2017	$34,113
2018	27,418
2019	27,249
2020	26,843
2021	20,987
Thereafter	44,230
Total lease payments to be received	$180,840

Note 5. Unconsolidated Equity Method Investment

On December 19, 2013, the Company and an affiliate of Ontario Teachers' Pension Plan ("Teachers'") formed a joint venture ("Lancaster"), in which we hold a 30% equity interest, to invest in leased aircraft. Teachers' holds 10.0% of our outstanding common shares. In 2016, we sold four aircraft for approximately $100,000 to Lancaster; these transactions were approved by our Audit Committee as arm's length transactions under our related party policy.

On February 23, 2016, through the Company's relationship with Marubeni Corporation, we established a new joint venture ("IBJ Air") with the leasing arm of the Industrial Bank of Japan, Limited ("IBJL"). IBJ Air is targeted at new narrow-body aircraft leased to premier airlines providing Aircastle with increased access to this market sector and to these customers. During 2016, we sold four aircraft for approximately $110,000 to IBJ Air, in which we hold a 25% equity interest.

Neither of these joint ventures qualifies for consolidated accounting treatment. The assets and liabilities of Lancaster and IBJ Air are not included in our Consolidated Balance Sheets and we record our net investment under the equity method of accounting. We source and service investments for Lancaster and IBJ Air and provide marketing, asset management and administrative services to them. We are paid market-based fees for those services, which are recorded in Other revenue in our Consolidated Statements of Income. The Company has recorded in its Consolidated Balance Sheet $9,740 guarantee liability in Maintenance payments and a $5,100 guarantee liability in Security deposits representing its share of the respective exposures.

At December 31, 2016, the net book value of our two joint ventures' thirteen aircraft was approximately $689,000.

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

	Amount
Investment in joint venture at December 31, 2014	$46,453
Investment in joint venture	3,394
Earnings from joint venture, net of tax	6,257
Distributions	(5,727)
Investment in joint venture at December 31, 2015	50,377
Investment in joint venture	20,818
Earnings from joint venture, net of tax	7,255
Distributions	(5,473)
Investment in joint venture at December 31, 2016	$72,977

Note 6. Variable Interest Entities

Aircastle consolidates five VIEs of which it is the primary beneficiary. The operating activities of these VIEs are limited to acquiring, owning, leasing, maintaining, operating and, under certain circumstances, selling the seven aircraft discussed below.

Securitization

In May 2016, we repaid the outstanding amount plus accrued interest and fees due under our Securitization No. 2, and ACS Aircraft Finance Ireland 2 Limited became a wholly owned subsidiary of Aircastle.

ECA Financings

Aircastle, through various subsidiaries, each of which is owned by a charitable trust (such entities, collectively the “Air Knight VIEs”), has entered into seven different twelve-year term loans, which are supported by guarantees from Compagnie Francaise d’ Assurance pour le Commerce Extérieur (“COFACE”), the French government sponsored export credit agency (“ECA”). We refer to these COFACE-supported financings as “ECA Financings.”

Aircastle is the primary beneficiary of the Air Knight VIEs, as we have the power to direct the activities of the VIEs that most significantly impact the economic performance of such VIEs and we bear the significant risk of loss and participate in gains through a finance lease. The activity that most significantly impacts the economic performance is the leasing of aircraft of which our wholly owned subsidiary is the servicer and is responsible for managing the relevant aircraft. There is a cross collateralization guarantee between the Air Knight VIEs. In addition, Aircastle guarantees the debt of the Air Knight VIEs.

The only assets that the Air Knight VIEs have on their books are financing leases that are eliminated in the consolidated financial statements. The related aircraft, with a net book value as of December 31, 2016 of $515,671, were included in our flight equipment held for lease. The consolidated debt outstanding, net of debt issuance costs, of the Air Knight VIEs as of December 31, 2016 is $296,365.

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Note 7. Borrowings from Secured and Unsecured Debt Financings

The outstanding amounts of our secured and unsecured term debt financings were as follows:

	At December 31, 2016				At December 31, 2015
Debt Obligation	Outstanding Borrowings	Number of Aircraft	Interest Rate[1]	Final Stated Maturity	Outstanding Borrowings
Secured Debt Financings:					
Securitization No. 2	$—	—	—%	—	$125,366
ECA Financings[2]	305,276	7	3.02% to 3.96%	12/03/21 to 11/30/24	404,491
Bank Financings[3][4]	933,541	30	1.66% to 4.45%	10/26/17 to 01/19/26	636,970
Less: Debt Issuance Costs	(19,783)				(20,589)
Total secured debt financings, net of debt issuance costs	1,219,034	37			1,146,238
Unsecured Debt Financings:					
Senior Notes due 2017	500,000		6.750%	04/15/17	500,000
Senior Notes due 2018	400,000		4.625%	12/15/18	400,000
Senior Notes due 2019	500,000		6.250%	12/01/19	500,000
Senior Notes due 2020	300,000		7.625%	04/15/20	300,000
Senior Notes due 2021	500,000		5.125%	03/15/21	500,000
Senior Notes due 2022	500,000		5.500%	02/15/22	500,000
Senior Notes due 2023	500,000		5.000%	04/01/23	—
DBJ Term Loan	120,000		2.653%	04/28/19	—
Revolving Credit Facilities	—		N/A	11/21/19 to 05/13/20	225,000
Less: Debt Issuance Costs	(32,789)				(30,082)
Total unsecured debt financings, net of debt issuance costs	3,287,211				2,894,918
Total secured and unsecured debt financings, net of debt issuance costs	$4,506,245				$4,041,156

(1) Reflects the floating rate in effect at the applicable reset date plus the margin for our DBJ Term Loan, six of our secured bank financings and our revolving credit facilities. All other financings have a fixed rate.

(2) The borrowings under these financings at December 31, 2016 have a weighted-average rate of interest of 3.52%.

(3) The borrowings under these financings at December 31, 2016 have a weighted-average fixed rate of interest of 3.20%.

(4) In September 2016, we purchased an interest rate cap for $2,283 to hedge approximately 70% of our floating rate interest exposure. The interest rate cap is set at 2% and has a starting notional balance of $430,000 and reduces over time to $215,000. The cap matures in September 2021.

Secured Debt Financings:

Securitization No. 2

On May 9, 2016, we prepaid the outstanding principal balance plus accrued interest and fees due under Securitization No. 2 and terminated the related interest rate derivatives for a total of $66,262. Upon prepayment of Securitization No. 2, our liquidity facility commitment with HSH Nordbank AG ended and all drawn cash was returned.

Bank Financings

In June 2016, we entered into a seven-year, full recourse $434,250 floating rate financing with BNP Paribas, Crédit Agricole Corporate and Investment Bank and certain other banks for eighteen aircraft. The terms of this facility require the portfolio to maintain a minimum debt service coverage ratio of 1.15, along with other customary provisions. As of December 31, 2016, we funded eighteen aircraft with an outstanding balance of $419,370 under this facility.

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Unsecured Debt Financings:

DBJ Term Loan

In March 2016, we entered into a $120,000 floating rate three-year term loan commitment with Development Bank of Japan Inc. and certain other banks (the "DBJ Term Loan"). The loan contains a $750,000 minimum net worth covenant, along with other customary provisions similar to our revolving credit facilities. This loan was funded in April 2016.

Senior Notes due 2023

On March 21, 2016, Aircastle issued $500,000 aggregate principal amount of Senior Notes due 2023. The Senior Notes due 2023 will mature on April 1, 2023 and bear interest at the rate of 5.00% per annum, payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2016. Interest accrues on the Senior Notes due 2023 from March 24, 2016.

We may redeem the Senior Notes due 2023 at any time at a redemption price equal to (a) 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest thereon to, but not including, the redemption date and (b) the sum of the present values of the remaining scheduled payments of principal and interest on the notes from the redemption date through the maturity date of the notes (computed using a discount rate equal to the Treasury Rate (as defined in the indenture governing the notes) as of such redemption date plus 50 basis points). In addition, prior to April 1, 2019, we may redeem up to 40% of the aggregate principal amount of the notes issued under the indenture at a redemption price equal to 105% plus accrued and unpaid interest thereon to, but not including, the redemption date, with the net proceeds of certain equity offerings. If the Company undergoes a change of control, it must offer to repurchase the Senior Notes due 2023 at 101% of the principal amount, plus accrued and unpaid interest. The Senior Notes due 2023 are not guaranteed by any of the Company's subsidiaries or any third party.

Proceeds from the issuance were used to repay amounts drawn under our existing revolving credit facility and for general corporate purposes.

Revolving Credit Facilities

On March 29, 2016, we increased the size of our existing unsecured revolving credit facility from $600,000 to $675,000 and extended its maturity by one year to May 2020.

On November 21, 2016, we entered into a $135,000 three-year, unsecured revolving credit facility with a group of banks based in Asia. This facility bears interest at a rate of LIBOR plus 2.1% and matures in November 2019. The facility contains provisions similar to our existing revolving credit facility, including a $750,000 minimum net worth covenant.

At December 31, 2016, we had no amounts outstanding under these facilities.

Maturities of the secured and unsecured debt financings over the next five years and thereafter are as follows:

Year Ending December 31,	Amount
2017	$683,526
2018	544,023
2019	751,328
2020	433,393
2021	635,743
Thereafter	1,513,455
Total	$4,561,468

_____

As of December 31, 2016, we were in compliance with all applicable covenants in our financings.

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Note 8. Shareholders' Equity and Share-Based Payment

In January 2006, the Board of Directors (the "Board") and shareholders managed by affiliates of Fortress Investment Group LLC (the "Fortress Shareholders") adopted the Aircastle Investment Limited 2005 Equity and Incentive Plan, and the Board and the Fortress Shareholders approved an amendment to and restatement thereof on July 20, 2006 (as so amended and restated, the "2005 Plan").

On March 14, 2014, the Board of Directors adopted the Aircastle Limited 2014 Omnibus Incentive Plan (the "2014 Plan"). The 2014 Plan was approved by shareholders at the Company's 2014 Annual General Meeting of Shareholders on May 22, 2014. The 2014 Plan replaced the 2005 Plan.

The purposes of the 2014 Plan are to provide an additional incentive to selected officers, employees, non-employee directors, independent contractors, and consultants of the Company or its affiliates whose contributions are essential to the growth and success of the business of the Company and its affiliates, to strengthen the commitment of such persons to the Company and its affiliates, motivate such persons to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons whose efforts will result in the long-term growth and profitability of the Company and its affiliates. To accomplish such purposes, the 2014 Plan provides that the Company may grant options, share appreciation rights, restricted shares, restricted share units, share bonuses, other share-based awards, cash awards or any combination of the foregoing. The 2014 Plan provides that grantees of restricted common shares will have all of the rights of shareholders, including the right to receive dividends, other than the right to sell, transfer, assign or otherwise dispose of the shares until the lapse of the restricted period. Generally, the restricted common shares vest over three to five-year periods based on continued service and are being expensed on a straight-line basis over the requisite service period of the awards. The terms of the grants provide for accelerated vesting under certain circumstances, including termination without cause following a change of control. The maximum number of Common Shares reserved for issuance under the 2014 Plan is 2,500,000 Common Shares, which includes 713,540 Common Shares remaining under the 2005 Plan that became available for reuse following the adoption of the 2014 Plan. Restricted common shares outstanding under the 2005 Plan in the amount of 140,887 shares will continue to vest subject to the terms and conditions of the 2005 Plan and the applicable awards agreements which are included in the below table.

A summary of the fair value of non-vested restricted common shares for the years ended December 31, 2016, 2015 and 2014 is as follows:

Non-vested Shares	Shares (in 000's)	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2013	694.7	$ 13.49
Granted	341.1	18.80
Canceled	(69.1)	15.89
Vested	(345.4)	13.47
Non-vested at December 31, 2014	621.3	16.15
Granted	308.8	21.58
Canceled	(10.6)	19.22
Vested	(268.1)	15.82
Non-vested at December 31, 2015	651.4	18.81
Granted	336.7	16.58
Canceled	(9.0)	18.21
Vested	(302.4)	18.50

Non-vested at December 31, 2016	676.7	$ 17.84

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

The fair value of the restricted common shares granted in 2016, 2015 and 2014 were determined based upon the market price of the shares at the grant date.

The total unrecognized compensation cost, adjusted for estimated forfeitures, related to all non-vested restricted common shares as of December 31, 2016, in the amount of $8,986, is expected to be recognized over a weighted average period of 1.82 years.

Performance Share Units

During 2016, the Company issued performance share units (“PSUs”) to certain employees. These awards were made under the 2014 Plan. The PSUs are denominated in share units without dividend rights, each of which is equivalent to one common share, and are subject to market and performance conditions and time vesting.

The PSUs granted in 2016 vest at the end of a three-year performance period which ends on December 31, 2018. Half of the PSUs vest on achieving relative total stockholder return goals (the "TSR PSUs") while the other half vest on attaining annual Adjusted Return on Equity goals (the "AROE PSUs"). The table below shows the PSU awards granted during 2016, including the number of common shares underlying the awards at the time of grant:

	Minimum	Target	Maximum
TSR PSUs	—	143,414	286,828
AROE PSUs	—	143,409	286,818
Total	—	286,823	573,646

The fair value of the time-based TSR PSUs was determined at the grant date using a Monte Carlo simulation model. Included in the Monte Carlo simulation model were certain assumptions regarding a number of highly complex and subjective variables, such as expected volatility, risk-free interest rate and dividend yield. To appropriately value the award, the risk-free interest rate is estimated for the time period from the valuation date until the vesting date and the historical volatilities were estimated based on a historical time frame equal to the time from the valuation date until the end date of the performance period. The number of TSR PSUs that will ultimately vest is based on the percentile ranking of the Company’s TSR among the S&P Midcap 400 Index. The number of shares that will ultimately vest will range from 0% to 200% of the target TSR PSUs.

The number of shares vesting from the AROE PSUs at the end of the three-year performance period will depend on the Company’s Adjusted Return on Equity as measured against the targets set by the Compensation Committee annually during the performance period, consistent with the business plan approved by the Board. The maximum number of AROE PSUs for 2016 is 95,607. The fair value of the 2016 AROE PSUs was determined based on the closing market price of the Company’s common shares on the date of grant reduced by the present value of expected dividends to be paid. The number of shares that will ultimately vest will range from 0% to 200% of the target AROE PSUs.

During 2016, the Company granted a target of 191,216 PSUs of which 143,414 are TSR PSUs and 47,802 are AROE PSUs. The remaining 95,607 of target AROE PSUs will be considered granted upon the Compensation Committee’s setting the target AROE for the respective period. The following table summarizes the activities for our unvested PSUs for 2016:

	Unvested Performance Stock Units		
	Target Number of Shares of TSR PSUs	Target Number of Shares of AROE PSUs	TSR PSUs Weighted Fair Value at Grant Date Using a Monte Carlo	AROE PSUs Weighted Fair Value Equal to

			Simulation Model ($)	Adjusted Closing Stock Price on Date of Grant ($)
Unvested at December 31, 2015	—	—	$ —	$ —
Granted	143,414	47,802	25.07	19.18
Unvested as of December 31, 2016	143,414	47,802	$ 25.07	$ 19.18
Expected to vest after December 31, 2016	143,414	47,802	$ 25.07	$ 19.18

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

The Company incurred share-based compensation expense related to PSUs of $1,261 during 2016. As of December 31, 2016, there was $3,251 of unrecognized compensation cost related to unvested PSUs granted to certain employees that is expected to be recognized over a weighted-average remaining period of 2.0 years.

Under the repurchase program approved by the Company's Board of Directors on February 9, 2016, the Company may purchase its common shares from time to time in the open market or in privately negotiated transactions. During 2016, we repurchased 1,868,352 common shares at a total cost of $35,191, including commissions. As of December 31, 2016, the remaining dollar value of common shares that may be purchased under the current repurchase program is $95,888. We also repurchased 102,927 shares totaling $2,150 from our employees and directors to settle tax obligations related to share vesting.

Under the current program we have repurchased a total of 217,574 common shares at a total cost of $4,112, including commissions, at an average price per share of $18.90. The remaining dollar value of common shares that may be purchased under the program is $95,888.

Note 9. Dividends

The following table sets forth the quarterly dividends declared by our Board of Directors for the three years ended December 31, 2016:

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
October 28, 2016	$ 0.260	$ 20,434	November 29, 2016	December 15, 2016
August 2, 2016	$ 0.240	$ 18,872	August 26, 2016	September 15, 2016
May 2, 2016	$ 0.240	$ 18,915	May 31, 2016	June 15, 2016
February 9, 2016	$ 0.240	$ 18,915	February 29, 2016	March 15, 2016
October 30, 2015	$ 0.240	$ 19,377	November 30, 2015	December 15, 2015
August 4, 2015	$ 0.220	$ 17,860	August 31, 2015	September 15, 2015
May 4, 2015	$ 0.220	$ 17,863	May 29, 2015	June 15, 2015
February 17, 2015	$ 0.220	$ 17,860	March 6, 2015	March 13, 2015
October 31, 2014	$ 0.220	$ 17,817	November 28, 2014	December 15, 2014
July 28, 2014	$ 0.200	$ 16,201	August 29, 2014	September 12, 2014
May 5, 2014	$ 0.200	$ 16,202	May 30, 2014	June 13, 2014
February 21, 2014	$ 0.200	$ 16,201	March 7, 2014	March 14, 2014

Note 10. Earnings Per Share

We include all common shares granted under our incentive compensation plan which remain unvested ("restricted common shares") and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid ("participating securities"), in the number of shares outstanding in our basic and diluted EPS calculations using the two-class method. All of our restricted common shares are currently participating securities. Our PSUs are contingently issuable shares which are included in our diluted earnings per share calculations which do not include voting or dividend rights.

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period as follows:

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2016	2015	2014
Weighted-average shares:			
Common shares outstanding	78,161,494	80,489,391	80,389,349
Restricted common shares	653,944	615,611	588,077
Total weighted-average shares	78,815,438	81,105,002	80,977,426
Percentage of weighted-average shares:			
Common shares outstanding	99.17 %	99.24 %	99.27 %
Restricted common shares	0.83 %	0.76 %	0.73 %
Total	100.00 %	100.00 %	100.00 %

The calculations of both basic and diluted earnings per share for the years ended December 31, 2016, 2015 and 2014 are as follows:

	Year Ended December 31,		
	2016	2015	2014
Earnings per common share — Basic:			
Income from continuing operations	$151,453	$121,729	$100,828
Less: Distributed and undistributed earnings allocated to restricted common shares[1]	(1,257)	(924)	(732)
Income from continuing operations available to common shareholders — Basic	$150,196	$120,805	$100,096
Weighted-average common shares outstanding — Basic	78,161,494	80,489,391	80,389,349
Net income per common share — Basic	$1.92	$1.50	$1.25
Earnings per common share — Diluted:			
Income from continuing operations	$151,453	$121,729	$100,828
Less: Distributed and undistributed earnings allocated to restricted common shares[1]	(1,257)	(924)	(732)
Income from continuing operations available to common shareholders — Diluted	$150,196	$120,805	$100,096
Weighted-average common shares outstanding — Basic	78,161,494	80,489,391	80,389,349
Effect of diluted shares[2]	42,785	—	—
Weighted-average common shares outstanding — Diluted	78,204,279	80,489,391	80,389,349
Net income per common share — Diluted	$1.92	$1.50	$1.25

(1) For the years ended December 31, 2016, 2015 and 2014, distributed and undistributed earnings to restricted shares was 0.83%, 0.76% and 0.73%, respectively, of net income. The amount of restricted share forfeitures for all periods present was immaterial to the allocation of distributed and undistributed earnings.

(2) For the year ended December 31, 2016, dilutive shares represented contingently issuable shares related to the Company's PSUs. For the years ended December 31, 2015 and 2014, we had 0 and 0 dilutive shares, respectively.

Note 11. Income Taxes

Income taxes have been provided for based upon the tax laws and rates in countries in which our operations are conducted and income is earned. The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. Consequently, the provision for income taxes relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily Ireland, Singapore and the United States.

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

The sources of income from continuing operations before income taxes and earnings of unconsolidated equity method investment for the years ended December 31, 2016, 2015 and 2014 were as follows:

	Year Ended December 31,		
	2016	2015	2014
U.S. operations	$2,230	$2,433	$2,047
Non-U.S. operations	154,275	125,810	109,590
Income from continuing operations before income taxes and earnings of unconsolidated equity method investment	$156,505	$128,243	$111,637

The components of the income tax provision from continuing operations for the year ended December 31, 2016, 2015 and 2014 consisted of the following:

	Year Ended December 31,		
	2016	2015	2014
Current:			
United States:			
Federal	$2,004	$4,167	$1,571
State	587	994	390
Non-U.S	3,560	14,499	9,040
Current income tax provision	6,151	19,660	11,001
Deferred:			
United States:			
Federal	1,350	829	2,335
State	(157)	57	932
Non-U.S	4,963	(7,775)	(405)
Deferred income tax provision (benefit)	6,156	(6,889)	2,862
Total	$12,307	$12,771	$13,863

Significant components of the Company's deferred tax assets and liabilities at December 31, 2016, 2015 and 2014 consisted of the following:

	Year Ended December 31,		
	2016	2015	2014
Deferred tax assets:			
Non-cash share-based payments	$2,183	$1,483	$1,106
Net operating loss carry forwards	47,538	52,007	42,900
Other	1,902	761	375
Total deferred tax assets	51,623	54,251	44,381
Deferred tax liabilities:			
Accelerated depreciation	(92,734)	(87,716)	(79,360)
Other	(1,227)	(442)	(1,795)
Total deferred tax liabilities	(93,961)	(88,158)	(81,155)
Net deferred tax liabilities	$(42,338)	$(33,907)	$(36,774)

The Company had approximately $40,072 of net operating loss ("NOL") carry forwards available at December 31, 2016 to offset future taxable income subject to U.S. graduated tax rates. If not utilized, these carry forwards expire between 2031 through 2036. The Company also had NOL carry forwards of $471,531 with no expiration date to offset future Irish, Mauritius and Singapore taxable income. We have a five-year Singapore corporate tax rate reduction from 17% to 10% through June 30, 2017. The cumulative net tax benefit derived from this rate reduction through December 31,

2016 is

E - 29

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

approximately $5,330, or $0.07 per diluted common share. Deferred tax assets and liabilities are included in Other assets and Accounts payable and accrued liabilities, respectively, in the accompanying Consolidated Balance Sheets. We do not expect to incur income taxes on future distributions of undistributed earnings of non-U.S. subsidiaries and accordingly, no deferred income taxes have been provided for the distributions of such earnings. As of December 31, 2016 we have elected to permanently reinvest our accumulated undistributed U.S. earnings of $10,899. Accordingly, no U.S. withholding taxes have been provided. Withholding tax of $3,270 would be due if such earnings were remitted.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We have a U.S-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

Differences between statutory income tax rates and our effective income tax rates applied to pre-tax income from continuing operations at December 31, 2016, 2015 and 2014 consisted of the following:

	Year Ended December 31,		
	2016	2015	2014
Notional U.S. federal income tax expense at the statutory rate:	$54,777	$44,885	$39,073
U.S. state and local income tax, net	182	221	189
Non-U.S. operations:			
Bermuda	(31,250)	(20,789)	(12,424)
Ireland	(276)	(3,073)	(4,732)
Singapore	(7,519)	(5,650)	(5,529)
Other low tax jurisdictions	(3,877)	(3,395)	(2,890)
Non-deductible expenses in the U.S.	525	737	644
Other	(255)	(165)	(468)
Provision for income taxes	$12,307	$12,771	$13,863

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits. We conduct business globally and, as a result, the Company and its subsidiaries or branches are subject to foreign, U.S. federal and various state and local income taxes, as well as withholding taxes. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Ireland and the United States. With few exceptions, the Company and its subsidiaries or branches remain subject to examination for all periods since inception.

Our policy is that we will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We did not accrue interest or penalties associated with any unrecognized tax benefits, nor was any interest expense or penalty recognized during the year.

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

Note 12. Interest, Net

The following table shows the components of interest, net for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities[1]	$228,774	$204,326	$189,135
Hedge ineffectiveness losses	—	455	738
Amortization of deferred losses related to interest rate derivatives	9,662	24,023	34,979
Amortization of deferred financing fees and debt discount[2]	18,508	14,878	13,961
Interest expense	256,944	243,682	238,813
Less: Interest income	(1,140)	(105)	(435)
Less: Capitalized interest	(144)	—	—
Interest, net	$255,660	$243,577	$238,378

(1) Includes $4,960 in loan termination fees related to the sale of two aircraft during the year ended December 31, 2016.

(2) Includes $2,880 in deferred financing fees written off related to the sale of two aircraft during the year ended December 31, 2016.

Note 13. Commitments and Contingencies

Rent expense, primarily for the corporate office and sales and marketing facilities, was approximately $1,951, $1,163 and $1,150 for the years ended December 31, 2016, 2015 and 2014, respectively.

As of December 31, 2016, Aircastle is obligated under non-cancelable operating leases relating principally to office facilities in Stamford, Connecticut; Dublin, Ireland; and Singapore for future minimum lease payments as follows:

Year Ending December 31,	Amount
2017	$ 1,205
2018	469
2019	374
2020	209
2021	209
Thereafter	942
Total	$ 3,408

At December 31, 2016, we had commitments to acquire 28 aircraft for $1,081,228, including 25 Embraer E-2 aircraft. In January 2017, we amended our contract with Embraer to reschedule some of the aircraft delivery dates. Commitments, including $135,576 of progress payments, contractual price escalations and other adjustments, for these aircraft at December 31, 2016, net of amounts already paid are as follows:

Year Ending December 31,	Amount
2017	$170,252
2018	258,179
2019	293,756
2020	216,847
2021	142,194
Thereafter	—
Total	$1,081,228

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

As of February 7, 2017, we have commitments to acquire 28 aircraft for $1,081,228.

Note 14. Other Assets

The following table describes the principal components of other assets on our Consolidated Balance Sheets as of:

	December 31,	
	2016	2015
Deferred income tax asset	$1,902	$1,362
Lease incentives and premiums, net of amortization of $39,638 and $31,623, respectively	96,587	86,874
Flight equipment held for sale	3,834	12,901
Other assets[1]	46,075	22,570
Total other assets	$148,398	$123,707

(1) In September 2016, we purchased an interest rate cap for $2,283 to hedge approximately 70% of our floating rate interest exposure. The interest rate cap is set at 2% and has a starting notional balance of $430,000 and reduces over time to $215,000. The cap matures in September 2021. The fair value of the interest rate cap was $5,735 at December 31, 2016.

Note 15. Accounts Payable, Accrued Expenses and Other Liabilities

The following table describes the principal components of accounts payable, accrued expenses and other liabilities recorded on our Consolidated Balance Sheets as of:

	December 31,	
	2016	2015
Accounts payable and accrued expenses	$24,337	$34,457
Deferred income tax liability	44,241	35,269
Accrued interest payable	43,107	37,606
Lease discounts, net of amortization of $29,016 and $19,403, respectively	15,842	22,443
Fair value of derivative liabilities	—	1,283
Total accounts payable, accrued expenses and other liabilities	$127,527	$131,058

Note 16. Accumulated Other Comprehensive Loss

The following table describes the principal components of accumulated other comprehensive loss recorded on our Consolidated Balance Sheets as of:

Changes in accumulated other comprehensive loss by component[1]	Year Ended December 31,	
	2016	2015
Beginning balance	$(13,213)	$(38,460)
Amount recognized in other comprehensive loss on derivatives, net of tax expense of $0 and $14, respectively	(690)	(2,113)
Amounts reclassified from accumulated other comprehensive loss into income, net of tax expense of $0 and $21, respectively	10,351	27,360
Net current period other comprehensive income	9,661	25,247

Ending balance	$(3,552)	$(13,213)

Table of Contents
Aircastle Limited and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

(1) All amounts are net of tax. Amounts in parentheses indicate debits.

Reclassifications from accumulated other comprehensive loss[1]	Year Ended December 31, 2016	2015
Losses on cash flow hedges		
Amount of effective amortization of net deferred interest rate derivative losses[2]	$9,662	$24,023
Effective amount of net settlements of interest rate derivatives, net of tax expense of $0 and $21, respectively[2]	689	3,337
Amount of loss reclassified from accumulated other comprehensive loss into income	$10,351	$27,360

(1) All amounts are net of tax.
(2) Included in interest expense.

At December 31, 2016, the amount of deferred net loss expected to be reclassified from OCI into interest expense over the next twelve months related to our terminated interest rate derivatives is $2,202.

Note 17. Quarterly Financial Data (Unaudited)

Quarterly results of our operations for the years ended December 31, 2016 and 2015 are summarized below:

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2016				
Revenues	$204,653	$194,652	$189,988	$183,665
Net income	$67,724	$27,437	$20,030	$36,262
Basic earnings per share:				
Net income	$0.86	$0.35	$0.25	$0.46
Diluted earnings per share:				
Net income	$0.86	$0.35	$0.25	$0.46
2015				
Revenues	$208,267	$212,074	$204,565	$194,296
Net income (loss)	$50,641	$(13,989)	$41,808	$43,269
Basic earnings (loss) per share:				
Net income (loss)	$0.63	$(0.17)	$0.51	$0.53
Diluted earnings (loss) per share:				
Net income (loss)	$0.63	$(0.17)	$0.51	$0.53

The sum of the quarterly earnings (loss) per share amounts may not equal the annual amount reported since per share amounts are computed independently for each period presented.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Aircastle Limited has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 14, 2017

Aircastle Limited

By: /s/ Michael Inglese
Michael Inglese
Chief Financial Officer and Acting Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Aircastle Limited and in the capacities and on the date indicated.

SIGNATURE	TITLE	DATE
* Ron Wainshal	Chief Executive Officer and Director	
/s/ Michael Inglese Michael Inglese	Chief Financial Officer and Acting Chief Executive Officer	February 14, 2017
/s/ Aaron Dahlke Aaron Dahlke	Chief Accounting Officer	February 14, 2017
/s/ Peter V. Ueberroth Peter V. Ueberroth	Chairman of the Board	February 14, 2017
/s/ Ronald W. Allen Ronald W. Allen	Director	February 14, 2017
/s/ Giovanni Bisignani Giovanni Bisignani	Director	February 14, 2017
/s/ Michael J. Cave Michael J. Cave	Director	February 14, 2017
/s/ Douglas A. Hacker Douglas A. Hacker	Director	February 14, 2017
/s/ Ryusuke Konto Ryusuke Konto	Director	February 14, 2017
/s/ Yukihiko Matsumura Yukihiko Matsumura	Director	February 14, 2017
/s/ Ronald L. Merriman Ronald L. Merriman	Director	February 14, 2017
/s/ Agnes Mura Agnes Mura	Director	February 14, 2017

/s/ Charles W. Pollard Charles W. Pollard	Director	February 14, 2017
/s/ Gentaro Toya Gentaro Toya	Director	February 14, 2017

* Currently on a medical leave of absence.