

Aircraft Leasing, Maintenance Reserves, and Insurance FAQ Document

1. What is a damp lease in aircraft leasing? A damp lease is an operating lease arrangement where an airline hires an aircraft along with the flight crew and the maintenance services required to operate it. The defining characteristic of a damp lease is that the lessee provides its own cabin crew, which distinguishes it from a wet lease where both flight and cabin crews are supplied by the lessor.

2. How does a transitional (training) damp lease work? A transitional damp lease is designed to evolve into a dry lease over time. The lessor initially provides the flight crew to operate the aircraft, but these pilots act concurrently as Line Training Captains to train the lessee's native flight crews. As the lessee's pilots become certified, the lessor's pilots are phased out, and the lease "dries out".

3. Who is financially responsible for the maintenance of a leased aircraft? The lessee assumes full financial responsibility for the service, inspection, repair, and overhaul of the asset to maintain it in optimal operating condition.

4. What is the primary purpose of Aircraft Maintenance Reserves (MRs)? The primary purpose of Maintenance Reserves (MRs) is to protect the lessor by ensuring that adequate funds are available to cover major aircraft maintenance activities. These funds protect the lessor's asset value and are used to cover major scheduled maintenance events, such as engine performance restorations and landing gear overhauls.

5. How are maintenance reserve payments calculated? Maintenance reserves are calculated based on flight hours, flight cycles, or calendar limits and are paid monthly in arrears.

6. Are maintenance reserve funds pooled together for all aircraft repairs? No, maintenance reserves are treated as multiple, dedicated "pots" or funds.

- Each pot is strictly dedicated to a specific element, such as Airframe Heavy Structural Inspections or Engine Life Limited Parts (LLPs).
- These funds are kept separate from one another and cannot be used to bridge shortfalls in other pots.

7. Who legally owns the maintenance reserve funds? Upon payment, the funds legally belong to the lessor. The lessee must claim reimbursement only after the maintenance works have been completed and provided their account is up to date.

8. What happens if actual maintenance costs exceed the accumulated maintenance reserves for a specific event? When actual maintenance costs exceed the accumulated reserves, the financial burden typically falls entirely on the lessee.

- Payouts are limited to the actual cost of the maintenance event or the maximum amount currently accrued in that specific reserve pot, whichever is lower.
- The lessee is contractually obligated to pay the remaining shortfall out-of-pocket to the MRO provider.

9. Can major airlines bypass maintenance reserve payments? Yes, some "major" airlines possess credit profiles strong enough to insist on bypassing the entire maintenance reserve provision. When MR payments are waived, lessors manage this exposure by relying on alternative security such as an End of Lease Financial Adjustment or a Letter of Credit (LOC).

10. Can maintenance reserves be used to pay for damage caused by an accident? No, maintenance reserves are explicitly not available for drawdown in the event of an incident or accident. They are intended strictly to cover routine major maintenance.

11. Is a lessee obligated to accept delivery of an aircraft if it fails inspection? A lessee is never obligated to accept delivery if the aircraft fails to meet the contractually stipulated delivery conditions.

12. What is the legal significance of the Acceptance Certificate? The signed Acceptance Certificate serves as legally binding, conclusive proof that the aircraft met the agreed-upon conditions at delivery. This bars the lessee from making post-acceptance claims against the lessor for pre-existing latent defects.

13. What represents the single largest cost exposure during an aircraft lease return? Aircraft engines typically represent the single largest cost exposure during a lease return. Unbudgeted shop visits can easily run into the millions of dollars if minimum return lease obligations are not monitored.

14. What are Mirror-In/Mirror-Out adjustments at the end of a lease? This is a financial adjustment structure used to settle final return costs. Under a "Mirror-In / Mirror-Out" structure, either party may pay an adjustment based on circumstances and condition, compensating each other based on whether the components are returned in a better or worse state than stipulated in the contract.

15. Why do lessors restrict the use of PMA parts and DER repairs? Lessors strictly restrict or prohibit the use of Parts Manufacturer Approval (PMA) parts and Designated Engineering Representative (DER) repairs because they can artificially deflate asset valuation. They also impact the transferability of the aircraft to future operators and can create regulatory hurdles in other global jurisdictions.

16. How does Aircraft Hull Insurance work in a leasing context? Aircraft Hull Insurance covers physical damage to the aircraft itself and is usually purchased as "All Risk" coverage. Lessors typically require the hull to be insured for an "Agreed Value" rather than actual cash value, ensuring a predictable payout to settle the lease if the aircraft is a total loss.

17. Does aviation insurance cover accidents caused by pilot error? Yes, standard aviation insurance policies are specifically designed to cover accidents caused by pilot error. As long as the pilot was acting within the scope of their legal qualifications and the policy's specific stipulations, a genuine mistake or error in judgment does not void the coverage.

18. Why is Aviation Hull War Insurance required by lessors? Standard Hull All Risks policies explicitly exclude damage resulting from war, terrorism, hijacking, strikes, riots, and malicious acts. Lessors universally mandate the lessee to purchase a separate Aviation Hull War Insurance policy to plug this coverage gap and "buy back" these exact excluded risks.

19. What is the purpose of the 50/50 Clause (AVN111) in aviation insurance? The 50/50 clause prevents situations where an aircraft is lost under ambiguous circumstances and both the Hull All Risks and Hull War insurers deny the claim.

- If insurers cannot agree on liability within a set timeframe, both insurers must immediately pay 50% of the Agreed Value to the lessor.
- The insurers then take the dispute to arbitration to determine ultimate liability, ensuring the lessor is made whole immediately.

20. How does Loss of Use Insurance protect lessors? Loss of Use insurance compensates the lessor for lost lease income if an aircraft is grounded due to severe damage. After a waiting period, the insurer pays a pre-agreed daily rate to replace the missing lease income while the aircraft sits in a hangar waiting for parts or repairs.

21. What is Deductible Insurance used for? Commercial aviation hull policies often come with staggering deductibles ranging from \$500,000 to over \$1 million per incident. Deductible Insurance acts as a secondary policy that covers the gap left by the primary deductible, protecting the airline against high-frequency, lower-severity events and ensuring routine operational accidents do not drain liquid capital.

22. What is a Breach of Warranty clause? A Breach of Warranty clause (or "severability of interest" clause) is a strict pre-delivery documentation requirement that protects the lessor's financial interests. It stipulates that if the airline (lessee) acts in a way that voids their own insurance policy, the insurer will still pay out the claim to the lessor, insulating the owner from the operator's negligence.

23. Why is Back-to-Birth (BTB) traceability so critical during lease redelivery? Lessors mandate 100% Back-to-Birth paper traceability for all critical rotating Life Limited Parts (LLPs) to prevent permanent value impairment. Missing original birth certificates or gaps in technical records can force complete part replacements prior to acceptance.

24. What situations typically trigger the need for an ACMI (wet lease) contract? Primary triggers for an ACMI contract include:

- Sudden operational disruptions such as an Aircraft on Ground (AOG) scenario.
- Unexpected late delivery of new aircraft from manufacturers.
- Planned heavy maintenance schedules that require temporary fleet substitution.
- Seasonal demand peaks or new route testing.

25. How is sustainability directly impacting the cost of aircraft leasing for airlines? Airlines face higher operating costs due to escalating financial impacts of carbon monitoring and offset frameworks, such as the EU Emissions Trading System (ETS).

- Operators must also absorb permanent premiums associated with legally binding Sustainable Aviation Fuel (SAF) mandates.
- Conversely, airlines that demonstrate measurable carbon reductions and adopt SAF can achieve "green alignment", potentially rewarding them with reduced lease margins or lower interest rates.