Annual Financial Report for the Year Ended December 31, 2021

Unless the context requires otherwise, when used in this Interim Report, (1) the term "Fly" refers to Fly Leasing Limited; (2) the terms "Company," "we," "our" and "us" refer to Fly and its subsidiaries; (3) all references to our shares for periods prior to the Merger refer to our common shares held in the form of American Depositary Shares, or ADSs; (4) the term "Carlyle Manager" refers to Carlyle Aviation Management limited, as servicer; and (5) the term "Parent" refers to Carlyle Aviation Fly Ltd (formerly Carlyle Aviation Elevate Ltd.), Fly's parent.

EXPLANATORY NOTE

On August 2, 2021, an affiliate of Carlyle Aviation Partners Ltd. ("Carlyle Aviation") completed its previously announced acquisition (the "Merger") of Fly. Upon consummation of the Merger, FLY became a privately held company and ceased reporting with the United States Securities and Exchange Commission (the "SEC"). Affiliates of Carlyle Aviation are the primary manager and servicer for Fly and certain of its subsidiaries and the sub-servicer for certain other subsidiaries. The report has been prepared in accordance with the requirements of the indentures governing the New Notes and 2024 Notes (each as defined herein) and not for any other purpose.

PRELIMINARY NOTE

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and are presented in U.S. Dollars. All percentages and weighted average characteristics of the aircraft in our portfolio have been calculated using net book values as of the December 31, 2021.

FORWARD-LOOKING STATEMENTS

Certain of the statements and discussions below contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts, as well as statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," or words of similar meaning. Such statements address future events and conditions concerning matters such as, but not limited to, our earnings, cash flow, liquidity and capital resources, compliance with debt and other restrictive financial and operating covenants, interest rates, dividends, and acquisitions and dispositions of aircraft and other aviation assets. These statements are based on current beliefs or expectations and are inherently subject to significant uncertainties and changes in circumstances, many of which are beyond our control. Additional or unforeseen effects from the conflict between Ukraine and Russia, the COVID-19 pandemic, and the global economic climate may give rise to or amplify many of these factors. The extent to which these issues ultimately impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted. Actual results may differ materially from these expectations due to changes in political, economic, business, competitive, market and regulatory factors. We believe that these factors include but are not limited to those described at the end of the "Management's Discussion & Analysis of Financial Condition and Results of Operations section" and elsewhere in this Annual Report.

Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events, developments or circumstances after the date of this document, a change in our views or expectations, or to reflect the occurrence of future events.

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Independent auditor's report to the members of Fly Leasing Limited

Report on the audit of the financial statements

Opinion on the financial statements of Fly Leasing Limited (the 'Company')

In our opinion the Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of the results of the Company for the financial year then ended.

The financial statements we have audited comprise:

- the Consolidated Balance Sheets;
- the Consolidated Statements of Income (Loss);
- the Consolidated Statements of Comprehensive Income (Loss);
- the Consolidated Statements of Shareholders' Equity;
- the Consolidated Statements of Cash Flows; and
- the related notes 1 to 20, including a summary of significant accounting policies as set out in note 2.

The relevant financial reporting framework that has been applied in the preparation of the Company financial statements is accounting principles generally accepted in the United States of America ("U.S. GAAP") ("the relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are described below in the "*Auditor's responsibilities for the audit of the financial statements*" section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

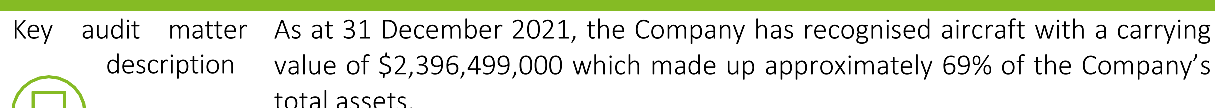
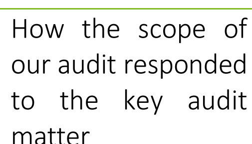
Emphasis of Matter - Russian invasion of Ukraine

We draw your attention to note 20 in the financial statements, concerning the impact of the Russian invasion of Ukraine, including the direct impact on the Company of Regulation 2022/328 adopted by the EU, which imposes sanctions in response to the Russian invasion of Ukraine. The invasion of Ukraine is a significant geopolitical and economic event for the global economy and, in particular, the aviation industry, and there is uncertainty over how the future development of this conflict will affect the Company. At the date of this report, the potential financial impact of these events on the Company cannot be fully determined. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of aircraft 	
Key audit matter description	As at 31 December 2021, the Company has recognised aircraft with a carrying value of $2,396,499,000 which made up approximately 69% of the Company's total assets. We consider the valuation of aircraft a key audit matter, as it comprises the most significant number on the Consolidated Balance Sheets. The valuation is also a key contributor to the financial performance and has been identified as a significant risk of material misstatement, the risk being that they may not be valued correctly in accordance with ASC 360-10. This is applicable both from the perspective of the valuation of aircraft in the Consolidated Balance Sheets and the depreciation and impairment expense that is reported in the Consolidated Statements of Income (Loss). Refer also to note 5 and 6 in the financial statements and the accounting policy at note 2.
How the scope of our audit responded to the key audit matter 	Our procedures included: - Obtaining an understanding, evaluating the design and determining the implementation of the key relevant controls over the carrying value of aircraft. - Challenging whether the valuation policy adopted for aircraft values is in line with ASC 360-10. - Using observable market data where available, we challenged the significant assumptions used in the impairment process including the third party appraisal valuations, estimated useful life, residual values and contracted/estimated lease flows. - Performing sensitivity analysis on key assumptions used by management to assess what changes, either individually or collectively, would result in a different conclusion regarding valuation and assessed whether there were any indicators of management bias in the setting of these key assumptions. - Enquiring of management about any plans or actions which may impact on the valuation of the aircraft. - Evaluating the accuracy and completeness of disclosures made in the financial statements over the carrying value of aircraft.
Key observations	Despite the challenging trading environment as a result of the Covid-19 pandemic and uncertainty regarding the ultimate realisable values in the future, based on the evidence obtained, we found the aircraft values recognised in the Consolidated Balance Sheets are within a range we consider to be reasonable.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Other information

The other information comprises the information included in the Annual Financial Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Financial Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

The directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with US GAAP, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of our report

This report is made solely to the Company's directors, as a body, in accordance with the Letter of Engagement. Our audit work has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors as a body, for our audit work, for this report, or for the opinions we have formed.

Brian O'Callaghan
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

Date: 30 March 2022

Fly Leasing Limited
Consolidated Balance Sheets

AT DECEMBER 31, 2021 AND 2020
(Dollars in thousands, except par value data)

	December 31,	
	2021	2020
Assets		
Cash and cash equivalents	$ 66,252	$ 132,097
Restricted cash and cash equivalents	570,838	29,432
Rent receivables, net	35,051	57,015
Investment in finance lease, net	9,089	10,396
Flight equipment held for sale, net	277,990	—
Flight equipment held for operating lease, net	2,118,509	2,529,428
Maintenance rights	247,237	279,124
Deferred tax asset, net	24,729	11,753
Fair value of derivative assets	4,177	2,085
Amount due from related parties	82,047	—
Other assets, net	59,422	116,255
Total assets	**$ 3,495,341**	**$ 3,167,585**
Liabilities		
Accounts payable and accrued liabilities	$ 20,833	$ 18,135
Rentals received in advance	6,852	8,724
Payable to related parties	—	4,058
Security deposits	40,409	36,439
Maintenance payment liability, net	205,869	203,684
Unsecured borrowings, net	394,636	296,876
Secured borrowings, net	2,162,474	1,642,242
Deferred tax liability, net	69,434	51,366
Fair value of derivative liabilities	22,826	46,169
Other liabilities	37,610	70,896
Total liabilities	**$ 2,960,943**	**$ 2,378,589**
Shareholders' equity		
Common shares, $0.001 par value; 499,999,900 shares authorized; 100 and 30,481,069 shares issued and outstanding at December 31, 2021 and December 31, 2020, respectively	—	31
Manager shares, $0.001 par value; nil shares and 100 shares authorized, issued and outstanding at December 31, 2021 and December 31, 2020, respectively	—	—
Additional paid-in capital	509,769	509,738
Retained earnings	40,589	312,967
Accumulated other comprehensive loss, net	(15,960)	(33,740)
Total shareholders' equity	**534,398**	**788,996**
Total liabilities and shareholders' equity	**$ 3,495,341**	**$ 3,167,585**

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

Fly Leasing Limited
Consolidated Statements of Income (Loss)

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Dollars in thousands)

	Years ended		
	2021	**2020**	**2019**
Revenues			
Operating lease revenue	$ 258,499	$ 293,743	$ 464,399
Finance lease revenue	493	557	618
Gain on sale of aircraft	1,303	36,003	97,323
Gain on derivatives	6,478	—	—
Interest and other income	2,134	4,052	12,684
Total revenues	**268,907**	**334,355**	**575,024**
Expenses			
Depreciation	120,934	129,561	140,798
Realized loss on Portfolio B[(1)]	82,553	—	—
Interest expense	99,124	103,292	137,133
Selling, general and administrative[(2)]	127,145	30,902	35,304
Provision for uncollectible operating lease receivables	3,000	4,000	—
Loss on derivatives	—	1,648	2,720
Fair value loss on marketable securities	10	13,025	—
Loss on modification and extinguishment of debt	2,644	1,862	9,590
Provision for aircraft impairment	92,046	115,000	—
Maintenance and other costs	11,804	6,622	3,075
Total expenses	**539,260**	**405,912**	**328,620**
Net income (loss) before (provision) benefit for income taxes	(270,353)	(71,557)	246,404
(Provision) benefit for income taxes	(2,025)	4,132	(20,527)
Net income (loss)	**$ (272,378)**	**$ (67,425)**	**$ 225,877**

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

(1) See Note 16 of Notes to Consolidated Financial Statements.

(2) Includes bad debt expenses of $43,519, $153 and Nil for the years ended December 31, 2021, 2020 and 2019

Fly Leasing Limited
Consolidated Statements of Comprehensive Income (Loss)

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Dollars in thousands)

	Years ended		
	2021	2020	2019
Net income (loss)	**$ (272,378)**	**$ (67,425)**	**$ 225,877**
Other components of comprehensive income (loss), net of deferred tax:			
Change in fair value of derivatives, net of deferred tax[1]	19,696	(14,884)	(19,668)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax[2]	(1,916)	(456)	2,829
Comprehensive income (loss)	**$ (254,598)**	**$ (82,765)**	**$ 209,038**

(1) The associated deferred tax was $3,909, $(2,343) and $(3,453) for the years ended December 31, 2021, 2020 and 2019, respectively.

(2) The associated deferred tax was $(542), $(63) and $432 for the years ended December 31, 2021, 2020 and 2019, respectively.

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

Fly Leasing Limited

Consolidated Statement of Shareholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Dollars in thousands)

	Manager Shares		Common Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total Shareholders' Equity
	Shares	**Amount**	**Shares**	**Amount**				
Balance January 1, 2019	**100**	**$ —**	**32,650,019**	**$ 33**	**$ 549,123**	**$ 154,515**	**$ (1,561)**	**$ 702,110**
Shares issued in connection with SARS exercised	—	—	258,828	—	—	—	—	—
Shares repurchased	—	—	(2,010,437)	(2)	(32,869)	—	—	(32,871)
Net income	—	—	—	—	—	225,877	—	225,877
Net change in the fair value of derivatives, net of deferred tax of $(3,453)[1]	—	—	—	—	—	—	(19,668)	(19,668)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $432 [1]	—	—	—	—	—	—	2,829	2,829
Balance December 31, 2019	**100**	**$ —**	**30,898,410**	**$ 31**	**$ 516,254**	**$ 380,392**	**$ (18,400)**	**$ 878,277**
Shares repurchased	—	—	(417,341)	—	(6,516)	—	—	(6,516)
Net income	—	—	—	—	—	(67,425)	—	(67,425)
Net change in the fair value of derivatives, net of deferred tax of $(2,343)[1]	—	—	—	—	—	—	(14,884)	(14,884)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $(63) [1]	—	—	—	—	—	—	(456)	(456)
Balance December 31, 2020	**100**	**$ —**	**30,481,069**	**$ 31**	**$ 509,738**	**$ 312,967**	**$ (33,740)**	**$ 788,996**
Net loss	—	—	—	—	—	(272,378)	—	(272,378)
Repurchase and cancellation of manager share	(100)	—	—	—	—	—	—	—
Net change in the fair value of derivatives, net of deferred tax of $3,909 [1]	—	—	—	—	—	—	19,696	19,696
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $(542) [1]	—	—	—	—	—	—	(1,916)	(1,916)
Conversion into rights to receive merger consideration			(30,481,069)	(31)	31	—	—	—
Merger with Carlyle Aviation Elevate Merger Subsidiary Ltd	—	—	100	—	—	—	—	—
Balance December 31, 2021	**—**	**$ —**	**100**	**$ —**	**$ 509,769**	**$ 40,589**	**$ (15,960)**	**$ 534,398**

(1) See Note 11 of Notes to Consolidated Financial Statements.

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

Fly Leasing Limited
Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Dollars in thousands)

	Years ended		
	2021	**2020**	**2019**
Cash Flows from Operating Activities			
Net income (loss)	**$ (272,378)**	**$ (67,425)**	**$ 225,877**
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Gain on sale of aircraft	(1,303)	(36,003)	(97,323)
Depreciation	120,934	129,561	140,798
Flight equipment impairment	92,046	115,000	—
Amortization of debt discounts and debt issuance costs	9,725	7,717	9,906
Amortization of lease incentives and other items	4,786	4,621	6,152
Provision for uncollectible operating lease receivables	3,000	4,000	—
Bad debt expense	43,519	153	—
Fair value loss on marketable securities	10	13,025	—
Loss on modification and extinguishment of debt	2,644	1,862	9,590
Provision (benefit) for deferred income taxes	1,968	(4,296)	20,449
Realized loss on Portfolio B	82,553	—	—
Security deposits and maintenance payment liability recognized into earnings	—	(12,650)	(47,890)
Cash receipts from maintenance rights	—	2,725	4,637
Other	168	6,864	2,345
Changes in operating assets and liabilities:			
Rent receivables	(26,427)	(54,323)	(10,668)
Other assets	(46,354)	3,073	(2,160)
Payable to related parties	14,017	(6,019)	5,615
Accounts payable, accrued liabilities and other liabilities	(12,464)	2,285	4,842
Net cash flows provided by operating activities	**16,444**	**110,170**	**272,170**
Cash Flows from Investing Activities			
Purchase of flight equipment	(78,840)	(74,940)	(319,995)
Proceeds from sale of aircraft, net	28,273	187,154	824,116
Payments for aircraft improvement	(2,332)	(17,362)	(8,085)
Advances to ultimate parent	(100,122)	—	—
Payments for lessor maintenance obligations	—	(521)	(2,110)
Purchase of marketable securities	—	—	(10,481)
Other	—	(536)	(2,059)
Net cash flows provided by (used in) investing activities	**(153,021)**	**93,795**	**481,386**
Cash Flows from Financing Activities			
Security deposits received	4,495	4,009	4,369
Security deposits returned	—	(349)	(4,617)
Maintenance payment liability receipts	16,000	21,593	60,744
Maintenance payment liability disbursements	(13,814)	(13,196)	(22,567)
Debt modification and extinguishment costs	—	(230)	(2,052)
Debt issuance costs	(26,380)	(3,312)	(342)
Proceeds from unsecured borrowings	390,307	—	—
Repayment of unsecured borrowings	(293,091)	(325,000)	—
Proceeds from secured borrowings	771,270	171,900	—
Repayment of secured borrowings	(236,481)	(229,786)	(698,989)
Shares repurchased	—	(6,516)	(32,871)
Net cash flows (used in) provided by financing activities	**612,306**	**(380,887)**	**(696,325)**
Effect of exchange rate changes on unrestricted and restricted cash and cash equivalents	(168)	148	(8)
Net increase (decrease) in unrestricted and restricted cash and cash equivalents	475,561	(176,774)	57,223
Unrestricted and restricted cash and cash equivalents at beginning of year	161,529	338,303	281,080
Unrestricted and restricted cash and cash equivalents at end of year	**$ 637,090**	**$ 161,529**	**$ 338,303**
Reconciliation to Consolidated Balance Sheets:			
Cash and cash equivalents	$ 66,252	$ 132,097	$ 285,565
Restricted cash and cash equivalents	570,838	29,432	52,738
Unrestricted and restricted cash and cash equivalents	**$ 637,090**	**$ 161,529**	**$ 338,303**

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

Fly Leasing Limited

Notes to Consolidated Financial Statements

1. ORGANIZATION

Fly Leasing Limited ("Fly") is a Bermuda exempted company that was incorporated on May 3, 2007 (Registration number: IE905729), under the provisions of Section 14 of the Companies Act 1981 of Bermuda. Fly was formed to acquire, finance, lease and sell commercial jet aircraft directly or indirectly through its subsidiaries (Fly and its subsidiaries collectively, the "Company").

Although Fly is organized under the laws of Bermuda, it is a resident of Ireland for tax purposes and is subject to Irish corporation tax on its income in the same way, and to the same extent, as if the Company were organized under the laws of Ireland.

The immediate parent of the Company is Carlyle Aviation Fly Ltd. ("Parent") (formerly Carlyle Aviation Elevate Ltd.), a Cayman exempted company. The Company's ultimate parent and controlling party is SASOF International Master Fund V LP ("Ultimate Parent"), a limited partnership registered in the Cayman Islands that is managed by Carlyle Aviation.

Merger Agreement with Carlyle Aviation

On March 27, 2021, Fly entered into an Agreement and Plan of Merger (the "Merger Agreement") with Parent and Carlyle Aviation Elevate Merger Subsidiary Ltd, ("Merger Sub"). Pursuant to the Merger Agreement, on August 2, 2021, Merger Sub merged with and into Fly, with Fly surviving as the continuing company and becoming a wholly owned subsidiary of Parent.

Subject to the terms and conditions of the Merger Agreement, each common share, par value $0.001 (the "Shares"), of Fly issued and outstanding prior to the effective time of the Merger, including Shares represented by American Depository Shares but not including Shares held in the treasury of Fly or owned by Fly, Parent, Merger Sub or any wholly-owned subsidiary of Fly, were cancelled and converted into the right to receive $17.05 in cash (the "Merger Consideration"), without interest, subject to deduction for any required withholding tax.

Fly, Fly Leasing Management Co. Limited (the "BBAM Manager"), an affiliate of BBAM LP ("BBAM) and certain affiliates of the BBAM Manager had historically been party to agreements (the "BBAM Agreement"), which provided, among other things, for the management of Fly by the BBAM Manager. After the consummation of the Merger, Fly is managed and serviced by the Carlyle Manager an affiliate of the Carlyle Aviation. In addition, concurrently with the execution of the Merger Agreement, Fly, the BBAM Manager and an affiliate of Carlyle Aviation (the "Carlyle Servicer") entered a sub-servicing agreement (the "Sub-Servicing Agreement") pursuant to which the (i) BBAM servicers delegated to the Carlyle Servicer certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly under a sub-servicer arrangement, and (ii) BBAM Agreement would be terminated at the closing of the Merger.

Concurrently with the execution of the Merger Agreement, Fly, BBAM LP and certain of their affiliates, also entered into an assignment and assumption of contracts (the "Assignment and Assumption of Contracts"), pursuant to which, Fly assigned to an affiliate of BBAM all of Fly's rights and obligations under certain contracts with AirAsia Group Berhad ("AirAsia") and its affiliates. The BBAM Agreement, the Sub-Servicing Agreement and the Assignment and Assumption of Contracts are described in greater detail in Note 17. Related Party Transactions, below.

AASET 2021 Transaction

On November 12, 2021, AASET 2021-1 Trust ("AASET") closed the offering (the "AASET 2021-1 transaction") of its 2.950% $620,000,000 Class A Fixed Rate Secured Notes Series 2021-1 (the "Class A Notes"), 3.800% $124,157,000 Class B Fixed Rate Secured Notes Series 2021-1 (the "Class B Notes") and 5.822% $73,425,000 Class C Fixed Rate Secured Notes Series 2021-1 (the "Class C Notes" and, together with the Class A Notes and Class B Notes, the "Notes"). Interest and principal payments on the Notes are due and payable monthly with final expected payment dates to occur on (i) October 16, 2028, with respect to the Class A Notes and Class B Notes and (ii) December 16, 2027, with respect to the Class C Notes. All three Classes of Notes have a final legal maturity date of November 16, 2041. The Class A Notes, Class B Notes and Class C Notes were issued at a price of 98.97274%, 95.55010% and 94.99763% of par, respectively.

AASET used the proceeds from the offering to acquire all of the Series A Fixed Rate Secured Notes (the "Series A AOE Notes"), Series B Fixed Rate Secured Notes (the "Series B AOE Notes") and Series C Fixed Rate Secured Notes (the "Series C AOE Notes" and, together with the Series A AOE Notes and the Series B AOE Notes, the "AOE Notes") issued by each of AASET 2021-1 US Ltd. ("AASET US") and AASET 2021-1 International Ltd. ("AASET International" and, together with AASET US, the "AOE Issuers").

AASET International is a subsidiary of Fly. AASET US is a subsidiary of funds or entities managed by the Ultimate Parent but not a subsidiary of Fly. The Series A AOE Notes, Series B AOE Notes and Series C AOE Notes issued by AASET International have an initial aggregate principal amount of $584,879,636, $117,124,034 and $69,265,786, respectively, and the Series A AOE Notes, Series B AOE Notes and Series C AOE Notes issued by AASET US have an initial aggregate principal amount of $35,120,364, $7,032,966 and $4,159,214, respectively. The AOE Notes bear interest at the same interest rates as the Notes and have the same expected final payment date and final legal maturity date as the Notes. Each AOE Issuer guaranteed the obligations of the other AOE Issuer and AASET. Each of the AOE Issuers entered into a liquidity facility that will be available to pay nine months of interest on its own Series A and Series B AOE Notes, as well as senior expenses if there is a shortfall on any payment date. The liquidity facility is available to pay interest on the Series C AOE Notes or to make principal payments on any of the AOE Notes. Drawings under the liquidity facilities, if any, will bear interest at a rate of one month LIBOR plus 2.00% per annum.

Each of AASET International and AASSET US used or will use the proceeds from the sale of their respective Series A AOE Notes and a portion of the proceeds from the sale of the Series B AOE Notes and the Series C AOE Notes as partial consideration for the purchase of 34 aircraft. AASET US will own five of the Aircraft and AASET International will own 29 of the Aircraft, including 24 aircraft currently in Fly's portfolio and five aircraft which Fly will acquire from the SASOF Funds. Fly applied or will apply the proceeds from the sale of the AOE Notes by AASET International to (i) repay indebtedness encumbering the 24 aircraft it currently owns and (ii) to pay the purchase price for the 5 aircraft it will acquire from the SASOF Funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

Fly is a holding company that conducts its business through its subsidiaries. Fly directly or indirectly owns all of the common shares of its consolidated subsidiaries or has control over the subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of Fly and all of its subsidiaries. In instances where it is the primary beneficiary, the Company consolidates a Variable Interest Entity ("VIE"). Fly is deemed the primary beneficiary when it has both the power to direct the activities of the VIE that most significantly impact the economic performance of such VIE, and it bears the significant risk of loss and participates in gains of the VIE. All intercompany transactions and balances have been eliminated. The consolidated financial statements are stated in U.S. Dollars, which is the principal operating currency of the Company.

The Company has one operating and reportable segment which is aircraft and aircraft equipment leasing.

Certain amounts in prior period consolidated financial statements have been reclassified to conform to the current period presentation.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The use of estimates is or could be a significant factor affecting the reported carrying values of rent receivables, flight equipment, deferred tax assets, liabilities and reserves. To the extent available, the Company utilizes industry specific resources, third-party appraisers and other materials to support management's estimates, particularly with respect to flight equipment. Despite management's best efforts to accurately estimate such amounts, actual results could differ from those estimates.

RISKS AND UNCERTAINTIES

The Company encounters several types of risk during the course of its business, including credit, market, aviation industry and capital market risks. Credit risk addresses a lessee's or derivative counterparty's inability or unwillingness to make contractually required payments. Market risk reflects the change in the value of derivatives and credit facilities due to changes in interest rate spreads or other market factors, including the value of collateral underlying the Company's credit facilities. Aviation industry risk is the risk of a downturn in the commercial aviation industry, as a result of global, regional or industry-specific factors, 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 and aircraft equipment. Capital market risk is the risk that the Company is unable to obtain capital at reasonable rates to fund the growth of its business or to refinance existing credit facilities. The ongoing conflict between Russia and Ukraine, and the related economic sanctions imposed on Russia by the US, EU, Japan and other countries throughout the world has increased these risks faced by the Company. Please see the subsequent events note within these consolidated financial statements for more information.

COVID-19 PANDEMIC

The COVID-19 pandemic and the measures that governments and private parties have implemented in response to the pandemic have caused significant economic disruption and have had, and are likely to continue to have, an adverse effect on the demand for worldwide air travel, the airline industry and demand for commercial jet aircraft globally, all of which have had, and are likely to continue to have, an adverse effect on the Company's business, results of operations, financial condition, cash flows and growth prospects.

Beginning in March 2020 and continuing into 2021, airlines around the world experienced a material decline in demand for their services as well as significant increases in cancellations for pre-paid trips compared to historic norms. In 2021, the airline industry recovered gradually from COVID-19 but revenue passenger kilometers (RPKs) were still estimated to be 40% of pre-crisis levels. The recovery traffic continued through the end of 2021 and into 2022 but has been slow due to international travel restrictions. As the traffic recovery continues, airlines will face cost pressures as they bring parked aircraft back into service and staff for full operations.

In response to the financial distress on airlines caused by COVID-19, governments across the world have continued to support airlines and prevented widespread airline failures in 2021. Government support took a variety of forms, including capital injections, loans, deferring payments of taxes and reduction in tax liabilities. However, government aid has been unevenly distributed across regions. While airlines in the US, Europe, and parts of Asia have generally received substantial government support, the support for airlines in Latin America and Africa was limited. These circumstances continued to affect the ability of some of the Company's lessees to fulfill their obligations under their leases with the Company and, in some cases, have caused the Company's lessees to default on their obligations.

In response to these developments, the Company has worked closely with its airline customers to support their continued operations, while at the same time seeking to enhance the Company's liquidity and position it for recovery.

As of December 31, 2021, the Company had 6 agreements in place with 4 lessees to defer their rent payment obligations for 5 aircraft and 1 engine totaling $11.8 million due to the Company over the life of the leases. These deferrals are for an average of 15 months with approximately 64% of the deferred amounts to be repaid by the end of 2022. The Company also agreed to lease restructurings with certain of its lessees. In addition to rent deferrals, the significant decline in air travel has resulted in decreased usage of the Company's aircraft by lessees, which is likely to reduce future supplemental maintenance rent and end-of-lease compensation payable by the lessees to the Company. Reductions in payments by the Company's lessees under their leases has adversely affected the Company's cash flows and its results of operations.

The Company's unrestricted cash and cash equivalents as of December 31, 2021, was $66.3 million, as a result of the Company's efforts to enhance its liquidity and strengthen its financial position. For the year ended December 31, 2021, the Company sold 4 aircraft, and 1 engine which generated additional cash to strengthen the Company's financial condition.

The full extent of the impact of COVID-19 on the airline industry and the Company's business, results of operations, financial condition, cash flows, and growth prospects is uncertain and will depend on many factors outside the Company's control, including, without limitation, the timing, extent, trajectory and duration of the pandemic; the emergence of more virulent variants of COVID-19, which could lead to staffing shortages at airlines and supplemental governmental measures to stymie the spread of variants; the availability, distribution and effectiveness of vaccines; the implementation of vaccine mandates for employees, which may result in staffing shortages at airlines, thereby reducing capacity; aviation-related and other travel restrictions and requirements related to the virus, including vaccine mandates and mandatory COVID testing.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. All cash and cash equivalents are held by major financial institutions.

RESTRICTED CASH AND CASH EQUIVALENTS

The Company's restricted cash and cash equivalents consist primarily of (i) security deposits and certain maintenance payments received from lessees under the terms of the lease agreements, (ii) a portion of rents collected which may be required to be held as cash collateral under certain of the Company's debt facilities and (iii) other cash, which may be subject to withdrawal restrictions pursuant to the Company's credit agreements. All restricted cash is held by major financial institutions in segregated accounts.

RENT RECEIVABLES

Rent receivables represent unpaid lessee obligations under existing lease contracts. The allowance for uncollectible operating lease receivables is maintained at a level believed by management to be adequate to absorb probable losses associated with rent receivables. The assessment of credit risk is primarily based on the extent to which amounts outstanding exceed the value of security held, the financial strength and condition of a debtor and the current economic and regulatory conditions of the debtor's operating environment. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows and consideration of current factors and economic trends impacting the lessees and their credit worthiness, all of which may be susceptible to significant change.

The Company maintains an allowance for uncollectible operating lease receivables for losses it estimates will arise from its lessees' inability to make their required lease payments. The Company evaluates the collectability of rent receivables and determines the appropriate provision for uncollectible operating lease receivables based on historical experience and a review of specific lessees. Uncollectible rent receivables are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. During the year ended December 31, 2021, and 2020, the Company recorded a provision for uncollectible operating lease receivables of $3.0 million and $4.0 million, respectively.

In addition, the Company places a lessee on non-accrual status once it determines that it is no longer probable that the Company will receive the economic benefits of the lease. The Company recognizes revenue from a lessee on non-accrual status to the extent cash is received.

INVESTMENT IN FINANCE LEASE

As of December 31, 2021, the Company has recorded one lease as an investment in finance lease. The investment in finance lease equals the sum of amounts to be received under the lease, plus the estimated residual value of the equipment at lease termination, less unearned income. Residual value reflects management's estimate of the amounts to be received at lease termination from the re-lease or disposition of the leased equipment. Initial unearned income represents the amount by which the original sum of the lease receivable and the estimated residual value exceeds the original cost of the leased equipment. Unearned income is recognized as finance lease income over the lease term in a manner that produces a constant rate of return on the net investment in the lease based on an implicit interest rate. Initial direct costs and fees related to lease origination are deferred as part of the investment and amortized over the lease term.

FLIGHT EQUIPMENT HELD FOR SALE

Flight equipment is classified as held for sale when the Company commits to and commences a plan of sale that is reasonably expected to be completed within one year and satisfies other criteria. Flight equipment held for sale is recorded at the lesser of carrying value or fair value, less estimated cost to sell. The Company continues to recognize rent from aircraft held for sale until the date the aircraft is sold. An impairment loss is recorded for an asset or asset group held for sale when the carrying value of the asset or asset group exceeds its fair value, less estimated cost to sell. Aircraft classified as flight equipment held for sale are not depreciated.

Subsequent changes to the asset's fair value are recorded as adjustments to the carrying value of the flight equipment. However, any such adjustment will not cause the asset's fair value to exceed its original carrying value.

FLIGHT EQUIPMENT HELD FOR OPERATING LEASE

Flight equipment held for operating lease is recorded at cost, net of any impairment charges, and depreciated to estimated residual values on a straight-line basis over their estimated remaining useful lives. Useful life is generally 25 years from the date of manufacture. Residual values are generally estimated to be 15% of the original manufacturer's estimated realized price for the flight equipment when new. Management may, at its discretion, 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 reflect current expectations of residual values. Examples of such situations include, but are not limited to:

- Flight equipment where original manufacturer's prices are not relevant due to plane modifications and conversions.
- Flight equipment that is out of production and may have a shorter useful life or lower residual value due to obsolescence.
- Flight equipment that management believes will be disposed of prior to the end of its estimated useful life.

Estimated residual values and useful lives of flight equipment are reviewed and adjusted, if appropriate, during each reporting period.

Aircraft improvements or lessee-specific aircraft modifications to be performed by the Company pursuant to a lease agreement are accounted for as lease incentives and amortized against revenue over the term of the lease, assuming no lease renewal. Generally, lessees are responsible for repairs, scheduled maintenance and overhauls during the lease term and compliance with return conditions of flight equipment at lease termination.

Major aircraft improvements and modifications incurred during an off-lease period are capitalized and depreciated over a period to the next scheduled maintenance event. In addition, costs paid by the Company for scheduled maintenance and overhauls are also capitalized and depreciated over a period to the next scheduled maintenance or overhaul event. Miscellaneous repairs are expensed when incurred.

IMPAIRMENT OF FLIGHT EQUIPMENT

Impairment analyses require the use of assumptions and estimates, including the level of future projected rents, the estimated residual value of the flight equipment to be realized upon sale at some future date, estimated downtime between re-leasing events, the amount of re-leasing costs and the discount rate utilized to calculate the present value of expected future cash flows.

The Company evaluates flight equipment for impairment at least annually or whenever events or circumstances indicate that the carrying amounts of such assets may not be recoverable. The Company's evaluation of impairment indicators includes, but is not limited to, recent transactions for similar aircraft or aircraft equipment, adverse changes in market conditions for specific aircraft or engine types, changes in third party appraisals of aircraft and aircraft equipment, and a significant decline in lease rates. When events or changes in circumstances exist, the Company performs a review for recoverability by comparing undiscounted future cash flows to their respective carrying amounts. The review for recoverability includes an assessment of currently contracted lease rates, future projected lease rates, re-leasing costs, estimated down time and estimated residual or scrap values of the aircraft on its eventual disposition. Changes to expected future cash flows could result in impairment charges which could have a significant impact on the Company's results of operations.

Future cash flows are assumed to occur under current market conditions and assume adequate time for a sale between a willing and able buyer and a willing seller. Expected future lease rates are based on all relevant information available, including the existing lease, current contracted rates for similar aircraft, appraisal data and industry trends. Residual value assumptions generally reflect an aircraft's salvage value, except where more recent industry information indicates a different value is appropriate.

If the sum of the expected future undiscounted cash flows without interest charges is less than the carrying amount of the asset, the Company will assess whether the carrying value of the flight equipment exceeds the fair value and an impairment loss is required. In that instance, an impairment loss is recognized equal to the excess of the carrying amount of the impaired asset over its fair value. Fair value reflects the present value of the expected future cash flows, including residual value, discounted at an appropriate rate.

During the years ended December 31, 2021, and 2020, the Company recognized impairment of $92.0 million and $115.0 million, respectively.

MAINTENANCE RIGHTS

The Company identifies, measures and accounts for maintenance right assets and liabilities associated with its acquisitions of aircraft or aircraft equipment with in-place leases. A maintenance right asset represents the value of its contractual right under a lease to receive an aircraft or aircraft equipment in an improved maintenance condition at lease expiry as compared to the maintenance condition on the acquisition date. A maintenance right liability represents the Company's obligation to pay the lessee for the difference between the contractual maintenance condition of the aircraft or aircraft equipment at lease expiry and the actual maintenance condition of the aircraft or aircraft equipment on the acquisition date.

The Company's aircraft and aircraft equipment are typically subject to triple-net leases pursuant to which the lessee is responsible for maintenance, which is accomplished through one of two types of provisions in its leases: (i) end of lease return conditions (EOL Leases) or (ii) periodic maintenance payments (MR Leases).

EOL Leases

Under EOL Leases, the lessee is obligated to comply with certain return conditions which require the lessee to perform lease end maintenance work or make cash compensation payments at the end of the lease to bring the aircraft or aircraft equipment into a specified maintenance condition (or compensate the lessor for failing to do so).

Maintenance right assets related to EOL Leases represent the difference in value between the contractual right to receive an aircraft or aircraft equipment in an improved maintenance condition at lease expiry as compared to the maintenance condition on the acquisition date. Maintenance right liabilities exist in EOL Leases if, on the acquisition date, the maintenance condition of the aircraft or aircraft equipment is greater than the contractual return condition in the lease at lease expiry and the Company is required to pay the lessee in this case.

When the Company has recorded maintenance right assets with respect to EOL Leases, the following accounting scenarios exist: (i) the aircraft or aircraft equipment is returned at lease expiry in the contractually required maintenance condition without any cash payment to the Company by the lessee, the maintenance right asset is relieved and an aircraft improvement is recorded to the extent the improvement is substantiated and deemed to meet the Company's capitalization policy; (ii) the lessee pays the Company cash compensation at lease expiry in excess of the value of the maintenance right asset, the maintenance right asset is relieved and any excess is recognized as end of lease income; or (iii) the lessee pays the Company cash compensation at lease expiry that is less than the value of the maintenance right asset, the cash is applied to the maintenance right asset and the balance of such asset is relieved and recorded as an aircraft improvement to the extent the improvement is substantiated and meets the Company's capitalization policy. Any aircraft improvement will be depreciated over a period to the next scheduled maintenance event in accordance with the Company's policy with respect to major maintenance.

When the Company has recorded maintenance right liabilities with respect to EOL Leases, the following accounting scenarios exist: (i) the aircraft or aircraft equipment is returned at lease expiry in the contractually required maintenance condition without any cash payment by the Company to the lessee, the maintenance right liability is relieved and end of lease income is recognized; (ii) the Company pays the lessee cash compensation at lease expiry of less than the value of the maintenance right liability, the maintenance right liability is relieved and any difference is recognized as end of lease income; or (iii) the Company pays the lessee cash compensation at lease expiry in excess of the value of the maintenance right liability, the maintenance right liability is relieved and the excess amount is recorded as an aircraft improvement to the extent the improvement is substantiated and deemed to meet the Company's capitalization policy and otherwise is recognized as expense in the income statement.

MR Leases

Under MR Leases, the lessee is required to make periodic maintenance payments to the Company based upon usage of the aircraft or aircraft equipment. When qualified major maintenance is performed during the lease term, the Company is required to reimburse the lessee for the costs associated with such maintenance. At the end of lease, the Company is entitled to retain any cash receipts in excess of the required reimbursements to the lessee.

Maintenance right assets in MR Leases represent the right to receive an aircraft or aircraft equipment in an improved condition relative to the actual condition on the acquisition date. The aircraft or aircraft equipment is improved by the performance of qualified major maintenance paid for by the lessee who is reimbursed by the Company from the periodic maintenance payments that it receives.

When the Company has recorded maintenance right assets with respect to MR Leases, the following accounting scenarios exist: (i) the aircraft or aircraft equipment is returned at lease expiry and no qualified major maintenance has been performed by the lessee since the acquisition date, the maintenance right asset is offset by the amount of the associated maintenance payment liability and any excess is recorded as end of lease income; or (ii) the Company has reimbursed the lessee for the performance of qualified major maintenance, the maintenance right asset is relieved and an aircraft improvement is recorded.

There are no maintenance right liabilities for MR Leases.

When flight equipment is sold, maintenance rights are released from the balance sheet as part of the disposition gain or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its exposure to interest rate and foreign currency risks. All derivatives are recognized on the balance sheet at their fair values. Pursuant to U.S. GAAP, changes in the fair value of the item being hedged are recognized in earnings in the same period and in the same income statement line as the change in the fair value of the derivative instrument. On the date that the Company enters into a derivative contract, the Company typically documents all relationships between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking each hedge transaction.

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

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

OTHER ASSETS

Other assets consist primarily of inventories, and the Company's Portfolio B orderbook value (see Note 16 below), investment in equity certificates which are considered marketable securities, net value added tax receivables, purchase deposit for aircraft acquired, and other miscellaneous receivables.

Inventory is stated at the lower of cost and net realizable value. The cost of inventory is either the original acquisition cost or an allocation of a portion of an aircraft book value. Net realizable value represents the estimated selling price in the ordinary course of business.

Investment in equity certificates are initially accounted for at cost and subsequent changes in fair value are recognized in the statement of income (loss).

SECURITY DEPOSITS

In the normal course of leasing flight equipment to third parties under its lease agreements, the Company receives cash or letters of credit as security for certain contractual obligations, which are held on deposit until termination of the lease. Security deposits are returned to the lessee at lease termination or taken into income if the lessee fails to perform under its lease.

MAINTENANCE PAYMENT LIABILITY

The Company's flight equipment is typically subject to triple-net leases under which the lessee is responsible for maintenance, insurance and taxes. Fly's leases also obligate the lessees to comply with all governmental requirements applicable to the flight equipment, including without limitation, operational, maintenance, registration and airworthiness directives.

Under the terms of the lease agreements, cash collected from lessees for future maintenance of the aircraft is recorded as maintenance payment liabilities. The Company does not recognize such maintenance payments as revenue during the lease term. Maintenance payment liabilities are attributable to specific aircraft and are typically based on hours or cycles of utilization, depending upon the component. Upon the occurrence of qualified maintenance events, the lessee submits a request for reimbursement and upon disbursement of the funds, the liability is relieved.

The lessor may be obligated to contribute to maintenance related expenses on an aircraft during the term of the lease. In other instances, the lessee or lessor may be obligated to make a payment to the other party at lease termination based on a computation stipulated in the lease agreement. The calculation is based on utilization and condition of the airframe, engines and other major life-limited components as determined at lease termination.

At lease termination, maintenance payment liabilities are offset against any maintenance right balance for the aircraft, and the remainder is recognized as end of lease income. When flight equipment is sold, the maintenance payment liability amounts may be remitted to the buyer in accordance with the terms of the related agreements and are released from the balance sheet as part of the disposition gain or loss.

REVENUE RECOGNITION

The Company principally leases flight equipment under operating leases. Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Where revenue amounts do not meet these recognition criteria, recognition is delayed until the criteria are met.

- *Operating lease revenue*. The Company receives lease revenue from flight equipment under operating leases. Rental income from aircraft and aircraft equipment is recognized on a straight-line basis over the initial term of the respective lease. The operating lease agreements generally do not provide for purchase options; however, the leases may allow the lessee to exercise an option to extend the lease for an additional term. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when collection is not probable.

  Changes to the timing of cash rent receipts, such as under rent deferral arrangements, do not generally affect the total amount of consideration to be received under the lease and therefore do not typically impact revenue recognition, provided that the Company determines collection of rents is probable.

- *End of lease income*. The amount of end of lease income the Company recognizes in any reporting period is inherently volatile and depends upon a number of factors, including the timing of both scheduled and unscheduled lease expiries and the timing of maintenance performed on the aircraft or aircraft equipment by the lessee, among others.

- *Lease incentives.* The Company's leases may contain provisions which require it to contribute a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. The Company accounts for these expected payments as lease incentives, which are amortized as a reduction of lease revenue over the life of the lease.

- *Lease premiums and lease discounts.* Lease premiums and lease discounts are amortized as operating lease revenue over the lease term. Amortization of lease premiums decreases rental revenue and amortization of lease discounts increases rental revenue.

- *Finance lease income*. Revenue from finance lease is recognized using the interest method to produce a level yield over the life of the finance lease.

INCOME TAXES

The Company provides for income taxes by tax jurisdiction. Deferred income tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statements and tax basis of existing assets and liabilities at the enacted tax rates expected to apply when the assets are recovered, or liabilities are settled. A valuation allowance is used to reduce deferred tax assets to the amount that management ultimately expects to be more likely than not realized.

The Company recognizes an uncertain tax benefit only to the extent that it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The Company has elected to classify interest on unpaid income taxes and penalties as a component of the provision (benefit) for income taxes. No interest on unpaid income taxes and penalties were incurred during each of the years ended December 31, 2021, 2020, or 2019.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2019, the Financial Accounting Standards Board (the "FASB") issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which is part of the FASB's initiative to reduce complexity in accounting standards. The proposed guidance eliminates certain exceptions to the general principles of *ASC 740, Income Taxes,* and simplifies income tax accounting in several areas. The standard is effective for fiscal periods beginning after December 15, 2020. The Company adopted the guidance effective January 1, 2021. The adoption of the standard has not had a material effect on the Company's consolidated financial statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*, which clarifies some of its guidance as part of the FASB's monitoring of global reference rate reform activities. ASU 2021-01 expands the scope of ASC 848 to include all affected derivatives and give market participants the ability to apply certain aspects of the contract modification and hedge accounting expedients to derivative contracts affected by the discounting transition. ASU 2021-01 permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, for computing variation margin settlements, and for calculating price alignment interest in connection with reference rate reform activities. In addition, ASU 2021-01 adds implementation guidance to clarify which optional expedients in ASC 848 may be applied to derivative instruments that do not reference LIBOR or a reference rate that is expected to be discontinued, but that are being modified as a result of the discounting transition. The amendments are effective immediately. An entity may elect to apply the amendments retrospectively for any interim period that includes or is subsequent to March 12, 2020 through December 31, 2022, or prospectively for any interim period that includes or is subsequent to January 7, 2021. As of June 30, 2021, the Company has not elected to apply the standard, and will continue to evaluate the permissible optional expedients and exceptions. The Company does not expect the standard to have a material effect on the Company's consolidated financial statements.

In January 2021, the FASB issued ASU 2021-02, *Franchisors-Revenue from Contracts with Customers (Subtopic 952-606),* which introduced a new practical expedient that simplifies the application of the guidance about identifying performance obligations. The practical expedient permits franchisors that are not public business entities to account for pre-opening services provided to a franchisee as distinct from the franchise license if the services are consistent with those included in a predefined list within the guidance. If an entity has not yet adopted Topic 606, the existing transition provisions and effective date in paragraph 606-10-65-1 are required. That guidance allows for an option of modified retrospective transition or full retrospective transition and an effective date of annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. The Company's adoption of this new accounting pronouncement did not have a material effect on the Company's consolidated financial statements.

In March 2021, the FASB issued ASU 2021-03, *Intangibles - Goodwill and Other (Topic 350),* which provides private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required by Subtopic 350-20 as of the end of the reporting period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. The amendments in this update are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption was permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. As of June 30, 2021, the Company has not elected to apply the standard. This new accounting pronouncement is not expected to have a material effect on the Company's consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)*. The amendments in this update provide the following guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic:

1. An entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as an exchange of the original instrument for a new instrument.
2. An entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as follows:
    a. For a modification or an exchange that is a part of or directly related to a modification or an exchange of an existing debt instrument or line-of-credit or revolving-debt arrangements (hereinafter, referred to as a "debt" or "debt instrument"), as the difference between the fair value of the modified or exchanged written call option and the fair value of that written call option immediately before it is modified or exchanged. Specifically, an entity should consider:
        i. An increase or a decrease in the fair value of the modified or exchanged written call option in applying the 10 percent cash flow test and/or calculating the fees between debtor and creditor in accordance with Subtopic 470-50, Debt—Modifications and Extinguishments.
        ii. An increase (but not a decrease) in the fair value of the modified or exchanged written call option in calculating the third-party costs in accordance with Subtopic 470-50.
    b. For all other modifications or exchanges, as the excess, if any, of the fair value of the modified or exchanged written call option over the fair value of that written call option immediately before it is modified or exchanged.
3. An entity should recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange on the basis of the substance of the transaction, in the same manner as if cash had been paid as consideration, as follows:
    a. A financing transaction to raise equity. The effect should be recognized as an equity issuance cost in accordance with the guidance in Topic 340, Other Assets and Deferred Costs.
    b. A financing transaction to raise or modify debt. The effect should be recognized as a cost in accordance with the guidance in Topic 470, Debt, and Topic 835, Interest.
    c. Other modifications or exchanges that are not related to financings or compensation for goods or services or other exchange transactions within the scope of another Topic. The effect should be recognized as a dividend. For entities that present EPS in accordance with Topic 260, that dividend should be an adjustment to net income (or net loss) in the basic EPS calculation.

The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The Company does not expect the standard to have a material effect on the Company's consolidated financial statements.

3. SUPPLEMENTAL DISCLOSURE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended		
	2021	2020	2019
	(Dollars in thousands)		
Cash paid during the year for:			
Interest	$ 85,864	$ 101,100	$ 126,659
Taxes	5	746	787
Noncash Activities:			
Security deposits applied to rent receivables, maintenance payment liability and other liabilities	2,684	4,955	3,224
Maintenance payment liability applied to rent receivables, maintenance rights, and other liabilities	3,556	9,015	9,133
Other liabilities applied to security deposits, maintenance payment liability and rent receivables	2,670	2,523	5,016
Noncash investing activities:			
Maintenance rights and lessor contribution capitalized to aircraft improvements	27,639	8,888	7,143
Noncash activities in connection with purchase of flight equipment	—	399	34,925
Noncash activities in connection with sale of flight equipment	—	8,108	20,480
Noncash financing activities:			
Debt issuance costs	—	263	—

4. INVESTMENT IN FINANCE LEASE

At each of December 31, 2021, and 2020, the Company had one aircraft classified as an investment in finance lease, which had an implicit interest rate of 5%. During the years ended December 31, 2021, 2020 and 2019, the Company recognized finance lease revenue totaling $0.5 million, $0.6 million, and $0.6 million, respectively.

The Company's net investment in finance lease consisted of the following (dollars in thousands):

	December 31, 2021	December 31, 2020
Total minimum lease payments receivable	$ 6,000	$ 7,800
Estimated unguaranteed residual value of leased asset	4,227	4,227
Unearned finance income	(1,138)	(1,631)
Net Investment in Finance Lease	**$ 9,089**	**$ 10,396**

Presented below are the contracted future minimum rental payments due under the Company's only non-cancellable finance lease, as of December 31, 2021.

Year ending December 31	(Dollars in thousands)
2022	$ 1,800
2023	1,800
2024	1,800
2025	600
2026	—
Future minimum rental payments under finance lease	**$ 6,000**

5. FLIGHT EQUIPMENT HELD FOR SALE

At December 31, 2021, the Company had 3 aircraft classified as flight equipment held for sale. These aircraft were sold to a third party in January 2022. These aircraft were on lease to a lessee in India. In August 2021, the Company sold one part out engine that had previously been classified as flight equipment held for sale and recognized a gain on sale of aircraft of $1.1 million.

In March and April 2021, the Company entered into consignment agreements related to two aircraft held for sale. The Company wrote down these aircraft to their estimated net sales proceeds and recorded an impairment charge of $22.5 million during the first quarter of 2021. As a result, these aircraft were reclassified to inventories.

On March 3, 2021, the Company agreed to sell four aircraft for an aggregate base purchase price of $35.7 million, subject to adjustments based on rents and interest in respect of the aircraft. During the second quarter of 2021, the Company delivered these aircraft to the buyer and recognized an aggregate gain on sale of aircraft of $0.2 million.

At December 31, 2020, the Company had no aircraft classified as flight equipment held for sale.

6. FLIGHT EQUIPMENT HELD FOR OPERATING LEASE, NET

As of December 31, 2021, the Company had 79 aircraft and 7 engines held for operating lease, of which 77 aircraft and 7 engines were on lease to 41 lessees in 22 countries and 2 aircraft were off-lease.

As of December 31, 2020, the Company had 83 aircraft and 7 engines held for operating lease, of which 78 aircraft and 7 engines were on lease to 36 lessees in 22 countries and 5 aircraft were off lease.

During the year ended December 31, 2021, the Company purchased 3 widebody aircraft. These aircraft were purchased as part of the AASET 2021-1 transaction from the Ultimate Parent. The Company will acquire 2 more aircraft from the Ultimate Parent early in 2022 in connection with the AASET 2021-1 transaction. Please see Note 20 for further details.

During the year ended December 31, 2021, the Company recognized flight equipment impairment of $92.0 million which relates to 12 narrowbody aircraft, 3 wide body aircraft and 1 engine. During the year ended December 31, 2020, the Company recognized flight equipment impairment of $115.0 million related to two widebody and seven narrowbody aircraft. The impairment recognized reduced the cost basis of flight equipment.

Flight equipment held for operating lease, net, consists of the following (dollars in thousands):

	December 31, 2021	December 31, 2020
Cost	$ 2,892,802	$ 3,197,702
Accumulated depreciation	(774,293)	(668,274)
Flight equipment held for operating lease, net	**$ 2,118,509**	**$ 2,529,428**

The Company capitalized $22.5 million and $33.3 million of major maintenance for the years ended December 31, 2021, and 2020, respectively.

The classification of the net book value of flight equipment held for operating lease, net and operating lease revenue by geographic region in the tables and discussion below is based on the principal operating location of the lessees.

The distribution of the net book value of flight equipment held for operating lease by geographic region is as follows (dollars in thousands):

	December 31, 2021		December 31, 2020	
Europe:				
Spain	$ 147,357	7%	$ 154,414	6%
France	128,109	6%	67,839	3%
Other	167,482	8%	249,827	10%
Europe — Total	**446,236**	**21%**	**472,080**	**19%**
Asia and South Pacific:				
India	106,211	5%	446,164	18%
Malaysia	382,548	18%	390,469	16%
Indonesia	196,100	9%	211,560	8%
China	135,826	6%	160,012	6%
Philippines	142,742	7%	148,356	6%
Other	285,931	13%	79,452	3%
Asia and South Pacific — Total	**1,249,358**	**58%**	**1,436,013**	**57%**
Mexico, South and Central America — Total	**51,118**	**2%**	**17,611**	**1%**
North America:				
United States	63,133	3%	85,808	3%
North America — Total	**63,133**	**3%**	**85,808**	**3%**
Middle East and Africa:				
Ethiopia	283,219	13%	293,137	11%
Other	—	—	91,032	4%
Middle East and Africa — Total	**283,219**	**13%**	**384,169**	**15%**
Off-Lease — Total	**28,731**	**1%**	**133,747**	**5%**
Total flight equipment held for operating lease, net	**$ 2,118,509**	**100%**	**$ 2,529,428**	**100%**

The Company receives lease revenue from flight equipment under operating leases. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. If the revenue amounts do not meet these criteria, recognition is delayed until the criteria is met. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when the Company determines that collection is not probable regardless of the existence of any of the aforementioned criteria.

Rental income from aircraft and aircraft equipment is recognized on a straight-line basis over the initial term of the respective lease. Changes to the timing of cash rent receipts, such as under rent deferral arrangements, do not generally affect the total amount of consideration to be received under the lease and therefore do not typically impact revenue recognition, provided the Company determines that collection of rents is probable.

The Company maintains a provision for uncollectible operating lease receivables for losses it estimates will arise from its lessees' inability to make their required lease payments. The Company evaluates the collectability of rent receivables and determines the appropriate provision for uncollectible operating lease receivables based on historical experience and a review of specific lessees.

During the year ended December 31, 2021 and 2020, the Company recorded a provision for uncollectible operating lease receivables of \$3.0 million and \$4.0 million, respectively. As of December 31, 2021 and December 31, 2020, the Company had an allowance for uncollectible operating lease receivables of \$7.0 million and \$4.0 million, respectively.

The distribution of operating lease revenue by geographic region for the years ended December 31, 2021, 2020 and 2019 is as follows (dollars in thousands):

	Years ended					
	2021		2020		2019	
Europe:						
Spain	8,043	3%	$ 10,723	4%	$ 17,475	4%
United Kingdom	—	—	5,897	2%	79,022	17%
France	11,770	5%	—	—	—	—
Other	21,357	8%	25,233	8%	34,189	7%
Europe — Total	**41,170**	**16%**	**41,853**	**14%**	**130,686**	**28%**
Asia and South Pacific:						
India	70,029	27%	57,597	20%	103,422	22%
Malaysia	45,358	18%	55,987	19%	55,189	12%
Indonesia	3,686	—	12,861	4%	32,882	7%
China	16,097	6%	20,348	7%	23,320	5%
Philippines	23,187	9%	25,757	9%	34,217	7%
Other	9,871	4%	17,623	6%	18,550	5%
Asia and South Pacific — Total	**168,228**	**65%**	**190,173**	**65%**	**267,580**	**58%**
Mexico, South and Central America — Total	**4,162**	**2%**	**8,441**	**3%**	**5,425**	**1%**
North America:						
United States	9,137	4%	13,419	5%	16,267	4%
Other	—	—	271	—	4,991	1%
North America — Total	**9,137**	**4%**	**13,690**	**5%**	**21,258**	**5%**
Middle East and Africa:						
Ethiopia	30,019	12%	30,019	10%	30,019	6%
Other	6,225	2%	9,567	3%	9,431	2%
Middle East and Africa — Total	**36,244**	**14%**	**39,586**	**13%**	**39,450**	**8%**
Total Operating Lease Revenue	**258,499**	**100%**	**$ 293,743**	**100%**	**$ 464,399**	**100%**

In the year ended December 31, 2021, Air India, IndiGo Airlines and Ethiopian Airlines each accounted for 10% or more of total operating lease revenue at 14%, 10%, and 12%, respectively. In the year ended December 31, 2020, Air India, AirAsia Berhad and Ethiopian Airlines each accounted for 10% or more of total operating lease revenue at 12%, 11%, and 10%, respectively. No customer accounted for 10% or more of total operating lease revenue in the year ended December 31, 2019.

For the years ended December 31, 2021, 2020 and 2019, the Company recognized end of lease income, which is included in operating lease revenue, of $46.4 million, $14.1 million and $78.8 million, respectively.

As of December 31, 2021, and 2020, the weighted average remaining lease term of the Company's aircraft held for operating lease was 4.8 years and 4.7 years, respectively.

Leases are entered into with specified lease terms and may provide the lessee with an option to extend the lease term. The Company's leases do not typically provide for early termination or purchase options.

For the year ended December 31, 2021, the Company recognized $217.0 million of operating lease rental revenue, $35.2 million of which was from leases with variable rates. For the year ended December 31, 2020, the Company recognized $283.9 million of operating lease rental revenue, $55.9 million of which was from leases with variable rates. For the year ended December 31, 2019, the Company recognized $391.1 million of operating lease rental revenue, $71.4 million of which was from leases with variable rates.

Variable rates are rents that reset based on changes in LIBOR or usage of aircraft. Presented below are the contracted future minimum rental payments, inclusive of rents due from lessees on non-accrual status and rent deferrals, due under non-cancellable operating leases for flight equipment held for operating lease, as of December 31, 2021. For leases that have floating rental rates, the future minimum rental payments assume that LIBOR as of December 31, 2021, is held constant for the duration of the lease.

Year ending December 31,		(Dollars in thousands)
2022	$	273,679
2023		246,731
2024		231,635
2025		224,420
2026		198,704
Thereafter		261,960
Future minimum rental payments under operating leases	**$**	**1,437,129**

For the years ended December 31, 2021, 2020 and 2019, amortization of lease incentives recorded as a reduction of operating lease revenue totaled $4.8 million, $3.6 million and $5.6 million, respectively. At December 31, 2021, lease incentive amortization for the next five years and thereafter is as follows (dollars in thousands):

Year ending December 31,		(Dollars in thousands)
2022	$	4,163
2023		3,358
2024		2,521
2025		2,434
2026		1,708
Thereafter		3,757
Future amortization of lease incentives	**$**	**17,941**

As noted above, the COVID-19 pandemic has had an unprecedented impact on the airline industry, causing multiple lessees in the Company's fleet to fail to make rent and maintenance payments. This has led to the Company placing a number of lessees on non-accrual status in 2020 and 2021, which in turn has caused the operating lease revenue concentration of other lessees to increase.

At December 31, 2021, the Company had 11 lessees, leasing a total of 19 aircraft and 1 engine, on non-accrual status, as the Company had determined that it was not probable that the Company would receive the economic benefits of the leases, principally due to (i) the lessees' failure to pay rent and maintenance payments on a timely basis and (ii) the Company's evaluation of the lessees' financial condition. For the year ended December 31, 2021, the Company recognized $18.6 million of operating lease revenue from these lessees and would have recognized $67.7 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At December 31, 2020, the Company had 11 lessees, leasing a total of 19 aircraft and 2 engines, on non-accrual status, as the Company had determined that it was not probable that the Company would receive the economic benefits of the leases, principally due to (i) the lessees' failure to pay rent and maintenance payments on a timely basis and (ii) the Company's evaluation of the lessees' financial condition. During the year ended December 31, 2020, the Company recognized $54.0 million of operating lease revenue from these lessees and would have recognized $35.6 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At December 31, 2019, the Company had three lessees, leasing a total of four aircraft, on non-accrual status. During the year ended December 31, 2019, the Company recognized $13.6 million of operating lease revenue from these lessees.

At December 31, 2021, the Company had 6 agreements in place with 4 lessees to defer their rent payment obligations for 5 aircraft and 1 engine totaling $11.8 million due to the Company over the life of the leases. These deferrals are for an average of 15 months with approximately 64% of the deferrals to be repaid by the end of 2022. The Company has also agreed to lease restructurings with certain of its lessees.

Presented below are the rent deferrals granted and scheduled deferral repayments for deferral agreements in place as of December 31, 2021. There can be no assurance that the Company's lessees will make their payments in accordance with the deferral terms during the expected repayment periods or at all.

	Rent Deferrals Granted	Scheduled Deferral Repayments
	(Dollars in thousands)	
2021	$ 21,131	$ 12,347
2022	2,993	3,050
2023	—	2,170
Thereafter	—	6,557
Total	**$ 24,124**	**$ 24,124**

7. MAINTENANCE RIGHTS

Changes in maintenance right assets, during the years ended December 31, 2021 and 2020 were as follows (dollars in thousands):

	December 31, 2021	December 31, 2020
Maintenance rights, beginning balance	$ 279,124	$ 290,958
Acquisitions	7,912	19,780
Capitalized to aircraft improvements	(22,471)	(8,888)
Maintenance rights offset against end of lease income	(7,847)	(5,014)
Maintenance rights associated with maintenance events	(7,249)	—
Cash receipts from maintenance rights	—	(2,725)
Maintenance rights associated with disposals	(2,232)	(14,987)
Maintenance rights, ending balance	**$ 247,237**	**$ 279,124**

8. OTHER ASSETS

The principal components of the Company's other assets are as follows (dollars in thousands):

	December 31, 2021	December 31, 2020
Portfolio B orderbook value	$ —	$ 104,155
Collateral placed	23,000	—
Equity certificates	3,013	3,023
Value added tax receivables	5,360	4,381
Inventories	6,037	—
Lease intangibles	6,309	—
Other assets	15,703	4,696
Total other assets	**$ 59,422**	**$ 116,255**

The Portfolio B orderbook value consisted of individual values for the 20 Portfolio B aircraft (see Note 16 for more details). Concurrently with the execution of the Merger Agreement, the Company and its subsidiary, Fly Aladdin Holdings Limited ("Fly Aladdin"), entered into the Assignment and Assumption of Contracts with BBAM LP and one of its subsidiaries, pursuant to which upon closing of the Merger Fly Aladdin assigned to the subsidiary of BBAM LP all of its rights, title and interests in and to, and such subsidiary assumed, all of Fly Aladdin's rights, title and interests in and to, and obligations under, Fly Aladdin's agreements with AirAsia and its affiliates with respect to Portfolio B and Portfolio C (the "Assigned Contracts"). As a result, the Company no longer has any rights or obligations with respect to such Assigned Contracts. Upon consummation of the Merger, the Company has derecognized the Portfolio B option from the consolidated balance sheet resulting in a loss of $82.6 million.

In 2016, the Company entered into agreements ("RVGs") with third-party lessors to guarantee the residual value of three aircraft subject to twelve-year leases and received residual value guarantee fees totaling $6.6 million, which are being amortized over a twelve-year period. The third-party lessors may exercise their rights under the RVGs by issuing a notice eleven months prior to the respective lease maturity requiring the Company to purchase the aircraft on such date. The RVGs will terminate if not exercised accordingly. During each of the year ended December 31, 2021 and 2020, the Company recognized income of $0.6 million and $0.6 million, respectively, from the amortization of the residual value guarantee fees. The RVGs contain covenants requiring the Company to post cash collateral in an aggregate amount of $23.0 million as security for the Company's obligations upon the occurrence of certain corporate events, including a change in control, a downgrade in the Company's corporate family rating beyond a specified threshold, or a sale of all or substantially all of the Company's assets. The consummation of the Merger triggered the requirement to post cash collateral for the RVGs, which was posted during the year ended December 31, 2021.

In 2019, the Company purchased $7.4 million, or 6%, and $3.1 million, or 3%, of the equity certificates issued by Horizon II Limited and Horizon III Limited, respectively, which were issued by entities in connection with ABS transactions. For the year ended December 31, 2021, the Company recognized an unrealized fair value loss of $10,345 on its investments in equity certificates to write down the equity certificates to estimated fair value. For the year ended December 31, 2020, the Company recognized an unrealized fair value loss of $13.0 million on its investments in equity certificates to write down the equity certificates to estimated fair value. Concurrently with the execution of the Merger Agreement, the Company entered into a Turnover Agreement with Carlyle Aviation Vista Certificates LLC ("Transferee"), whereby it assigned its rights in the equity certificates to the Transferee. As part of this Turnover Agreement, the Company will continue to receive any proceeds in respect of the equity certificates and as such is deemed to have retained the beneficial interest in the equity certificates. The Company continues to recognize the equity certificates at fair value on the balance sheet of the consolidated financial statements.

9. UNSECURED BORROWINGS

	Balance as of	
	December 31, 2021	December 31, 2020
	(Dollars in thousands)	
Outstanding principal balance:		
2024 Notes	9,553	300,000
New Notes	390,307	—
Total outstanding principal balance	399,860	300,000
Unamortized debt discounts and loan costs	(5,224)	(3,124)
Unsecured borrowings, net	**$ 394,636**	**$ 296,876**

On October 16, 2017, the Company sold $300.0 million aggregate principal amount of unsecured 5.250% Senior Notes due 2024 (the "2024 Notes").

The 2024 Notes are senior unsecured obligations of the Company and rank *pari passu* in right of payment with any existing and future senior unsecured indebtedness of the Company. Interest on the 2024 Notes is payable semi-annually on April 15 and October 15 of each year.

In connection with the Merger, in August 2021, Merger Sub completed an Offer to Exchange (the "Exchange Offer") any and all of Fly's 2024 Notes for new 7.000% Senior Notes due 2024 (the "New Notes") issued by Merger Sub that were assumed by Fly upon completion of the Merger. Holders of an aggregate of $290,447,000 in principal amount of the 2024 Notes participated in the Exchange Offer and received an aggregate of $ $290,307,000 in principal amount of the New Notes as consideration. In the Exchange Offer, participating Holders consented to certain amendments to the indenture governing the 2024 Notes to, among other things, waive the Change of Control provisions as they relate to the Merger and align the covenants with those included in the indenture governing the New Notes. The amendments to the 2024 Notes indenture became effective and operative prior to consummation of the Merger.

In August 2021, the Company issued an additional $100.0 million aggregate principal amount of New Notes ("Additional Notes"). The Additional Notes were issued under the indenture governing the New Notes mentioned above. The Additional Notes are fungible with and form a single series with the other New Notes.

As of December 31, 2021, $9.5 million of the 2024 Notes remained outstanding and $390 million of New Notes (including the Additional Notes) were outstanding. Each of the 2024 Notes and New Notes mature on 15 October 2024.

As of December 31, 2021, accrued interest on the New Notes was $5.8 million. As of December 31, 2021, accrued interest on the 2024 Notes was $0.1 million. As of December 31, 2020, accrued interest on the 2024 Notes was $3.3 million.

The indentures (the "Indentures") governing the 2024 Notes and the New Notes contain similar restrictive covenants which limit the Company's ability to make dividend payments, incur of debt and issue guarantees, incur of liens, repurchase of common shares, make investments, dispose of assets, consolidate, merge or sell the Company and transactions with affiliates. The Company is also subject to certain operating covenants, including reporting requirements. The Company's failure to comply with any of the covenants under either of the Indentures could result in an event of default under such Indenture which, if not cured or waived, may result in the acceleration of the indebtedness thereunder and other indebtedness containing cross-default or cross-acceleration provisions. Certain of these covenants will be suspended if the 2024 Notes or New Notes obtain an investment grade rating, as applicable.

Each of the Indentures contain customary events of default with respect to the notes issued thereunder, including (i) default in payment when due and payable of principal or premium, (ii) default for 30 days or more in payment when due of interest, (iii) failure by the Company or any restricted subsidiary for 60 days after receipt of written notice given by the trustee or the holders of at least 25% in aggregate principal amount of the notes of such series then issued and outstanding to comply with any of the other agreements under the indenture, (iv) payment default by the Company or material subsidiaries in respect of obligations in excess of $50.0 million, subject to limited exceptions for non-recourse debt issued by aircraft owning SPVs, (v) failure by the Company or any significant subsidiary to pay final judgments aggregating in excess of $50.0 million for 60 days after such judgment becomes final, subject to certain non-recourse exceptions, and (vi) certain events of bankruptcy or insolvency with respect to Fly or a significant subsidiary.

As of December 31, 2021, the Company was not in default under either of the Indentures.

10. SECURED BORROWINGS

The Company's secured borrowings, net balance as of December 31, 2021 and 2020 are presented below (dollars in thousands):

	Outstanding principal balance as of December 31,		Weighted average interest rate[1] as of December 31,		
	2021[2]	2020[2]	2021	2020	Maturity date
Nord LB Facility	58,774	60,667	2.44%	2.00%	August 2025
2012 Term Loan	337,282	362,960	3.13%	3.26%	August 2025
2020 Term Loan	160,295	180,000	7.00%	7.00%	October 2025
Magellan Acquisition Limited Facility	221,248	252,143	3.90%	3.95%	December 2025
Fly Aladdin Acquisition Facility	206,312	229,644	4.79%	4.83%	June 2023
Fly Aladdin Engine Funding Facility	8,535	40,640	4.95%	4.95%	April 2022
Other Aircraft - Secured Borrowings	454,779	543,002	3.08%	3.21%	February 2023 – June 2028
Class A Notes[3]	574,612	—	2.95%	—	October 2028
Class B Notes[3]	114,969	—	3.80%	—	October 2028
Class C Notes[3]	67,038	—	5.82%	—	December 2027
Total outstanding principal balance	**2,203,844**	**1,669,056**			
Unamortized debt discounts and loan costs	(41,370)	(26,814)			
Total secured borrowings, net	**$ 2,162,474**	**$ 1,642,242**			

(1) Represents the contractual interest rates and effect of derivative instruments and excludes the amortization of debt discounts and debt issuance costs.
(2) As of December 31, 2021 and 2020, accrued interest on secured borrowings totaled $6.6 million and $6.5 million, respectively.
(3) Represents the Notes issued by AASET International in the AASET 2021-1 Transaction.

The Company is subject to restrictive covenants under its secured borrowings which relate to the incurrence of debt, issuance of guarantees, incurrence of liens or other encumbrances, the acquisition, substitution, disposition and re-lease of aircraft, maintenance, registration and insurance of its aircraft, restrictions on modification of aircraft and capital expenditures, and requirements to maintain concentration limits.

The Company's loan agreements include events of default that are customary for these types of secured borrowings. The Company's failure to comply with any restrictive covenants, or any other operating covenants, may trigger an event of default under the relevant loan agreement. In addition, certain of the Company's loan agreements contain cross-default provisions that could be triggered by a default under another loan agreement.

As of December 31, 2021, the Company was not in default under any of its secured borrowings.

Nord LB Facility

As of December 31, 2021, the Company had $58.8 million principal amount outstanding under its non-recourse debt facility with Norddeutsche Landesbank Gironzentrale (the "Nord LB Facility"), which was secured by three aircraft. The Nord LB Facility is structured with three separate loans secured by each aircraft individually. The loans are cross-collateralized and contain cross-default provisions. The loans under the Nord LB Facility bear interest at one-month LIBOR plus a margin of 1.85% until maturity. During the second quarter of 2021, the Company amended the Nord LB Facility to extend the maturity date from May 14, 2021, to August 13, 2021. The facility has not been repaid. The lenders under the facility have notified the servicer under the facility that an event of default has occurred and is continuing. The facility is not recourse to Fly or any of its subsidiaries other than the borrowers under the facility and the fair market value of the aircraft collateralizing the facility is less than the amount of loans and accrued interest outstanding. The event of default under the Nord LB Facility does not trigger a cross-default or cross-acceleration under any of the Company's other debt instruments. Subsequent to the default, the loans bear interest at one-month LIBOR plus a margin of (i) 1.85% and (ii) 2.00% of default interest. The Company is currently in discussions with the lenders in the Nord LB Facility regarding the facility.

In the event the Company sells any of the financed aircraft, substantially all sale proceeds (after payment of certain expenses) must first be used to repay the debt associated with such aircraft and then to repay the outstanding amounts which finance the remaining aircraft. In addition, any maintenance reserve amounts retained by the Company will be used to prepay the Nord LB Facility, provided such reserves are not required for future maintenance of such aircraft.

Upon termination or expiration of a lease other than by sale, no payments are due with respect to the outstanding loan associated with that aircraft until the earlier of (i) six months from such termination or expiration and (ii) the date on which the aircraft is re-leased. Interest during this period increases the outstanding balance under the facility. The Company must pay interest with respect to any aircraft that remains off-lease after six months, and if such aircraft continues to be off-lease after twelve months, the Company must pay debt service equal to 85% of the lease rate under the prior lease agreement. The lenders may require payment in full or foreclose on an aircraft that remains off-lease after 24 months but may not foreclose on any other aircraft in the facility. None of the aircraft in the facility are currently off lease.

2012 Term Loan

As of December 31, 2021, the Company had $337.3 million principal amount outstanding under its senior secured term loan (the "2012 Term Loan"), which was secured by 20 aircraft. Fly has guaranteed all payments under the 2012 Term Loan. The maturity date of the 2012 Term Loan is August 9, 2025. The 2012 Term Loan can be prepaid in whole or in part at par.

The 2012 Term Loan bears interest at three-month LIBOR plus a margin of 1.75%.

The 2012 Term Loan requires that the Company maintain a maximum loan-to-value ratio ("LTV") of 70.0% based on the lower of the mean or median of half-life adjusted base values of the financed aircraft as determined by three independent appraisers on a semi-annual basis. The 2012 Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings. The Company was in compliance with all such covenants and requirements as of December 31, 2021.

An event of default under the 2012 Term Loan includes one or more of the borrower parties, including Fly, defaulting in respect of obligations in excess of $50.0 million and holders of such obligation accelerate or demand repayment of amounts due thereunder. The borrowers under the Nord LB Facility are not party to the 2012 Term Loan.

2020 Term Loan

On October 15, 2020, the Company entered into a $180.0 million senior secured term loan (the "2020 Term Loan") with a consortium of lenders, which was secured by 11 aircraft. The 2020 Term Loan will mature on the earlier of (i) October 15, 2025, and (ii) the date falling 30 days prior to the maturity of the 2024 Notes if not redeemed. The 2020 Term Loan was issued at a discount of 4.5%. The 2020 Term Loan bears interest at three – month LIBOR plus a margin of 6.00%, with a LIBOR floor of 1.00% and requires quarterly principal payments of 1.25% of the original loan amount.

As of December 31, 2021, the Company had $160.3 million principal amount outstanding under its senior secured term loan (the "2020 Term Loan"), which was secured by 11 aircraft. The Company has guaranteed all payments under the 2020 Term Loan. The maturity date of the 2020 Term Loan is the earlier of (i) October 15, 2025, and (ii) the date falling 30 days prior to the maturity of the 2024 Notes if not redeemed. The 2020 Term Loan can be prepaid in whole or in part on or after October 15, 2021, without any prepayment premium.

The 2020 Term Loan requires that the Company maintain a maximum LTV of 70.0% based on the lower of the mean or median of half-life adjusted base values of the financed aircraft as determined by three independent appraisers on a semi-annual basis. The 2020 Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings. The Company was in compliance with all such covenants and requirements as of December 31, 2021.

Upon the sale of an aircraft, the Company may substitute aircraft into the 2020 Term Loan subject to certain conditions. The substitute aircraft must have an appraised value equal to or greater than the aircraft removed from the 2020 Term Loan. In addition, the Company must be in compliance with specified concentration limits, including aircraft type, geographic and lessee concentration limits, as well as the LTV Test after such sale, removal or substitution.

Magellan Acquisition Limited Facility

As of December 31, 2021, the Company had $221.2 million principal amount outstanding in loans and notes under its term loan facility (the "Magellan Acquisition Limited Facility"), which was secured by nine aircraft. Fly has guaranteed all payments under this facility. The Magellan Acquisition Limited Facility has a maturity date of December 8, 2025.

The interest rate on the loans is based on one-month LIBOR plus an applicable margin of 1.65% per annum. The interest rate on the notes is a fixed rate of 3.93% per annum.

The facility contains financial and operating covenants, including a covenant that Fly maintain a tangible net worth of at least $325.0 million, as well as customary reporting requirements. The borrower is required to maintain (i) an interest coverage ratio ("ICR") of at least 1.40:1.00 and (ii) an LTV ratio of (a) 70% through December 8, 2022, (b) 65% from December 9, 2022 through December 8, 2024 and (c) 60% thereafter. The LTV is based on the lower of the average half-life adjusted current market value and base value of all aircraft financed under the facility as determined by three independent appraisers on an annual basis. Upon the occurrence of certain conditions, including a failure by Fly to maintain a minimum liquidity of at least $25.0 million, the borrower will be required to deposit certain amounts of maintenance reserves and security deposits received into pledged accounts. Also, upon the occurrence of a breach of the ICR or the LTV ratio and certain other events, all cash collected will be applied to repay the outstanding principal balance of the loans and notes until such breach is cured. The LTV ratio was breached on each payment date falling in the first quarter of 2021 and a breach of the ICR occurred on the payment date falling in March 2021, both events triggering a cash sweep under the facility. The ICR breach was subsequently cured in April 2021. A further ICR breach occurred in July 2021 which remained in effect as of December 31, 2021.

In July 2021, the Company made a prepayment in the amount of $4.4 million to cure the LTV deficiency. The Company was in compliance with all other covenants and requirements under the Magellan Acquisition Limited Facility as of December 31, 2021.

An event of default under the Magellan Acquisition Limited Facility includes a default in respect of Fly's recourse obligations in excess of $50.0 million in the aggregate and holders of such obligation accelerate or demand repayment of amounts due thereunder. The borrowers under the Nord LB Facility are not party to the Magellan Acquisition Limited Facility.

Fly Aladdin Acquisition Facility

As of December 31, 2021, the Company had an aggregate of $206 million principal amount outstanding of Series B loans under its term loan facility (the “Fly Aladdin Acquisition Facility”), which was secured by 14 aircraft. The Series B loans bear interest based on three-month LIBOR, plus an applicable margin of 1.80% per annum, and have a maturity date of June 15, 2023.

Fly has provided a guaranty of certain of the representations, warranties, and covenants under the Fly Aladdin Acquisition Facility (including, without limitation, the borrowers’ special purpose covenants), as well as the obligations, upon the occurrence of certain conditions, to deposit maintenance reserves and security deposits received into pledged accounts.

The facility contains operating covenants, including covenants that the borrowers maintain (i) a debt service coverage ratio of at least 1.15:1.00, (ii) that 85% of aircraft financed under the facility (a) are on lease, (b) have been subject to a lease in the previous six months or (c) are subject to a letter of intent for a re-lease or sale (the “utilization test”) and (iii) a LTV ratio of (a) 65% through June 14, 2021, (b) 63.5% from June 15, 2021 through December 14, 2021, (c) 62% from December 15, 2021 through June 14, 2022, (d) 60% from June 15, 2022 through December 14, 2022 and (e) 58% thereafter. The utilization test and LTV ratio are based on the average of the half-life adjusted current market value of all financed aircraft as determined by three independent appraisers on a semi-annual basis.
Upon the occurrence of certain events, including a breach of the debt service coverage ratio continuing for two consecutive quarterly payment dates, Fly will be required to deposit, or cause the borrowers to deposit, all maintenance reserves and security deposits received under the associated leases into pledged accounts. Also, upon the occurrence of a breach, on any payment date, of the LTV ratio and certain other events, all cash collected will be applied to repay the outstanding principal balance of Series B loans until such breach is cured. The LTV ratio was initially breached in the third quarter of 2020 and remained in a breached position as of December 31,2021. As a consequence of entering into deferral agreements with the Company’s lessees, in the fourth quarter of 2020, the debt service coverage ratio was breached for four consecutive quarterly payment dates in 2021, requiring the Company to deposit approximately $29.1 million in cash maintenance reserves and security deposits received under the associated leases into pledged accounts. The Company was in compliance with all covenants and requirements under the facility as of December 31, 2021.

The Fly Aladdin Acquisition Facility contains geographic and single lessee concentration limits, which apply upon the acquisition, sale, removal or substitution of an aircraft, as well as aircraft type eligibility for any aircraft substitution. Upon the sale of an aircraft, the borrowers may substitute an Airbus A320 or A321 model aircraft on operating lease to the AirAsia Group into the Fly Aladdin Acquisition Facility subject to certain conditions. The facility also includes certain customary covenants, including reporting requirements. A violation of any of these covenants could result in a default under the Fly Aladdin Acquisition Facility.

Fly Aladdin Engine Funding Facility

As of December 31, 2021, the Company had $8.5 million principal amount outstanding under a term loan facility (the “Fly Aladdin Engine Funding Facility”), which was secured by two engines, the loans for which will mature on January 10, 2022 and April 30, 2022, in tranches of $4.8 million and $3.6 million, respectively. Fly has guaranteed all payments under this facility. The Company has repaid all amounts maturing in January 2022 subsequent to year end.

The interest rates for the borrowings range from 4.94% to 4.96% per annum, per engine. The Company is required to make scheduled monthly payments of principal and interest in accordance with an amortization schedule.

The loans are secured by the engines and related leases and the Company’s equity and beneficial interests in the engine owning entities. The Fly Aladdin Engine Funding Facility contains customary covenants. A violation of any of these covenants could result in a default under the Fly Aladdin Engine Funding Facility.

Other Aircraft Secured Borrowings

The Company has entered into other aircraft secured borrowings to finance the acquisition of aircraft, one of which is denominated in Euros. As of December 31, 2021, the Company had $454.8 million principal amount outstanding of other aircraft secured borrowings, which were secured by 12 aircraft. Of this amount, $244.2 million was recourse to Fly.

These borrowings are structured as individual loans secured by pledges of the Company’s rights, title and interests in the financed aircraft and leases. In addition, Fly may provide guarantees of its subsidiaries’ obligations under certain of these loans and may be subject to financial and operating covenants in connection therewith. The maturity dates of other aircraft secured borrowings range from February 2023 to June 2028.

AASET 2021-1

On November 12, 2021, AASET consummated its offering of $620,000,000 aggregate principal amount of its 2.950% Class A Fixed Rate Secured Notes Series 2021-1, $124,157,000 aggregate principal amount of its 3.800% Class B Fixed Rate Secured Notes Series 2021-1 and $73,425,000 aggregate principal amount of its 5.822% Class C Fixed Rate Secured Notes Series 2021-1The Class A Notes, Class B Notes and Class C Notes were issued at a price of 98.97274%, 95.55010% and 94.99763% of par, respectively.

AASET used the proceeds from the offering to acquire all of the Series A AOE Notes, Series B AOE Notes and Series C AOE Notes issued by each of AASET US and AASET International. ASSET International is a subsidiary of Fly, while AASET US is owned by other affiliates of Carlyle Aviation and is not a subsidiary of Fly. The Series A AOE Notes, Series B AOE Notes and Series C AOE Notes issued by AASET International have an initial aggregate principal amount of $584,879,636, $117,124,034 and $69,265,786, respectively. The AOE Notes bear interest at the same interest rates as the Notes and have the same expected final payment date and final legal maturity date as the Notes. Interest and principal payments on the AOE Notes are due and payable monthly with final expected payment dates to occur on (i) October 16, 2028, with respect to the Series A AOE Notes and Series B AOE Notes and (ii) December 16, 2027, with respect to the Series C AOE Notes. All three Classes of Notes have a final legal maturity date of November 16, 2041.

As at December 31, 2021, $756.7 million in aggregate principal amount remained outstanding under the AASET International AOE Notes.

Future Minimum Principal Payments on Secured Borrowings

During the year ended December 31, 2021, the Company made scheduled principal payments of $206.9 million on its secured borrowings. The anticipated future minimum principal payments due for its secured borrowings are as follows (dollars in thousands):

Year ending December 31,	
2022	$ 165,429
2023	396,155
2024	128,584
2025	612,003
2026	41,729
Thereafter	57,281
Future minimum principal payments due	**$ 1,401,181**

11. DERIVATIVES

Derivatives are used by the Company to manage its exposure to identified risks, such as interest rate and foreign currency exchange fluctuations. The Company uses interest rate swap contracts to hedge variable interest payments due on borrowings associated with aircraft with fixed-rate rentals. As of December 31, 2021, the Company had $793.5 million of floating rate debt associated with aircraft with fixed-rate rentals.

Interest rate swap contracts allow the Company to pay fixed interest rates and receive variable interest rates with the swap counterparty based on either the one-month or three-month LIBOR applied to the notional amounts over the life of the contracts. As of December 31, 2021 and December 31, 2020, the Company had interest rate swap contracts with notional amounts aggregating $575.5 million and $675.3 million, respectively. The unrealized fair value loss on the interest rate swap contracts, reflected as derivative liabilities, was $22.8 million and $46.2 million as of December 31, 2021 and December 31, 2020, respectively.

To mitigate its exposure to foreign currency exchange fluctuations, the Company entered into a cross currency swap contract in 2018 in conjunction with a lease in which a portion of the lease rental is denominated in Euros. Pursuant to such cross-currency swap, the Company receives U.S. dollars based on a fixed conversion rate through the maturity date of the swap contract. Over the remaining life of the cross-currency swap contract, the Company expects to receive $38.8 million in U.S. dollars. The unrealized fair value gain, reflected as a derivative asset, was $4.2 million and $2.1 million as of December 31, 2021 and December 31, 2020, respectively.

The Company determines the fair value of derivative instruments using a discounted cash flow model. The model incorporates an assessment of the risk of non-performance by the swap counterparty in valuing derivative assets and an evaluation of the Company's credit risk in valuing derivative liabilities.

The Company considers in its assessment of non-performance risk, if applicable, netting arrangements under master netting agreements, any collateral requirement, and the derivative payment priority in the Company's debt agreements. The valuation model uses various inputs including contractual terms, interest rate curves and credit spreads.

During the year ended December 31, 2021, the Company recorded $17.0 million of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

During the year ended December 31, 2020, the Company recorded $14.1 million of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

Designated Derivatives

Certain of the Company's interest rate derivatives have been designated as cash flow hedges. Changes in fair value of these derivatives are recorded as a component of accumulated other comprehensive income (loss), net of deferred tax. Changes in the fair value of these derivatives are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

As of December 31, 2021 and 2020, the Company had the following designated derivative instruments classified as derivative liabilities on its balance sheet (dollars in thousands):

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Loss Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Interest rate swap contracts	22	2/9/23-12/8/25	2.28%-3.13%	$ 465,657	$ (17,487)	$ (15,267)
Accrued interest	—			—	(1,266)	—
Total – designated derivative liabilities as of December 31, 2021	**22**			**$ 465,657**	**$ (18,753)**	**$ (15,267)**

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Loss Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Interest rate swap contracts	22	2/9/23-12/8/25	2.28%-3.13%	$ 567,894	$ (36,480)	$ (31,930)
Accrued interest	—			—	(1,688)	—
Total – designated derivative liabilities as of December 31, 2020	**22**			**$ 567,894**	**$ (38,168)**	**$ (31,930)**

Dedesignated Derivatives

As of December 31, 2021, and 2020, the Company's cross currency swap no longer qualified for hedge accounting and was dedesignated due to missed rent payments associated with a variable rate lease. The Company had the following dedesignated derivative instrument classified as derivative assets on its balance sheet as of December 31, 2021 and 2020 (dollars in thousands):

Type	Quantity	Maturity Date	Contracted Fixed Conversion Rate to U.S. Dollar	Total Contracted USD to be Received	Credit Risk Adjusted Fair Value	Gain Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Cross currency swap contract	1	11/26/25	1 Euro to $1.3068	$ 38,786	$ 4,159	$ 2,736
Accrued rent	—			—	18	—
Total - dedesignated derivative asset as of December 31, 20201	**1**			**$ 38,786**	**$ 4,177**	**$ 2,736**

Type	Quantity	Maturity Date	Contracted Fixed Conversion Rate to U.S. Dollar	Total Contracted USD to be Received	Credit Risk Adjusted Fair Value	Gain Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Cross currency swap contract	1	11/26/25	1 Euro to $1.3068	$ 48,689	$ 2,076	$ 3,179
Accrued rent	—			—	9	—
Total - dedesignated derivative asset as of December 31, 2020	**1**			**$ 48,689**	**$ 2,085**	**$ 3,179**

At December 31, 2021 and 2020, respectively, the Company had an accumulated other comprehensive gain, net of deferred tax, of $2.7 million and $3.2 million, which will be amortized over the remaining term of the cross currency swap contract. During the year ended December 31, 2021, and 2020, respectively, the Company reclassified $0.4 million and $0.5 million from accumulated other comprehensive loss, net of deferred tax, to gain on derivatives.

Certain of the Company's interest rate swap contracts no longer qualify for hedge accounting and have been dedesignated due to debt repayments associated with aircraft sales. As of December 31, 2021, and 2020, the Company had the following dedesignated derivative instruments classified as derivative liabilities on its balance sheet (dollars in thousands):

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Loss Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Interest rate swap contracts	11	6/15/23	2.66%-3.12%	$ 95,780	$ (3,562)	(3,430)
Accrued interest	—			—	(511)	
Total – dedesignated derivative liabilities as of December 31, 2021	**11**			**$ 95,780**	**$ (4,073)**	**(3,430)**

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Loss Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Interest rate swap contracts	11	6/15/23	2.66%-3.12%	$ 107,412	$ (7,419)	$ (5,237)
Accrued interest	—			—	(582)	—
Total – dedesignated derivative liabilities as of December 31, 2020	**11**			**$ 107,412**	**$ (8,001)**	**$ (5,237)**

At December 31, 2021 and 2020, respectively, the Company had an accumulated other comprehensive loss, net of deferred tax, of $3.5 million, and $5.4 million, attributable to both dedesignated interest rate swaps and terminated interest rate swaps, which will be amortized over the remaining term of the designated interest rate swap contracts and the original term of the terminated interest rate swap contracts.

12. INCOME TAXES

Fly is a tax resident of Ireland and has wholly owned subsidiaries in Ireland, France, Luxembourg, Malta and Cayman Islands that are tax residents in those jurisdictions. In general, Irish-resident companies pay corporation tax at the rate of 12.5% on trading income and 25.0% on non-trading income. Historically, most of the Company's operating income has been trading income in Ireland.

Income tax expense (benefit) by jurisdiction is shown below (dollars in thousands):

	Years ended		
	2021	**2020**	**2019**
Current tax benefit (expense):			
Ireland	$ —	$ —	$ —
Luxembourg	(2)	(1)	(55)
Australia	—	(139)	—
Other	(55)	(24)	(23)
Current tax benefit (expense) — total	**(57)**	**(164)**	**(78)**
Deferred tax benefit (expense):			
Ireland	(1,968)	4,296	(21,359)
Australia	—	—	910
Deferred tax benefit (expense) — total	**(1,968)**	**4,296**	**(20,449)**
Total income tax benefit (expense)	**$ (2,025)**	**$ 4,132**	**$ (20,527)**

The Company had no unrecognized tax benefits as of December 31, 2021 and 2020. The principal components of the Company's net deferred tax asset (liability) were as follows (dollars in thousands):

	December 31, 2021	**December 31, 2020**
Deferred tax asset:		
Net operating loss carry forwards	$ 76,860	$ 148,824
Net unrealized losses on derivative instruments	3,909	6,200
Other	(2,173)	636
Valuation allowance	(53,867)	(31,739)
Total deferred tax asset	**24,729**	**123,921**
Deferred tax liability:		
Excess of tax depreciation over book depreciation	(69,434)	(163,534)
Total deferred tax liability	**(69,434)**	**(163,534)**
Deferred tax liability, net	**$ (44,705)**	**$ (39,613)**

The majority of the Company's net operating loss carryforwards are attributable to Ireland. Under current tax rules in Ireland, the Company is allowed to carry forward its net operating losses for an indefinite period to offset any future income. The Company has recorded valuation allowances to reduce deferred tax assets to the extent it believes it is more likely than not that a portion of such assets will not be realized. In making such determinations, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and its ability to carry back losses to prior years.

The Company is required to make assumptions and judgments about potential outcomes that may be outside its control. Critical factors include the projection, source, and character of future taxable income. Although realization is not assured, the Company believes it is more likely than not that deferred tax assets, net of the valuation allowance, will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced or current tax planning strategies are not implemented.

The Company recognizes a valuation allowance if, based on the weight of available evidence, it is more-likely-than-not (likelihood of more than 50 percent) that some portion, or all, of its deferred tax asset will not be realized. Future realization of a deferred tax asset depends on the existence of sufficient taxable income of the appropriate character in the carryforward period under the tax law. At December 31, 2021 and 2020, the Company had a valuation allowance of $53.9 million and $31.7 million, respectively. For the year ended December 31, 2021, the Company recorded a net valuation allowance provision of $22.1 million. For the year ended December 31, 2020, the Company recorded a net valuation allowance reversal of $4.5 million.

The Company's effective tax rates was (0.8)% for the year ended December 31, 2021. The Company's effective tax rate was 5.8% and 8.3% for the years ended December 31, 2020, and 2019, respectively. The difference between the statutory and effective tax rate in each

period is primarily attributable to changes in valuation allowances and the amount of income earned by the Company in different tax jurisdictions. In addition, during the year ended December 31, 2021, the Company incurred certain merger related expenses that are not expected to be tax deductible. The table below is a reconciliation of the Irish statutory corporation tax rate of 12.5% on trading income to the Company's recorded income tax expense or benefit:

	Years ended		
	2021	**2020**	**2019**
Irish statutory corporate tax rate on trading income	12.5%	12.5%	12.5%
Valuation allowances	(9.3)%	(6.4)%	(1.4)%
Tax impact of repurchased and resold Notes	—	—	(0.1)%
Foreign tax rate differentials	0.1%	0.3%	(0.4)%
True-up of prior year tax provision	(4.0)%	0.2%	(0.1)%
Non-deductible interest expense, transaction fees and expenses	(0.1)%	(0.1)%	0.5%
Deductible interest paid in the period	—	—	(2.7)%
Withholding tax	—	(0.2)%	—
Other	—-	(0.5)%	—
Effective tax rate	**(0.8)%**	**5.8%**	**8.3%**

13. OTHER LIABILITIES

The following table describes the principal components of the Company's other liabilities (dollars in thousands):

	December 31, 2021	**December 31, 2020**
Current tax payable	$ 42	$ 43
Lease discount	1,900	24,233
Lease incentive obligation	9,650	7,264
Deferred rent	15,334	21,271
Refundable deposits	320	6,185
Other	10,364	11,900
Total other liabilities	**$ 37,610**	**$ 70,896**

14. SHAREHOLDERS' EQUITY

In August 2019, the Company's board of directors approved a $50.0 million share repurchase program. Under this program, the Company was able to make share repurchases from time to time in the open market or in privately negotiated transactions.

The Company suspended share repurchases in March 2020, and the program expired in September 2020. During the year ended December 31, 2020, the Company repurchased 417,341 shares at an average price of $15.57 per share, or $6.5 million, before commissions and fees. During the year ended December 31, 2019, the Company repurchased 2,010,437 shares at an average price of $16.29 per share, or $32.8 million, before commissions and fees.

On August 2, 2021, the Merger was completed and each common share, par value $0.001, of Fly issued and outstanding prior to the effective time of the Merger, including shares represented by American Depository Shares, were cancelled and converted into the right to receive $17.05 in cash, without interest, subject to deduction for any required withholding tax (the "Merger Consideration"). Following the Merger, Fly is wholly owned by Parent.

Fly issued 100 shares ("Manager Shares") with a par value of $0.001 to Fly Leasing Management Co. Limited (the "BBAM Manager") for no consideration. In connection with the consummation of the Merger (as defined), the Manager Shares were retired in connection with the Merger and the related arrangements are no longer in place.

Prior to the Merger, Merger Sub had an issued share capital of 100 common shares with par value of $0.001 each. As a result of the Merger, each common share of Merger Sub was converted into and become one validly issued, fully paid and non-assessable common share of Fly. As of December 31, 2021, the Company had 100 common shares issued and outstanding and no other capital stock outstanding.

Dividends

No dividends were declared or paid during the years ended December 31, 2021, 2020 or 2019.

15. SHARE-BASED COMPENSATION

On April 29, 2010, Fly adopted the 2010 Omnibus Incentive Plan (“2010 Plan”) permitting the issuance of up to 1,500,000 share grants in the form of (i) stock appreciation rights (“SARs”); (ii) restricted stock units (“RSUs”); (iii) nonqualified stock options; and (iv) other stock-based awards. Fly has issued all shares available under the 2010 Plan. Since June 30, 2015, all SARs and RSUs granted under the 2010 Plan have vested. During the first quarter of 2021, 9,200 SARs expired at a weighted average price of $13.30 per share. At June 30, 2021, there were 4,825 SARs outstanding and exercisable at a weighted average exercise price of $12.28 per share.

Pursuant to the Merger Agreement, upon the effectiveness of the Merger, each outstanding SAR was canceled and Fly paid each former holder of any such canceled SAR an amount (without interest, and subject to deduction for any required withholding tax in accordance with the Merger Agreement) equal to the product of (i) the excess (if any) of the Merger Consideration over the applicable exercise price of such SAR and (ii) the number of Shares subject to such SAR; provided, that if the exercise price of any such SAR is equal to or greater than the Merger Consideration, such SAR will be canceled without any consideration (including any cash payment) being made in respect thereof. Prior to the effectiveness of the Merger, Fly repurchased all outstanding SARs. Accordingly, upon the effectiveness of the Merger, there were no remaining outstanding SARs.

16. COMMITMENTS AND CONTINGENCIES

From time to time, the Company contracts with third-party service providers to perform maintenance or overhaul activities on its off-lease aircraft.

In 2016, the Company entered into the RVGs with third-party lessors to guarantee the residual value of three aircraft subject to twelve-year leases and received residual value guarantee fees totaling $6.6 million, which are being amortized over a twelve-year period. The third-party lessors may exercise their rights under the RVGs by issuing a notice eleven months prior to the respective lease maturity requiring the Company to purchase the aircraft on such date. The RVGs will terminate if not exercised accordingly. During each of the year ended December 31, 2021 and 2020, the Company recognized income of $0.6 million and $0.6 million, respectively, related to the amortization of the residual guarantee fees. The RVGs contain covenants requiring the Company to post cash collateral in an aggregate amount of $23.0 million as security for the Company's obligations upon the occurrence of certain corporate events, including a change in control, a downgrade in the Company's corporate family rating beyond a specified threshold, or a sale of all or substantially all of the Company's assets. The consummation of the Merger triggered the requirement to post cash collateral for the RVGs, which was posted during the year ended December 31, 2021. This cash collateral is included as other assets in the consolidated balance sheet.

On February 28, 2018, the Company agreed to acquire 21 Airbus A320neo family aircraft to be leased to AirAsia and its affiliated airlines (the “AirAsia Group”) as the aircraft deliver from the manufacturer (“Portfolio B”). The first of these aircraft delivered in the fourth quarter of 2019. The Company also acquired options to purchase up to 20 Airbus A320neo family aircraft, not subject to lease (“Portfolio C”).

Concurrently with the execution of the Merger Agreement, the Company and its subsidiary, Fly Aladdin Holdings Limited (“Fly Aladdin”), entered into the Assignment and Assumption of Contracts with BBAM LP and one of its subsidiaries, pursuant to which upon closing of the Merger Fly Aladdin assigned to the subsidiary of BBAM LP all of its rights, title and interests in and to, and such subsidiary assumed, all of Fly Aladdin’s rights, title and interests in and to, and obligations under, Fly Aladdin’s agreements with AirAsia and its affiliates with respect to Portfolio B and Portfolio C (the “Assigned Contracts”). As a result, the Company no longer has any rights or obligations with respect to such Assigned Contracts. The Company has derecognized the Portfolio B option from the consolidated balance sheet and resulting in a loss of $82.6 million.

17. RELATED PARTY TRANSACTIONS

Prior to the Merger, BBAM was entitled to receive a servicing fee equal to 3.5% of the aggregate amount of rents actually collected, plus an administrative fee of $1,000 per aircraft per month. Under the 2012 Term Loan, the 2020 Term Loan, the Magellan Acquisition Limited Facility and the Fly Aladdin Acquisition Facility, BBAM was entitled to an administrative fee of $10,000 per month. Under the Fly Aladdin Engine Funding Facility, BBAM was entitled to receive a servicing fee equal to 3.5% of monthly rents actually collected and an administrative fee equal to $1,000 per month.

For the years ended December 31, 2021, 2020 and 2019, BBAM received servicing and administrative fees totaling $6.3 million, $11.5 million and $15.4 million, respectively.

BBAM also was entitled to receive an acquisition fee of 1.5% of the gross acquisition cost for any aviation asset purchased by the Company, and a disposition fee of 1.5% of the gross proceeds for any aviation asset sold by the Company. During the years ended December 31, 2021, 2020 and 2019, the Company incurred $0.5 million, $1.1 million and $5.0 million of acquisition fees, respectively, payable to BBAM. During the years ended December 31, 2021, 2020 and 2019, the Company incurred disposition fees of $0.5 million, $3.4 million and $15.4 million, respectively, payable to BBAM.

In addition, Fly paid an annual management fee to the BBAM Manager as compensation for providing the services of the chief executive officer, the chief financial officer and other personnel, and for certain corporate overhead costs related to the Company. The management fee was adjusted each calendar year by (i) 0.3% of the change in the book value of the Company's aircraft portfolio during the preceding year, up to a $2.0 billion increase over $2.7 billion and (ii) 0.25% of the change in the book value of the Company's aircraft portfolio in excess of $2.0 billion, with a minimum management fee of $5.0 million. The management fee was also subject to an annual CPI adjustment applicable to the prior calendar year. For the years ended December 31, 2021, 2020 and 2019, the Company incurred Management Expenses of $53.6 million, $7.8 million and $9.6 million, respectively.

In connection with the Merger, the BBAM Manager agreed to reduce the change of control and termination fees payable to the BBAM Manager under the original management agreement with BBAM (the "Management Agreement") triggered by the Merger by $1.0 million. In addition, from and after the closing of the Merger, the BBAM Servicers delegated to an affiliate of Carlyle Aviation certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly. Carlyle Aviation agreed to pay the BBAM Servicers a one-time fee of $500,000 on the closing date of the Merger and an annual fee equal to $250,000 in cash as consideration for the BBAM Servicers' performance of arrangement following the closing of the Merger. Fly also agreed to reimburse the BBAM Servicers for all costs and expenses incurred by the BBAM Servicers in connection with the negotiation and execution of the agreement governing the management, servicing and sub-servicing of Fly after the Merger and other documents related thereto and agreed to indemnify the BBAM Servicers, BBAM LP and each officer, director, agent, employee, or affiliate of the BBAM Servicers and/or certain BBAM LP from and against any loss, liability, costs and expenses, claim or damage suffered or incurred by them. Additionally, in connection with the Merger both Fly and Carlyle Aviation waived and released certain claims against the BBAM Servicers and their affiliates, arising from or in connection with the Management Agreement and the Merger.

In connection with the termination of the Management Agreement, the BBAM Manager received a change of control fee in an amount equal to 1.5% of the Enterprise Value (as defined in the Management Agreement) of Fly (which fee amount was approximately $53.6 million) and a termination fee equal to approximately $15.6 million as required by the Management Agreement, less $1.0 million.

Upon completion of the Merger, the Carlyle Manager became the manager and sub-servicer of Fly and its subsidiaries. Concurrently with the execution of the Merger Agreement, Fly, the BBAM Manager and the Carlyle Manager entered the Sub-Servicing Agreement whereby the BBAM entities that acted as Fly's servicers delegated to the Carlyle Manager certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly. After the consummation of the Merger in 2021, the Company incurred $2.2 million and $0.4 million, respectively, in servicing and administrative fees payable to the Carlyle Manager. These amounts were included in the total servicing fees of $6.3 million for the year ended December 31, 2021.

In addition, concurrently with the execution of the Merger Agreement, Fly and its subsidiary, Fly Aladdin, entered into the Assignment and Assumption of Contracts, pursuant to which Fly Aladdin assigned to a subsidiary of BBAM LP all of its rights, title and interests in and to, and such subsidiary assumed, all of Fly Aladdin's rights, title and interests in and to, and obligations under, the Assigned Contracts.

In connection with the AASET 2021-1 transaction, AASET 2021-1 International Limited acquired 9 narrowbody aircraft during the year ended December 31, 2021. Out of these 9 aircraft, 3 were purchased from the Ultimate Parent, with the remaining 6 already being part of Fly's portfolio. In relation to the ABS and the resultant cash flows, cash payment of $100.1 million were advanced to the Ultimate Parent. These amounts remain outstanding and are included as part of amounts due from related parties in the consolidated balance sheet.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and liabilities recorded at fair value on a recurring and non-recurring basis in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. The hierarchy levels give the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Fair value measurements are disclosed by level within the following fair value hierarchy:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 — Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company's financial instruments consist principally of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, derivative instruments, accounts payable and borrowings. Fair value of an asset is defined as the price a seller would receive in a current transaction between knowledgeable, willing and able parties. A liability's fair value is defined as the amount that an obligor would pay to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor.

Where available, the fair value of the Company's investment in equity certificates, notes payable and debt facilities is based on observable market prices or parameters or derived from such prices or parameters (Level 2). For the year ended December 31, 2021 and 2020, respectively, the Company recognized an unrealized fair value loss of $Nil million and $13.0 million on its investment in equity certificates to write down the equity certificates to estimated fair value.

Where observable prices or inputs are not available, valuation models are applied, using the net present value of cash flow streams over the term using estimated market rates for similar instruments and remaining terms (Level 3). These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

The Company determines the fair value of its derivative instruments using a discounted cash flow model which incorporates an assessment of the risk of non-performance by the swap counterparty and an evaluation of its credit risk in valuing derivative liabilities. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads and measures of volatility (Level 2).

The Company also measures the fair value for certain assets and liabilities on a non-recurring basis, when 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 Portfolio B orderbook value and flight equipment held for operating lease, net (Level 3).

The Company records flight equipment at fair value when the carrying value may not be recoverable. Such fair value measurements are based on management's best estimates and judgment and use Level 3 inputs which include assumptions of future projected lease rates, re-leasing costs, estimated down time and estimated residual or scrap values of the aircraft on its eventual disposition. The Company will record an impairment charge if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset. The impairment charge is equal to the excess of the carrying amount of the impaired asset over its fair value. Fair value reflects the present value of the expected future cash flows, discounted at an appropriate rate. The Company recorded an impairment charge of $92.0 million during the year ended December 31, 2021. The Company recorded impairment charges of $115.0 million and $Nil during the years ended December 31, 2020, and 2019, respectively.

The carrying amounts and fair values of certain of the Company's debt instruments are as follows (dollars in thousands):

	As of December 31, 2021		As of December 31, 2020	
	Principal Amount Outstanding	Fair Value	Principal Amount Outstanding	Fair Value
2012 Term Loan	$ 337,282	$ 330,958	$ 362,960	$ 342,997
2020 Term Loan	160,295	155,085	180,000	177,750
Magellan Acquisition Limited Facility	221,248	215,717	252,143	244,579
Fly Aladdin Acquisition Facility	206,312	204,766	229,644	192,407
2021 Notes	390,307	386,096	—	—
2024 Notes	9,553	9,331	300,000	286,500
Class A Note	574,612	563,126	—	—
Class B Note	114,969	108,662	—	—
Class C Note	67,038	62,055	—	—

The Company's principal amount outstanding on its remaining debt instruments approximates fair value at December 31, 202 1 and 2020.

As of December 31, 2021, and 2020, the categorized assets and liabilities measured at fair value on a recurring basis, based upon the lowest level of significant inputs to the valuations are as follows (dollars in thousands):

	Level 1	Level 2	Level 3	Total
December 31, 2021:				
Derivative assets	—	$ 4,177	—	$ 4,177
Derivative liabilities	—	22,826	—	22,825
Investment in equity certificates	—	3,013	—	3,013
December 31, 2020:				
Derivative assets	—	$ 2,085	—	$ 2,085
Derivative liabilities	—	46,169	—	46,169
Investment in equity certificates	—	3,023	—	3,023

19. COMPARATIVE INFORMATION

Certain comparative figures have been re-presented to conform with current year's presentation.

20. SUBSEQUENT EVENTS

Aircraft acquisitions and dispositions

Subsequent to year end the Company disposed of 3 wide-body aircraft which were on lease to a lessee in India. These aircraft were impaired to their disposal value and classified as held for sale at December 31,2021. The aircraft were funded by the secured borrowings of the Company. This debt was subsequentially repaid on disposal of the aircraft. Also, in association with the aforementioned ABS transaction, a further 2 aircraft have transferred to AASET 2021-1 International Limited. One of these aircraft was not originally in the Fly portfolio.

Russian invasion of Ukraine

On 25 February 2022, the EU adopted Regulation 2022/328, as part of its package of sanctions and export controls imposed in response to the Russian invasion of Ukraine. The Regulation takes effect as of 26 February 2022 and includes the following provisions:

- It shall be prohibited to provide insurance and reinsurance, directly or indirectly, in relation to Aircraft to any person, entity or body in Russia or for use in Russia, with immediate effect.
- It shall be prohibited to sell, supply, transfer or export, directly or indirectly, goods and technology suited for use in aviation or the space industry to any natural or legal person, entity or body in Russia or for use in Russia, with effect from 26 March.
- It shall be prohibited to provide any one or any combination of the following activities: overhaul, repair, inspection, replacement, modification or defect rectification of an aircraft or component to any natural or legal person, entity, or body in Russia or for use in Russia, with immediate effect.

Following the Russian invasion of Ukraine which began on February 24, 2022, the United States, the European Union and other jurisdictions-imposed sanctions and other restrictive measures against certain Russian individuals and entities, and certain activities involving Russia or Russian entities. Such measures include Regulation 2022/328 adopted by the EU on February 26, 2022. Among other things, Regulation 2022/328 prohibits the supply of aircraft by EU entities to Russian entities or for use in Russia, subject to a 30-day wind-down period. This regulation will require the cessation of leasing to Russian aircraft operators by March 28, 2022.

As of December 31, 2021, the Company had 6 aircraft on lease to 6 separate Russian lessees amounting to $137.7 million (5.6%) of total flight equipment held for operating lease. During the year ended December 31, 2021, the Company recognized $7.6 million (2.9%) of lease revenue derived from lessees based in Russia. Contracted future rentals from these lessees was $67.8 million (4.7%). The Company holds $3.0 million (7.4%) of security deposits and $26.6 million (12.9%) of maintenance reserves against these leases. As of December 31, 2021, there was an accounts receivable of $1.7 million (3.4%) related to these lessees. In order to comply with the sanctions, the Company has terminated all 6 of its leases with Russian airlines and is in the process of repossessing the applicable aircraft. The Company anticipates that repossession of the aircraft could be a long and difficult process, if at all. The Company continues to work to affirm applicable insurance coverage. In response to the implementation of sanctions, the government of Russia enacted legislation that effectively nationalized aircraft on lease to Russian airlines from non-Russian lessors, further complicating repossession efforts.

As the invasion of Ukraine continues to unfold, airlines around the world will likely come under increased economic strain due to the sanctions imposed on Russia and their effect on the aviation industry, in particular, and the global economy, in general. Increased fuel prices, inflation, and airlines rerouting flights because of bans on the use of airspace will all place additional pressure on already strained airlines. The specific impacts on the Company may include the inability of airlines customers to meet their lease obligations because of reduced cash flow, which in turn may lead to an increase in lease defaults and related repossessions. The conflict could also affect the residual values of airframes and engines, especially if leasing companies cannot repatriate the aircraft on lease to Russian airlines.

The invasion of Ukraine is a significant geopolitical and economic event for the global economy and, in particular, the aviation industry, and there is uncertainty over how the future development of this conflict will affect the Company. At the date of this report, the potential financial impact of these events on the Company cannot be fully determined.

As the ongoing invasion of Ukraine continues to unfold in 2022, the Company will continue to monitor the development of the conflict and assess the potential impact on the Company.

There were no other significant events since the year end that require adjustment to or disclosure in the financial statements.

Schedule I — Condensed financial information of parent

Fly Leasing Limited
Condensed Balance Sheets

AS OF DECEMBER 31, 2021 AND 2020
(Dollars in thousands)

	December 31, 2021	December 31, 2020
Assets		
Cash and cash equivalents	$ 19,639	$ 75,877
Notes receivable from subsidiaries	440,032	519,658
Investments in subsidiaries	727,839	1,040,079
Other assets, net	48,231	5,656
Total assets	**$ 1,235,741**	**$ 1,641,270**
Liabilities		
Payable to related parties	$ 13,094	$ 647
Payable to subsidiaries, net	512,221	544,749
Unsecured borrowings, net	394,635	296,876
Accrued and other liabilities	13,935	10,002
Total liabilities	**933,885**	**852,274**
Shareholders' equity	**301,856**	**788,996**
Total liabilities and shareholders' equity	**$ 1,235,741**	**$ 1,641,270**

These condensed financial statements should be read in conjunction with the notes to consolidated financial statements.

Management's Discussion & Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements for the year ended December 31, 2021. The consolidated financial statements have been prepared in accordance with U.S. GAAP and are presented in U.S. dollars. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global, regional or local political, economic, business, competitive, market, regulatory and other factors, many of which are beyond our control. See "Forward Looking Statements" at the beginning of this report.

Overview

Fly Leasing Limited is a Bermuda exempted company that was incorporated on May 3, 2007, under the provisions of Section 14 of the Companies Act 1981 of Bermuda. We are principally engaged in purchasing commercial aircraft and aircraft equipment, which we lease under multi-year contracts to a diverse group of airlines throughout the world.

Although we are organized under the laws of Bermuda, we are a resident of Ireland for tax purposes and are subject to Irish corporation tax on our income in the same way, and to the same extent, as if we were organized under the laws of Ireland.

For year ended December 31, 2021, we had net losses of $272.4 million. Net cash flows provided by operating activities for the year ended December 31, 2021 totaled $14.1 million, net cash flows used in investing activities totaled $150.47 million for the year ended December 30, 2021 and net cash flows provided by financing activities totaled $612.3 million for the year ended December 31, 2021. As of December 31, 2021, we had $66.3 million in cash and cash equivalents and an additional $570.8 million in restricted cash and cash equivalents.

Recent Developments

Russian invasion of Ukraine

Following the Russian invasion of Ukraine which began on February 24, 2022, the United States, the European Union and other jurisdictions imposed sanctions and other restrictive measures against certain Russian individuals and entities, and certain activities involving Russia or Russian entities. Such measures include Regulation 2022/328 adopted by the EU on February 26, 2022. Among other things, Regulation 2022/328 prohibits the supply of aircraft by EU entities to Russian entities or for use in Russia, subject to a 30-day wind-down period. This regulation will require the cessation of leasing to Russian aircraft operators by March 28, 2022.

As of December 31, 2021, the Company had 6 aircraft on lease to 6 separate Russian lessees amounting to $137.7 million (5.6%) of total flight equipment held for operating lease. During the year ended December 31, 2021, the Company recognized $7.6 million (2.9%) of lease revenue derived from lessees based in Russia. Contracted future rentals from these lessees was $67.8 million (4.7%). The Company holds $3.0 million (7.4%) of security deposits and $26.6 million (12.9%) of maintenance reserves against these leases. As of December 31, 2021, there was an accounts receivable of $1.7 million (3.4%) related to these lessees. In order to comply with the sanctions, the Company has terminated all 6 of its leases with Russian airlines and is in the process of repossessing the applicable aircraft. The Company anticipates that repossession of the aircraft could be a long and difficult process, if at all. The Company continues to work to affirm applicable insurance coverage. In response to the implementation of sanctions, the government of Russia enacted legislation that effectively nationalized aircraft on lease to Russian airlines from non-Russian lessors, further complicating repossession efforts.

As the invasion of Ukraine continues to unfold, airlines around the world will likely come under increased economic strain due to the conflict itself as well as the sanctions imposed on Russia and their effect on the aviation industry, in particular, and the global economy, in general. Increased fuel prices, inflation, and airlines rerouting flights because of bans on the use of airspace will all place additional financial pressure on already strained airlines, whether as a result of customer unwillingness to fly or the increased costs associated with inflation and rising fuel prices. In addition, to the extent the conflict causes a significant adverse effect on the global economy it could lead to customers, especially leisure customers, foregoing flying and choosing cheaper alternatives. The specific impacts on the Company may include the inability of airlines customers to meet their lease obligations as a result of reduced cash flow, which in turn may lead to an increase in lease defaults and related repossessions. The conflict could also affect the residual values of airframes and engines, especially if leasing companies can repatriate the aircraft on lease to Russian airlines.

The invasion of Ukraine is a significant geopolitical and economic event for the global economy and, in particular, the aviation industry, and there is uncertainty over how the future development of this conflict will affect the Company. At the date of this report, the potential financial impact of these events on the Company cannot be fully determined.

AASET 2021-1 Transaction

On November 12, 2021, AASET 2021-1 Trust ("AASET") closed the offering (the "AASET 2021-1 Transaction") of its 2.950% $620,000,000 Class A Fixed Rate Secured Notes Series 2021-1 (the "Class A Notes"), 3.800% $124,157,000 Class B Fixed Rate Secured Notes Series 2021-1 (the "Class B Notes") and 5.822% $73,425,000 Class C Fixed Rate Secured Notes Series 2021-1 (the "Class C Notes" and, together with the Class A Notes and Class B Notes, the "Notes"). Interest and principal payments on the Notes are due and payable monthly with final expected payment dates to occur on (i) October 16, 2028, with respect to the Class A Notes and Class B Notes and (ii) December 16, 2027, with respect to the Class C Notes. All three Classes of Notes have a final legal maturity date of November 16, 2041. The Class A Notes, Class B Notes and Class C Notes were issued at a price of 98.97274%, 95.55010% and 94.99763% of par, respectively.

AASET used the proceeds from the offering to acquire all of the Series A Fixed Rate Secured Notes (the "Series A AOE Notes"), Series B Fixed Rate Secured Notes (the "Series B AOE Notes") and Series C Fixed Rate Secured Notes (the "Series C AOE Notes" and, together with the Series A AOE Notes and the Series B AOE Notes, the "AOE Notes") issued by each of AASET 2021-1 US Ltd. ("AASET US") and AASET 2021-1 International Ltd. ("AASET International" and, together with AASET US, the "AOE Issuers").

AASET International is a subsidiary of Fly. AASET US is a subsidiary of funds or entities managed by Carlyle Aviation but not a subsidiary of Fly. The Series A AOE Notes, Series B AOE Notes and Series C AOE Notes issued by AASET International have an initial aggregate principal amount of $584,879,635.73, $117,124,033.76 and $69,265,785.89, respectively, and the Series A AOE Notes, Series B AOE Notes and Series C AOE Notes issued by AASET US have an initial aggregate principal amount of $35,120,364.27, $7,032,966.24 and $4,159,214.11, respectively. The AOE Notes bear interest at the same interest rates as the Notes and have the same expected final payment date and final legal maturity date as the Notes. Each AOE Issuer guaranteed the obligations of the other AOE Issuer and AASET. Each of the AOE Issuers entered into a liquidity facility that is available to pay nine months of interest on its own Series A and Series B AOE Notes, as well as senior expenses if there is a shortfall on any payment date.

Each of AASET International and ASSET US received its proportionate share of the proceeds from the sale of the Notes based on the size of their respective AOE Notes and the price paid for the Notes. The AOE Issuers used or will use the proceeds from the sale of the Series A AOE Notes and a portion of the proceeds from the sale of the Series B AOE Notes and the Series C AOE Notes as partial consideration for the purchase of 34 aircraft. AASET US will own five Aircraft and AASET International will own 29 of the Aircraft, including 24 aircraft currently in Fly's portfolio and five aircraft which Fly will acquire from SASOF Funds. Fly applied or will apply the proceeds from the sale of the AOE Notes by AASET International to (i) repay indebtedness encumbering the 24 aircraft it currently owns and (ii) to pay the purchase price for the 5 aircraft it will acquire from the SASOF Funds.

As of March 30, 2022, four of the aircraft to be acquired from the Ultimate Parent have been delivered to AASET International and financed pursuant to the AASET 2021-1 Transaction. In addition, 7 of the 24 aircraft currently in Fly's portfolio have been delivered to AASET International and financed pursuant to the AASET 2021-1 Transaction, resulting in the repayment of $13.9 million of the secured debt initially encumbering such assets, consisting of $3.2 million under the 2012 Term Loan and $10.7 million under the 2020 Term Loan.

Merger Agreement with Carlyle Aviation

On March 27, 2021, Fly entered into an Agreement and Plan of Merger (the "Merger Agreement") with Carlyle Aviation Fly Ltd ("Parent") (formerly Carlyle Aviation Elevate Ltd.) and Carlyle Aviation Elevate Merger Subsidiary Ltd ("Merger Sub"). Pursuant to the Merger Agreement, on August 2, 2021 Merger Sub merged with and into Fly, with Fly surviving as the continuing company and becoming a wholly-owned subsidiary of Parent.

Subject to the terms and conditions of the Merger Agreement, each common share, par value $0.001 (the "Shares"), of Fly issued and outstanding prior to the effective time of the Merger, including Shares represented by American Depository Shares but excluding Shares held in the treasury of Fly or owned by Fly, Parent, Merger Sub or any wholly-owned subsidiary of Fly, were cancelled and converted into the right to receive $17.05 in cash (the "Merger Consideration"), without interest, subject to deduction for any required withholding tax.

Fly, Fly Leasing Management Co. Limited (the "BBAM Manager"), an affiliate of BBAM LP ("BBAM) and certain affiliates of the BBAM Manager had historically been party to agreements (the "BBAM Agreement"), which provided, among other things, for the management of Fly by the BBAM Manager. After the consummation of the Merger, Fly is managed by Carlyle Aviation Management Limited (the "Carlyle Manager") an affiliate of the Carlyle Aviation. In addition, concurrently with the execution of the Merger Agreement, Fly, the BBAM Manager and the Carlyle Manager entered a sub-servicing agreement (the "Sub-Servicing Agreement") pursuant to which the (i) BBAM servicers delegated to the Carlyle Servicer certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly under a sub-servicer arrangement, and (ii) BBAM Agreement terminated at the closing of the Merger.

Concurrently with the execution of the Merger Agreement, Fly, BBAM LP and certain of their affiliates, also entered into an a ssignment and assumption of contracts (the "Assignment and Assumption of Contracts"), pursuant to which, Fly assigned to an affiliate of BBAM all of Fly's rights and obligations under certain contracts with AirAsia Group Berhad ("AirAsia") and its affiliates. The BBAM Agreement, the Sub-Servicing Agreement and the Assignment and Assumption of Contracts are described in greater detail in Note 17, Related Party Transactions, elsewhere in this report.

In connection with the Merger, in August 2021, Merger Sub completed an Offer to Exchange (the "Exchange Offer") any a nd all of Fly's 2024 Notes for new 7.000% Senior Notes due 2024 (the "New Notes") issued by Merger Sub that were assumed by Fly upon completion of the Merger. Holders of an aggregate of $290,447,000 in principal amount of the 2024 Notes participated in the Exchange Offer and received an aggregate of $ $290,307,000 in principal amount of the New Notes as consideration. In the Exchange Offer, participating Holders consented to certain amendments to the indenture governing the 2024 Notes to, among other thin gs, waive the Change of Control provisions as they relate to the Merger and align the covenants with those included in the indenture govern ing the New Notes. The amendments to the 2024 Notes indenture became effective and operative prior to consummation of the Merger.

Flight Equipment Held for Sale

At December 31, 2021, the Company had three aircraft as flight equipment held for sale. These aircraft were cold to a third party in January 2022. These aircraft were on lease to a lessee in India. In August 2021, the Company sold one part out engine that had previously been classified as flight equipment held for sale and recognized a gain on sale of aircraft of $1 million.

In March and April 2021, the Company entered into consignment agreements related to two aircraft held for sale. The Company wrote down these aircraft to their estimated net sales proceeds and recorded an impairment charge of $22.5 million during the first quarter of 2021. As a result, these aircraft were reclassified as inventory.

On March 3, 2021, the Company agreed to sell four aircraft for an aggregate base purchase price of $35.7 million, subject to adjustments based on rents and interest in respect of the aircraft. During the second quarter of 2021, the Company delivered these aircraft to the buyer and recognized an aggregate gain on sale of aircraft of $0.2 million.

Market Conditions

The airline industry is cyclical, and subject to macroeconomic, geopolitical and other risks which may negatively impact airline profitability or create volatility in the aircraft leasing market. Global passenger air traffic grew, and the airline industry was profitable in every year from 2012 to 2019. However, due to the continuing effects of the COVID-19 pandemic and the conflict between Russia and Ukraine on air travel, global passenger air traffic and load factors declined significantly in 2020 with overall passenger traffic decreasing 66% and a global load factor of 64.8% for the year, a decline of nearly 18%. Global air traffic demand is not expected to recover to pre-pandemic levels until at least 2024 with many airlines continuing to experience negative cash flows through most of 2021 and possibly beyond.

The COVID-19 pandemic has negatively impacted the financial health of some airlines and led a number of airlines to consummate financial restructurings, including bankruptcy and similar proceedings. The longer the pandemic persists, including as a result of the emergence of more virulent variants of the virus, the more material the ultimate effects on the financial health of airlines are likely to be. In addition, market lease rates for competing widebody and narrowbody aircraft may be adversely impacted due to the increased supply of aircraft. For additional information on the effects of the COVID-19 pandemic see "—Critical Accounting Policies and Estimates" below and Note 2. Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements included within this Annual Report.

In addition, the COVID-19 pandemic and the conflict between Russia and Ukraine, uncertainty about geopolitical events and pressures such as environmental impact concerns, inflation and other decreases in purchasing power, rising interest rates, Brexit, ongoing U.S.-China trade tensions, and the war between Russia and Ukraine could affect the economic health of airlines and the aircraft leasing market. These and other factors, known and unknown, may adversely affect the airline industry and the airline leasing market in 2022 and beyond.

Critical Accounting Policies and Estimates

Fly prepares its consolidated financial statements in accordance with U.S. GAAP, which requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The use of estimates is a significant factor affecting the reported carrying values of flight equipment, investments, deferred assets, accruals and reserves. We utilize third party appraisers and industry valuation professionals, where possible, to support estimates, particularly with respect to flight equipment. Despite our best efforts to accurately estimate such amounts, actual results could differ from those estimates. For a discussion of our

Critical Accounting Policies see Note 2. Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

While the most severe effects of the COVID-19 pandemic seem to have passed, it is likely that there will be further negative effects of the pandemic that we cannot presently predict, including near term effects, which may have a material adverse effect on our results of operations, financial condition and cash flows. Due to worldwide government-imposed travel restrictions, significantly reduced flight schedules, and a severe decline in passenger demand for air travel, we have been in active discussions with our impacted lessees and we have entered into agreements to defer lease payments or restructure leases with some of our lessees. As a result, we anticipate that the decline in our cash rent collections and operating lease rental revenue will continue in 2022 compared to the pre-COVID 19 operating environment. Our estimates of the amount of rent ultimately collectible from our lessees, which impacts revenue recognition, have a higher degree of uncertainty due to the COVID-19 pandemic, and these estimates could change in the near term. Further, the impact of COVID-19 on the airline industry may result in changes to our assumptions used to evaluate impairment of flight equipment, including the level of future rents, the residual value of the flight equipment and estimated downtime between re-leasing events.

As noted above under "—Flight Equipment Held for Sale", during the first quarter of 2021, we recognized flight equipment impairment of $22.5 million related to two off-lease aircraft that have been classified as flight equipment held for sale. We entered into consignment agreements related to these aircraft and wrote down the aircraft to their estimated net sales proceeds to be received from the consignment sales.

We also recorded a provision for uncollectible operating lease receivables of $3 million for the year ended December 31, 2021 compared to $4 million for the year ended December 31, 2020, in each case as a result the financial health of the lessee and related effect of the COVID-19 pandemic. Future changes to our assumptions, which could be caused by airline bankruptcies or otherwise, could result in further provisions for uncollectible operating lease receivables or impairment charges, and these charges could be material.

Summary of Operating Results

As of December 31, 2021, we had 79 aircraft and 7 engines in our portfolio, of which 77 aircraft and 7 engines were held for operating lease, and 2 aircraft were off-lease. As of December 31, 2020, we had 83 aircraft and seven engines in our portfolio, of which 78 aircraft and 7 engines were held for operating lease, and five aircraft were off lease.

During the year ended December 31, 2021, we agreed to sell one engine which was delivered to the buyer during 2021 and for which we recognized a gain on sale of $1 million. During the year ended December 31, 2021, we also sold four aircraft for an aggregate gain on sale of aircraft of $0.2 million. During the year ended December 31, 2020, we sold two aircraft held for operating lease and one engine as the result of an aircraft part out and recognized an aggregate gain on sale of aircraft of $4.3 million.

We classify flight equipment as held for sale when we commit to and commence a plan of sale that is reasonably expected to be completed within one year and satisfies other criteria. We recognize revenue from each aircraft until the date that such aircraft is delivered to the purchaser and cease to recognize depreciation as of the date the aircraft is classified as flight equipment held for sale. As of December 31, 2021, all equipment previously classified as flight equipment held for sale are either sold or reclassified as inventory held on consignment.

During the first quarter of 2021, we recognized end of lease income of $25.8 million related to the expiry of two leases, and recognized flight equipment impairment of $22.5 million related to those two off-lease aircraft. We entered into consignment agreements related to these aircraft and wrote down the aircraft to their estimated net sales proceeds to be received from the consignment sales. These assets are currently included in Inventory on the consolidated balance sheet.

We receive lease revenue from flight equipment under operating leases. Revenue is recognized to the extent that it is probable that the economic benefits will flow to us, and the revenue can be reliably measured. If the revenue amounts do not meet these criteria, recognition is delayed until the criteria are met. Revenue is not recognized when we determine that collection is not probable.

We maintain an allowance for uncollectible operating lease receivables for losses we estimate will arise from our lessees' inability to make their required lease payments. We evaluate the collectability of rent receivables and determine the appropriate provision for uncollectible operating lease receivables based on historical experience and a review of specific lessees. During the year ended December 31, 2021, we recorded a provision for uncollectible operating lease receivables of $3 million.

At December 31, 2021, the Company had 11 lessees, leasing a total of 19 aircraft and 1 engine, on non-accrual status, as the Company had determined that it was not probable that the Company would receive the economic benefits of the leases, principally due to (i) the lessees' failure to pay rent and maintenance payments on a timely basis and (ii) the Company's evaluation of the lessees' financial condition. For the year ended December 31, 2021, the Company recognized $18.6 million of operating lease revenue from these lessees and would have recognized $67.7 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At December 31, 2020, we had 11 lessees, leasing a total of 19 aircraft and 2 engines, on non-accrual status. During the year ended December 31, 2020, we recognized $54.0 million of operating lease revenue from these lessees and would have recognized $35.6 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

As of December 31, 2021, the Company had 6 agreements in place with 4 lessees to defer their rent payment obligations for 5 aircraft and 1 engine totaling $11.8 million due to the Company over the life of the leases. These deferrals are for an average of 15 months with approximately 64% of the deferrals to be repaid by the end of 2022. The Company has also agreed to lease restructurings with certain of its lessees.

Presented below are the rent deferrals granted and scheduled deferral repayments for deferral agreements in place as of December 31, 2021. There can be no assurance that our lessees will make their payments in accordance with the deferral terms during the expected repayment periods or at all.

	Rent Deferrals Granted	Scheduled Deferral Repayments
	(Dollars in thousands)	
2021	$ 21,131	$ 12,347
2022	2,993	3,050
2023	—	2,170
Thereafter	—	6,557
Total	**$ 24,124**	**$ 24,124**

We may grant additional payment deferrals and extend the periods of repayment, and if the financial conditions of our airline customers do not improve, we may agree to further restructurings with some of our lessees.

Rental income from aircraft and aircraft equipment is recognized on a straight-line basis over the initial term of the respective lease. Changes to the timing of cash rent receipts, such as under rent deferral arrangements, do not generally affect the total amount of consideration to be received under the lease and therefore do not typically impact revenue recognition, provided that we determine collection of rents is probable.

Management's discussion and analysis of operating results presented below pertain to the consolidated statements of income (loss) of Fly for the years ended December 31, 2021 and 2020.

Consolidated Statements of Income (Loss) for the year ended December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
	(Dollars in thousands)	
Revenues		
Operating lease revenue	$ 258,499	$ 293,743
Finance lease revenue	493	557
Gain on sale of aircraft	1,303	36,003
Gain on derivatives	6,478	—
Interest and other income	2,134	4,052
Total revenues	**268,907**	**334,355**
Expenses		
Depreciation	120,934	129,561
Realized loss on Portfolio B	82,553	—
Interest expense	99,124	103,292
Selling, general and administrative	127,139	30,902
Provision for uncollectible operating lease receivables	3,000	4,000
Loss on derivatives	—	1,648
Fair value loss on marketable securities	10	13,025
Loss on modification and extinguishment of debt	2,644	1,862
Provision for aircraft impairment	92,046	115,000
Maintenance and other costs	11,804	6,622
Total expenses	**539,254**	**405,912**
Net income (loss) before provision for income taxes	**(270,347)**	**(71,557)**

	Year ended		
	December 31, 2021	December 31, 2020	Increase/ (Decrease)
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	$ 217,031	$ 283,135	$ (66,104)
End of lease income	46,534	14,124	31,703
Amortization of lease incentives	(4,786)	(3,578)	(1,208)
Amortization of lease premium, discounts and other	(97)	(729)	635
Others	—	791	(266)
Total operating lease revenue	**$ 258,499**	**$ 293,743**	**$ (35,240)**

For the year ended December 31, 2021, operating lease revenue totaled $258.5 million, a decrease of $35.2 million compared to the year ended December 31, 2020. The decrease was primarily due to (i) a decrease of $66 million as a result of lessees on non-accrual status primarily stemming from financial concerns at the airline due to the COVID-19 pandemic, (ii) an increase of $31.7 million on end of lease income and (iii) an decrease of $1.2 million in amortization of lease incentives.

During the year ended December 31, 2021, we agreed to sell four aircraft and one engine resulting in a gain of $1.3 million.

Depreciation expense was $120.9 million for the year ended December 31, 2021, a decrease of $8.6 million compared to the year ended December 31, 2020. The decrease was primarily due to aircraft sold in 2021.

Provision for aircraft impairment amounted to $92.0 million for the year ended December 31, 2021, a decrease of $23.0 million compared to the year ended December 31, 2020. The decrease was primarily due significant impairments being recognized on the Company's widebody aircraft in 2020.

Interest expense totaled $99.1 million for the year ended December 31, 2021, a decrease of $4.2 million compared to the year ended December 31, 2020. The decrease was primarily due to a reduction in interest resulting from debt repayments associated with aircraft sales.

Selling, general and administrative expenses were $127.1 million for the year ended December 31, 2021, an increase of $96.2 million compared to the year ended December 31, 2020. The increase was primarily due to (i) an increase of $45.8 million as a result of the change in control fee paid to BBAM in connection with the Merger, and (ii) an increase $43.4 million in bad debt expenses recognized primarily as a result of the inability of airlines to meet their obligations due to the COVID-19 pandemic.

For the year ended December 31, 2021, we recognized an unrealized fair value loss on marketable securities of $10,345 million related to the write down of our equity certificates to estimated fair value. After the write-down, the carrying value of our investment in equity certificates was $3 million as of December 31, 2021. We expect the fair value of our investment in equity certificates to remain volatile while the COVID-19 pandemic continues to affect the market for such securities. See Note 8. Other Assets of the Audited Consolidated Financial Statements included elsewhere in this report.

Provision for income taxes was $2.0 million and benefit from income tax was $4.1 million for the year ended December 31, 2021 and 2020, respectively. We are tax resident in Ireland and expect to pay the corporation tax rate of 12.5% on trading income and 25.0% on non-trading income. Our effective tax rates were (0.8)% and 5.8% for the year ended December 31, 2021 and 2020, respectively. The difference between the statutory and effective tax rate in each period is primarily attributable to changes in valuation allowances and the amount of income earned by us in different tax jurisdictions.

Liquidity and Capital Resources

Overview

Our business is very capital intensive, requiring significant investment to maintain and expand our fleet. We have pursued a strategy of disciplined fleet growth. During the year ended December 31, 2020, we acquired three aircraft, which we had agreed to acquire before the start of the COVID-19 pandemic. Largely due to the pandemic and the deterioration in the aviation industry, we did not acquire any additional aircraft after the onset of the pandemic in 2020 but have acquired or agreed to acquire five aircraft from affiliates of the Carlyle Manager in connection with the ASSET Transaction, of which three delivered prior to December 31, 2021.

We also have pursued opportunistic aircraft sales to rejuvenate our fleet. In 2020, we sold eight aircraft. During the year ended December 31, 2021, we sold four aircraft and one engine that had been classified as flight equipment held for sale. A further three aircraft were sold in January 2022.

We finance our business with unrestricted cash, cash generated from flight equipment leases, aircraft sales and debt financings. At December 31, 2021, we had $66.2 million of unrestricted cash. We also had seven unencumbered aircraft with an aggregate book value of $102.3 million.

In recent years, our debt financing strategy has been to diversify our lending sources and to utilize both secured and unsecured debt financing. Unsecured borrowings provide us with greater operational flexibility. Secured, recourse debt financing enables us to take advantage of favorable pricing and other terms compared to secured non-recourse debt, which we also continue to utilize.

Our sources of operating cash flows are principally distributions and interest payments made to us by our subsidiaries. These payments by our subsidiaries may be restricted by applicable local laws and debt covenants.

We expect that, even with current market conditions, including the COVID-19 pandemic and the Russia/Ukraine conflict, and after giving effect to the Merger, our liquidity is sufficient to satisfy our anticipated operational and other business needs for the foreseeable future; however, we cannot assure you that operating cash flow will not be lower than we expect or that we will continue to meet the financial covenants in certain debt facilities. For example, we could experience higher than expected deferral arrangements or payment defaults. As a consequence of entering into deferral agreements with our lessees, the rent collections under certain secured borrowings have been insufficient to cover the related debt service payments. As a result, we have made and expect that we will continue to make such payments from operating cash to cover any shortfall amounts.

Our liquidity plans are subject to a number of risks and uncertainties, including those described below under “Risk Factors”.

Cash Flows for the year ended December 31, 2021 and 2020

Cash provided by operating activities for the year ended December 31, 2021, totaled $16.4 million, compared to cash provided by operating activities of $110.2 million for the year ended December 31, 2020, a period-over-period decrease of $93.7 million.

Cash used in investing activities was $153.0 million and cash provided by investing activities was $93.8 million for the years ended December 31, 2021 and 2020, respectively. During the year ended December 31, 2021, we sold four aircraft and one part out engine for net cash proceeds of $28.2 million. During the years ended December 31, 2020, we used $78.8 million of cash to purchase flight equipment. During the year ended December 31, 2020, we sold six aircraft and two part-out engines for net cash proceeds of $187 million.

Cash provided by financing activities totaled $612.3 million and cash used in financing activities totaled $380.9 million, for the years ended December 31, 2021 and 2020 respectively. During the year ended December 31, 2021, we borrowed a total of $1,161.6 million under secured debt facilities, including the issuance of $771.2 million in connection with the AASET 2021-1. The Company made repayments on our secured borrowings totaling $236.5 million. During the year ended December 31, 2021, we borrowed a total of $390.3 million under unsecured facilities, consisting of the New Notes and repaid $293.1 million in aggregate principal amounts of the 2024 Notes. These payments were partially offset by (i) security deposit receipts from our lessees of $4.5 million and (ii) maintenance reserve receipts of $16 million. During the year ended December 31, 2020, we (i) made repayments on our secured borrowings totaling $229.8 million, largely in connection with aircraft sales and (ii) used $6.5 million to repurchase 417,341 shares. These payments were partially offset by security deposit receipts from our lessees of $4 million and (iii) maintenance reserve receipts of $21.6 million.

Maintenance Cash Flows

Under our leases, the lessee is generally responsible for maintenance and repairs, airframe and engine overhauls, and compliance with return conditions of aircraft on lease. In connection with the lease of a used aircraft we may agree to contribute additional amounts to the cost of certain major overhauls or modifications, which usually reflect the usage of the aircraft prior to the commencement of the lease. In many cases, we also agree to share with our lessees the cost of compliance with airworthiness directives. We are not obligated to pay maintenance claims submitted by lessees who are in default under their lease agreement.

We generally expect that the aggregate maintenance reserve and lease end adjustment payments we receive from lessees will meet the aggregate maintenance contributions and lease end adjustment payments that we will be required to make. During the year ended December 31, 2021, we received $16 million of maintenance payments from lessees and made maintenance payment disbursements of $13.8 million.

Debt securities and Credit Agreements

For a discussion of the Company's debt securities and credit agreements, see Note 9. Unsecured Borrowings and Note 10. Secured Borrowings in the audited consolidated financial statements included elsewhere in this report.

Share Cancellation, Conversions and Repurchases

On August 2, 2021, the Merger was completed and subject to limited exceptions each common share, par value $0.001, of Fly issued and outstanding prior to the effective time of the Merger, including shares represented by American Depository Shares, were cancelled and converted into the right to receive $17.05 in cash, without interest, subject to deduction for any required withholding tax (the "Merger Consideration"). Following the Merger, Fly is wholly owned by Parent.

Capital Expenditures

We expect to make capital expenditures from time to time in connection with improvements to our aircraft. These expenditures include the cost of major overhauls and modifications. In general, the costs of operating an aircraft, including capital expenditures, increase with the age of the aircraft. As of December 31, 2021, the weighted average age of our portfolio (excluding aircraft held for sale) was 9 years.

In connection with the AASET 2021-1 transaction we agreed to acquire 5 aircraft from affiliates of the Ultimate Parent. Three of these aircraft were delivered in 2021 and the remaining two are expected to be delivered in early 2022.

Inflation

The effects of inflation on our operating expenses have been minimal. We continue to assess the risk of inflation and decrease in purchasing power in relation to direct expenses in the current and foreseeable economic environment.