Fly Leasing Limited

Interim Financial Statements

And

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

As of and for the Three and

Nine Months Ended

September 30, 2022

Unless the context requires otherwise, when used in this interim report (the "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) the term "Carlyle Manager" refers to Carlyle Aviation Management Limited, as servicer or sub-servicer, as applicable; and (4) the term "Parent" refers to Carlyle Aviation Fly 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 pursuant to a merger agreement (the "Merger Agreement"). 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 owners of Fly and 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 AND FORWARD LOOKING STATEMENTS

This Interim Report should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Interim Report and with our Annual Report, for the year ended December 31, 2021.

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 September 30, 2022.

This report contains 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 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, the integration of Fly into the Carlyle Aviation platform and its ability to realize the expected benefits of the Merger 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 Ukraine/Russia conflict, the COVID-19 pandemic, significant increases in inflation, increases in interest rates and other actions taken by central banks to address inflation and/or the global economic climate, in general, may give rise to or amplify many of these factors. The extent to which these and other factors ultimately impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted. For instance, actual results may differ materially from these expectations due to changes in political, economic, business, competitive, market and regulatory factors and risks and uncertainties. We believe that these factors include but are not limited to those described in the "Management's Discussion & Analysis of Financial Condition and Results of Operations" section and elsewhere in our Annual Report, for the year ended December 31, 2021 as well as in subsequent quarterly reports.

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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Fly Leasing Limited
Consolidated Balance Sheets

AT SEPTEMBER 30, 2022 (UNAUDITED) AND DECEMBER 31, 2021
(Dollars in thousands, except par value data)

	Note	September 30, 2022	December 31, 2021
Assets			
Cash and cash equivalents		$ 34,752	$ 66,252
Restricted cash and cash equivalents		84,986	570,838
Rent receivables, net	*6(c)*	41,161	35,051
Investment in finance lease, net	*4*	—	9,089
Flight equipment held for sale, net	*5*	—	277,990
Flight equipment held for operating lease, net	*6(a)*	1,881,300	2,118,509
Maintenance rights	*7*	235,394	247,237
Deferred tax asset, net	*12*	20,010	24,729
Fair value of derivative assets	*11*	17,643	4,177
Amount due from related parties	*16*	—	82,047
Other assets, net	*8*	56,882	59,422
Total assets		**$ 2,372,128**	**$ 3,495,341**
Liabilities			
Accounts payable and accrued liabilities		$ 23,786	$ 20,833
Rentals received in advance		6,215	6,852
Security deposits		32,335	40,409
Maintenance payment liability, net		184,849	205,869
Unsecured borrowings, net	*9*	346,383	394,636
Secured borrowings, net	*10*	1,348,833	2,162,474
Deferred tax liability, net	*12*	61,788	69,434
Fair value of derivative liabilities	*11*	—	22,826
Amounts due to related parties	*16*	14,484	—
Other liabilities	*13*	17,689	37,610
Total liabilities		**$ 2,036,362**	$ **2,960,943**
Shareholders' equity			
Common shares, $0.001 par value; 500,000,000 shares authorized; 532,706 shares issued and outstanding at September 30, 2022 and 100 shares issues and outstanding at December 31, 2021	*14*	—	—
Additional paid-in capital		403,202	509,769
(Accumulated deficit)/Retained earnings		(75,989)	40,589
Accumulated other comprehensive income, net		8,553	(15,960)
Total shareholders' equity		**335,766**	**534,398**
Total liabilities and shareholders' equity		**$ 2,372,128**	**$ 3,495,341**

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

Fly Leasing Limited
Consolidated Statements of Income (Loss)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021 (UNAUDITED)
(Dollars in thousands)

	Note	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenues					
Operating lease revenue	*6(b)*	$ 48,586	$ 50,895	$ 184,572	$ 183,884
Finance lease revenue		36	121	257	376
Gain on sale of aircraft	*5*	—	1,993	—	2,227
Gain on derivatives	*11*	4,915	651	14,010	2,772
Gain on deconsolidation of subsidiaries		8,085	—	8,085	—
Fair value gain on marketable securities		—	—	—	1,073
Gain on modification and extinguishment of debt		12,312	—	11,861	—
Interest and other income		323	660	2,046	2,175
Total revenues		**74,257**	**54,320**	**220,831**	**192,507**
Expenses					
Depreciation	*6(a)*	22,767	30,457	75,218	89,999
Provision for flight equipment impairment	*6(a)*	—	—	—	22,546
Realized loss on Portfolio B		—	82,553	—	82,553
Interest expense		35,786	23,108	94,327	66,877
Selling, general and administrative		3,042	85,409	13,486	105,749
Provision for uncollectible operating lease receivables	*6(c)*	—	—	—	3,000
Loss on sale of aircraft	*6(a)*	—	—	674	—
Fair value loss on marketable securities		358	492	2,367	—
Loss on modification and extinguishment of debt		—	2,644	—	2,644
Loss on derecognition of flight equipment	*6(a)*	—	—	138,361	—
Maintenance and other costs		4,785	3,366	17,021	5,817
Total expenses		**66,738**	**228,029**	**341,454**	**379,185**
Net income/(loss) before (provision) for income taxes		**7,519**	**(173,709)**	**(120,623)**	**(186,678)**
Benefit (provision) for income taxes	*12*	886	(3)	4,045	(539)
Net income (loss)		**$ 8,405**	**$ (173,712)**	**$ (116,578)**	**$ (187,217)**

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

Fly Leasing Limited
Consolidated Statements of Comprehensive Income (Loss)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021 (UNAUDITED)
(Dollars in thousands)

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net income (loss)	**$ 8,405**	**$ (173,712)**	**$ (114,408)**	**$ (187,217)**
Other components of comprehensive income (loss), net of deferred tax:				
Change in fair value of derivatives, net of deferred tax(1)	7,259	3,009	25,218	11,693
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax(2)	(181)	—	(705)	702
Comprehensive income (loss)	**$ 15,483**	**$ (170,703)**	**$ (89,895)**	**$ (174,822)**

(1) The associated deferred tax was $1,195 and $4,235 for the three and nine months ended September 30, 2022, respectively. The associated deferred tax was $846 and $2,187 for the three and nine months ended September 30, 2021, respectively.

(2) The associated deferred tax was $(94) and $(332) for the three and nine months ended September 30, 2022, respectively. The associated deferred tax was $Nil and $275 for the three and nine months ended September 30, 2021, respectively.

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

Fly Leasing Limited
Consolidated Statement of Shareholders' Equity

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 (UNAUDITED)
(Dollars in thousands)

	Manager Shares		Common Shares					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total Shareholders' Equity
Balance December 31, 2021	—	$ —	100	$ —	$ 509,769	$ 40,589	$ (15,960)	$ 534,398
Net loss	—	—	—	—	—	(111,681)	—	(111,681)
Net change in the fair value of derivatives, net of deferred tax of $2,044 (1)	—	—	—	—	—	—	12,687	12,687
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $(122) (1)	—	—	—	—	—	—	(398)	(398)
Balance March 31, 2022	—	$ —	100	$ —	$ 509,769	$ (71,092)	$ (3,671)	$ 435,006
Net loss	—	—	—	—	—	(13,302)	—	(13,302)
Net change in the fair value of derivatives, net of deferred tax of $966 (1)	—	—	—	—	—	—	5,510	5,510
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $(116) (1)	—	—	—	—	—	—	(364)	(364)
Balance June 30, 2022	—	$ —	100	$ —	$ 509,769	$ (84,394)	$ 1,475	$ 426,850
Net loss	—	—	—	—	—	8,405	—	8,405
Net change in the fair value of derivatives, net of deferred tax of $1,195 (1)	—	—	—	—	—	—	7,259	7,259
Repurchase of shares by parent	—	—	(467,394)	—	(106,568)	—	—	(106,568)
Issuance of shares (2)	—	—	1,000,000	1	—	—	—	1
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $(94) (1)	—	—	—	—	—	—	(181)	(181)
Balance September 30, 2022	—	$ —	532,706	$ 1	$ 403,201	$ (75,989)	$ 8,553	$ 335,766

(1) See Note 11 of Notes to Consolidated Financial Statements.
(2) See Note 14 of Notes to Consolidated Financial Statements

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

Fly Leasing Limited

Consolidated Statement of Shareholders' Equity

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 (UNAUDITED)
(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 December 31, 2020	**100**	**$ —**	**30,481,069**	**$ 31**	**$ 509,738**	**$ 312,967**	**$ (33,740)**	**$ 788,996**
Net loss	—	—	—	—	—	(3,393)	—	(3,393)
Net change in the fair value of derivatives, net of deferred tax of $1,116[(1)]	—	—	—	—	—	—	7,577	7,577
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $121[(1)]	—	—	—	—	—	—	241	241
Balance March 31, 2021	**100**	**$ —**	**30,481,069**	**$ 31**	**$ 509,738**	**$ 309,574**	**$ (25,922)**	**$ 793,421**
Net loss	—	—	—	—	—	(10,112)	—	(10,112)
Net change in the fair value of derivatives, net of deferred tax of $225 [(1)]	—	—	—	—	—	—	1,107	1,107
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $154 [(1)]	—	—	—	—	—	—	461	461
Balance June 30, 2021	**100**	**$ —**	**30,481,069**	**$ 31**	**$ 509,738**	**$ 299,462**	**$ (24,354)**	**$ 784,877**
Net loss	—	—	—	—	—	(173,712)	—	(173,712)
Repurchase and cancellation of manager shares	(100)	—	—	—	—	—	—	—
Net change in the fair value of derivatives, net of deferred tax of $846 [(1)]	—	—	—	—	—	—	3,009	3,009
Conversion into rights to receive merger consideration	—	—	(30,481,069)	(31)	509,769	—	—	—
Merger with Carlyle Aviation Elevate Merger Subsidiary Ltd	—	—	100	—	—	—	—	—
Balance September 30, 2021	**—**	**$ —**	**100**	**$ —**	**$ 509,769**	**$ 125,750**	**$ (21,345)**	**$ 614,174**

(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 NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021 (UNAUDITED)
(Dollars in thousands)

	Note	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Cash Flows from Operating Activities			
Net loss		**$ (116,578)**	**$ (187,217)**
Adjustments to reconcile net loss to net cash flows provided by operating activities:			
Loss (gain) on sale of aircraft	*5*	674	(2,227)
Depreciation	*6(a)*	75,218	89,999
Loss on derecognition of flight equipment	*6(a)*	138,361	—
Gain on deconsolidation of subsidiaries		(8,085)	—
Flight equipment impairment	*17*	—	22,546
Amortization of debt discounts and debt issuance costs	*10*	16,464	6,643
Amortization of lease incentives and other items		576	3,497
Provision for uncollectible operating lease receivables	*6(c)*	—	3,000
Bad debt expense		2,240	—
Fair value loss (gain) on marketable securities	*8*	2,367	(1,073)
(Gain) loss on modification and extinguishment of debt		(11,816)	2,644
(Benefit) provision for deferred income taxes	*12*	(4,045)	565
Realized loss on Portfolio B		—	82,533
Other		(11,790)	80
Changes in operating assets and liabilities:			
Rent receivables		(13,053)	3,460
Other assets		(7,230)	(32,332)
Payable to related parties	*16*	—	5,095
Accounts payable, accrued liabilities and other liabilities		(34,317)	(15,943)
Net cash flows provided by (used in) operating activities		**28,986**	**(18,710)**
Cash Flows from Investing Activities			
Proceeds from sale of aircraft, net	*5*	285,313	45,697
Purchase of aircraft	*6(a)*	(15,028)	—
Payments for aircraft improvement	*6(a)*	(7,323)	(4,658)
Payments for lessor maintenance obligations		—	(1,888)
Advances to ultimate parent	*16*	(2,242)	—
Other		(3,072)	308
Net cash flows provided by investing activities		**257,648**	**39,459**
Cash Flows from Financing Activities			
Security deposits received		1,510	4,230
Security deposits returned		—	(3,988)
Maintenance payment liability receipts		17,384	16,000
Maintenance payment liability disbursements		(12,859)	(6,839)
Debt issuance costs		—	(7,252)
Repayment of secured borrowings	*10*	(772,906)	(138,833)
Repayment of unsecured borrowings		(37,683)	
Debt drawdown		—	101,000
Net cash flows used in financing activities		**(804,554)**	**(35,682)**
Effect of exchange rate changes on unrestricted and restricted cash and cash equivalents		(568)	(80)
Net increase (decrease) in unrestricted and restricted cash and cash equivalents		(517,352)	(15,013)
Unrestricted and restricted cash and cash equivalents at beginning of period		637,090	161,529
Unrestricted and restricted cash and cash equivalents at end of period		**$ 119,738**	**$ 146,516**
Reconciliation to Consolidated Balance Sheets:			
Cash and cash equivalents		$ 34,752	$ 112,790
Restricted cash and cash equivalents		84,986	33,726
Unrestricted and restricted cash and cash equivalents		**$ 119,738**	**$ 146,516**

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

Fly Leasing Limited

Notes to Consolidated Financial Statements (unaudited)

1. ORGANIZATION

Fly Leasing Limited ("Fly") is a Bermuda exempted company that was incorporated on May 3, 2007 (Registration number: 39999), 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"), 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.

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 Variable Interest Entities ("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 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 obligations. The ongoing conflict between Russia and Ukraine, and the related economic sanctions imposed on Russia by the United States (the "U.S."), the European Union (the "EU"), Japan and other countries throughout the world have led to, among other things, volatility in the capital markets, increases in inflation and supply chains issues, all of which have increased these and other risks faced by the Company.

COVID 19 PANDEMIC

The COVID-19 pandemic has had widespread and unprecedented impacts on regional, national and global economies. While many of the severe limitations imposed on travel by various governments have been lifted and travel has recovered from the lows experienced in 2020 and 2021, airlines continue to seek support from their respective governments, raise debt and equity, request concessions from lessors, and in certain cases, seek judicial protection. While domestic air travel has rebounded and is nearing pre-pandemic levels, international travel still lags far behind pre-pandemic levels. As a result, we anticipate that our cash rent collections and operating lease rental revenue will continue to be lower 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.

RUSSIAN INVASION OF UKRAINE

Following the Russian invasion of Ukraine on February 24, 2022, the United States, the European Union and other jurisdictions have 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 (“Regulation 2022/328”). 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 required the cessation of leasing to Russian aircraft operators by March 28, 2022. In order to comply with the sanctions, the Company terminated all six of its leases to Russian airlines prior to March 28, 2022 and is seeking to repossess the applicable aircraft. The Company anticipates the likelihood of successfully repossessing the aircraft to be remote.

For the nine months ended September 30, 2022, the Company recorded a loss on derecognition of flight equipment totaling $138.4 million related to five narrow-body and one wide-body aircraft that were leased to Russian lessees. These aircraft were derecognized as the likelihood of successfully repossessing the aircraft including the related technical records and documentation was considered remote. During the year ended December 31, 2021, the Company recognized $7.6 million (2.9%) of lease revenue from lessees based in Russia. Contracted future rentals from these lessees was $67.8 million (4.7%). The Company held $3.0 million (7.4%) of security deposits and $26.6 million (12.9%) of maintenance reserves against these leases. These amounts were retained by the Company. As of December 31, 2021, there was accounts receivable of $1.7 million (3.4%) due from these lessees. These receivables, together with the receivables that came due in 2022 prior to derecognition of the assets totaling $2.2 million, were fully written off as of September 30, 2022.

The Company is pursuing all available insurance claims in respect of the six aircraft on lease to Russian airlines, but it is likely that the administration of the claims will take some time and no assurance can be given as to the outcome of the claims. Our lessees are required to provide insurance coverage with respect to leased aircraft and we are named as “Contract Parties” (additional insureds) under those policies. We also purchase insurance which provides us with coverage when our flight equipment is not subject to a lease (or is in the course of repossession from a lessee) or where a lessee’s policy fails to indemnify us. We have submitted insurance claims with respect to all six of our aircraft and engines remaining in Russia and intend to pursue all of our claims under these policies with respect to our assets leased to Russian airlines. Our claims are subject to the terms of the applicable policies and, given the magnitude of potential claims, we anticipate that insurers and reinsurers may raise various objections and other defenses. Accordingly, we can give no assurance as to what amounts we may ultimately collect, if any or as to the timing of any such collections. Insurance recoveries are generally recognized when they are realized or realizable, which typically occurs at the time cash proceeds are received or a claim agreement is executed, and also considers the counterparty’s ability to pay the claim amount. Since the collection, timing and amount of any recoveries under these insurance policies are uncertain, we have not recognized any claim receivables as of September 30, 2022.

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 broader effect on the global economy, in general, and the aviation industry, in particular. Increased fuel prices, inflation, and airlines rerouting flights because of bans on the use of airspace have already and will likely continue to place additional financial pressure on already strained airlines. In addition, to the extent the conflict causes a significant adverse effect on the global economy it could lead to customers, especially leisure customers, forgoing flying and choosing cheaper alternatives. The specific impacts on the Company may include the inability of airline 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.

NEW ACCOUNTING PRONOUNCEMENTS

In March 2022, the Financial Accounting Standards Board (the "FASB") issued ASU 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method,* which clarifies the guidance in ASC 815 on fair value hedge accounting of inherent rate risk for portfolios of financial assets. The ASU amends the guidance in ASU 2017-12 (released on August 28,2017) that, among other things, establishes the "last layer" method for making the fair value hedge accounting for these portfolios accessible. ASU 2022-01 renames that method the "portfolio layer" method and addresses feedback from stakeholders regarding its application.

The FASB's objectives in issuing ASU 2017-12 were to better align an entity's financial reporting with the results of its risk management strategy and to improve the hedge accounting model by simplifying it. To that end, the FASB also issued a proposed ASU on November 12, 2019, that would clarify certain amendments made by ASU 2017-12; however, those are unrelated to portfolio fair value hedge accounting. The proposal has not yet been finalized. The Company does not expect the adoption of the standard to have a material effect on the Company's consolidated financial statements.

In March, 2022, the FASB issued ASU 2022-02, which eliminates the accounting guidance on troubled debt restructurings (TDRs) for creditors in ASC 310-40 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancing and restructurings for borrowers experiencing financial difficulty. The Company does not expect the adoption of the standard to have a material effect on the Company's consolidated financial statements.

In June, 2022, the FASB issued ASU 2022-03, which aims to (1) clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of the equity security, (2) amend the related illustrative example, and (3) introduce new disclosure requirements for such securities that are measured at fair value in accordance with Topic 820. The Company does not expect the adoption of the standard to have a material effect on the Company's consolidated financial statements.

In September 2022, the FASB issued ASU 2022-04, Disclosure of Supplier Finance Program Obligations, which adds to the Codification a new Subtopic. ASC 405-50, Liabilities – Supplier Finance Programs. ASC 405-50 requires certain annual and interim disclosures for buyers involved in supplier finance programs, which are also referred to as reverse factoring, payables finance, or structured payables arrangements. The Company does not expect the adoption of the standard to have a material effect on the Company's consolidated financial statements.

3. SUPPLEMENTAL DISCLOSURE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended	
	September 30, 2022	**September 30, 2021**
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	$ 95,142	$ 59,566
Taxes	—	5
Noncash Activities:		
Security deposits applied to rent receivables, maintenance payment liability and other liabilities	4,715	7,603
Maintenance payment liability applied to rent receivables, maintenance rights, and other liabilities	3,223	3,244
Other liabilities applied to security deposits, maintenance payment liability and rent receivables	—	1,820
Noncash investing activities:		
Aircraft improvement	—	22,763
Sale of flight equipment	—	4,240

As of September 30, 2022, subsidiaries of the Company had $54.0 million in aggregate principal amount outstanding under a debt facility with Norddeutsche Landesbank Gironzentrale (the "Nord LB Facility"), which was secured by three aircraft and matured on August 13, 2021. The Nord LB Facility was not recourse to Fly or any of its subsidiaries other than the borrowers (each of which owned a single aircraft). The debt was not repaid at maturity. Since the aircraft securing the Nord LB Facility had an aggregate fair market value that was less than the principal amount of the facility, the Company determined the best course of action was to have the lenders appoint a liquidator to sell the entities and/or relevant aircraft. As a result of the appointment of a liquidator to the subsidiaries, the following assets and liabilities were de-consolidated from the consolidated balance sheet subsequent to period end. The consolidated statement of cash flow excludes the non-cash movements as a result of the de-consolidation of these subsidiaries. See "Note 10. Secured Borrowings."

		September 30, 2022
Assets		
Cash and cash equivalents	$	603
Restricted cash and cash equivalents		2,469
Investment in finance lease, net		8,296
Flight equipment held for operating lease, net		27,456
Deferred tax asset		5,747
Maintenance rights		12,531
Other assets, net		5
Total assets	**$**	**$57,107**
Liabilities		
Accounts payable and accrued liabilities	$	8,728
Security deposits		1,869
Secured borrowings, net		54,304
Total liabilities	**$**	**64,901**
Net Liabilities	**$**	**(7,794)**

4. INVESTMENT IN FINANCE LEASE

At December 31, 2021, the Company had one aircraft classified as an investment in finance lease, which had an implicit interest rate of 5%. The aircraft was owned by one of the borrowers under the Nord LB Facility for which a liquidator was appointed by the lenders as further described in "Note 10. Secured Borrowings." Consequently, the investment in finance lease has been de-consolidated as at September 30, 2022, as the Company no longer maintains control over this entity.

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

	September 30, 2022		December 31, 2021	
Total minimum lease payments receivable	$	4,950	$	6,000
Estimated unguaranteed residual value of leased asset		4,227		4,227
Unearned finance income		(880)		(1,138)
De-consolidated		(8,297)		—
Net investment in finance lease	**$**	**—**	**$**	**9,089**

There are no contracted future minimum rental payments due under the non-cancellable finance lease as of September 30, 2022.

5. FLIGHT EQUIPMENT HELD FOR SALE

At September 30, 2022, the Company had no aircraft classified as flight equipment held for sale.

At December 31, 2021, the Company had three wide-body aircraft classified as flight equipment held for sale amounting to $278.0 million. These aircraft were on lease to a lessee in India. In January 2022, these aircraft were sold to a third party for $284.5 million resulting in a gain of $9.6 million. The debt associated with these aircraft was subsequently repaid from the proceeds from the sale.

6. FLIGHT EQUIPMENT HELD FOR OPERATING LEASE, NET

(a) Flight equipment held for operating lease

As of September 30, 2022, the Company had 68 aircraft and seven engines held for operating lease, of which 67 aircraft and seven engines were on lease to 35 lessees in 23 countries and 1 aircraft was off-lease. As of December 31, 2021, the Company had 76 aircraft (including six aircraft on lease to airlines in Russia) and 7 engines held for operating lease, of which 74 aircraft and seven engines were on lease to 41 lessees in 22 countries and two aircraft were off lease.

In March 2022, the Company derecognized five narrow-body and one wide-body aircraft which were leased to Russian lessees. These aircraft were derecognized as the likelihood of successfully repossessing the aircraft, including the related technical records and documentation, was considered remote. The net book value of these aircraft amounted to $139.9 million. These aircraft are no longer part of the Company's fleet.

The Company purchased one narrow-body aircraft for $15.5 million during the nine months ended September 30, 2022. The Company disposed of one narrowbody aircraft that was held for operating lease during the nine months ended September 30, 2022. Both these aircraft were included in the AASET 2021-1 transaction described in Note 10. Secured borrowings below. The Company did not purchase any flight equipment during the nine months ended September 30, 2021.

Two of the Company's aircraft held under operating leases were financed by borrowings from the Nord LB Facility, for which a liquidator was appointed by the lenders, during the period ended September 30,2022, as further described in "Note 10. Secured Borrowings." Consequently, the aircraft have been de-consolidated as at September 30, 2022, as the Company no longer maintains control over these aircraft.

For the nine-month period ended September 30, 2022, the net loss on disposal of aircraft taking into account the gain on sale of flight equipment held for sale as disclosed in "Note 5 – Flight Equipment Held for Sale", amounted to $0.6 million.

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

	September 30, 2022	December 31, 2021
Cost	$ 2,633,455	$ 2,892,802
Accumulated depreciation and impairment	(752,155)	(774,293)
Flight equipment held for operating lease, net	**$ 1,881,300**	**$ 2,118,509**

The Company capitalized $7.3 million of major maintenance during the nine months ended September 30, 2022. The Company capitalized $26.3 million of major maintenance during the nine months ended September 30, 2021.

The Company recognized depreciation expense amounting to $75.2 million for the nine months ended September 30, 2022. The Company recognized depreciation expense amounting to $90.0 million for the nine months ended September 30, 2021.

The Company recognized no additional provision for aircraft impairment for the nine months ended September 30, 2022. The Company recognized provision for aircraft impairment amounting to $22.5 million for the nine months ended September 30, 2021, related to two narrow-body aircraft.

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):

	September 30, 2022		December 31, 2021	
Europe:				
Spain	$ 142,387	8%	$ 147,357	7%
France	122,638	7%	128,109	6%
Other	172,849	9%	299,782	15%
Europe — Total	**437,874**	**24%**	**575,248**	**28%**
Asia and South Pacific:				
India	109,539	6%	106,211	5%
Malaysia	370,891	20%	382,548	18%
Indonesia	190,144	10%	196,100	9%
China	103,285	5%	135,826	6%
Philippines	138,442	7%	142,742	7%
Other	147,627	8%	153,631	7%
Asia and South Pacific — Total	**1,059,928**	**56%**	**1,117,058**	**53%**
Mexico, South and Central America — Total	**15,265**	**1%**	**63,133**	**3%**
North America:				
United States	65,215	3%	51,118	2%
North America — Total	**65,215**	**3%**	**51,118**	**2%**
Africa:				
Ethiopia	275,882	15%	283,219	13%
Africa — Total	**275,882**	**15%**	**283,219**	**13%**
Off-Lease — Total	**27,136**	**1%**	**28,731**	**1%**
Total flight equipment held for operating lease, net	**$ 1,881,300**	**100%**	**$ 2,118,509**	**100%**

(b) Lease revenue from flight equipment under operating leases

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 distribution of operating lease revenue by geographic region for the three months ended September 30, 2022 and 2021 is as follows (dollars in thousands):

	Three months ended			
	September 30, 2022		**September 30, 2021**	
Europe:				
Spain	$ 2,682	6%	$ 1,594	3%
France	4,837	10%	2,738	5%
Other	5,980	12%	3,079	5%
Europe — Total	**13,499**	**28%**	**7,411**	**13%**
Asia and South Pacific:				
India	1,716	4%	10,472	21%
Malaysia	11,229	23%	11,681	23%
Indonesia	3,699	8%	877	2%
China	3,500	7%	3,662	7%
Philippines	1,267	3%	794	2%
Other	2,910	5%	4,396	9%
Asia and South Pacific — Total	**24,321**	**50%**	**31,882**	**64%**
Mexico, South and Central America — Total	**1,379**	**3%**	**448**	**1%**
North America:				
United States	516	1%	1,763	3%
North America — Total	**516**	**1%**	**1,763**	**3%**
Middle East and Africa:				
Ethiopia	7,505	15%	7,505	15%
Other	1,366	3%	1,886	4%
Middle East and Africa — Total	**8,870**	**18%**	**9,391**	**19%**
Total Operating Lease Revenue	**$ 48,586**	**100%**	**$ 50,895**	**100%**

The distribution of operating lease revenue by geographic region for the nine months ended September 30, 2022 and 2021 is as follows (dollars in thousands):

	Nine months ended			
	September 30, 2022		September 30, 2021	
Europe:				
Spain	$ 7,385	4%	$ 6,629	4%
France	15,472	8%	8,181	4%
Other	49,721	27%	14,502	8%
Europe — Total	**72,578**	**39%**	**29,312**	**16%**
Asia and South Pacific:				
India	7,647	4%	59,385	32%
Malaysia	34,731	19%	33,662	18%
Indonesia	7,118	4%	2,525	1%
China	10,337	6%	13,262	7%
Philippines	7,196	4%	3,930	2%
Other	10,642	6%	7,036	4%
Asia and South Pacific — Total	**77,671**	**42%**	**119,800**	**65%**
Mexico, South and Central America — Total	**4,140**	**2%**	**439**	0%
North America:				
United States	3,822	2%	7,484	4%
North America — Total	**3,822**	**2%**	**5,721**	**4%**
Middle East and Africa:				
Ethiopia	22,514	12%	22,514	12%
Other	3,847	2%	4,335	3%
Middle East and Africa — Total	**26,361**	**14%**	**26,849**	**15%**
Total Operating Lease Revenue	**$ 184,572**	**100%**	**$ 183,884**	**100%**

For the three months ended September 30, 2022, the Company had two customers (Ethiopian Airlines and AirAsia Berhad), that accounted for 10% or more of total operating lease revenue at 12% and 10% respectively. For the nine months ended September 30, 2022, the Company had one customer (Ethiopian Airlines) that accounted for 10% or more of total operating lease revenue at 12%. For the three months ended September 30, 2021, the Company had three customers (Air India, AirAsia Berhad and Ethiopian Airlines) that accounted for 10% or more of total operating lease revenue at 21%, 23% and 15%, respectively. For the nine months ended September 30, 2021, the Company had three customers (Air India, AirAsia Berhad and Ethiopian Airlines) that accounted for 10% or more of total operating lease revenue at 32%, 18%, and 12%, respectively.

For the three and nine months ended September 30, 2022, the Company recognized end of lease income, which is included in operating lease revenue, of $1.6 million and $38.1 million, respectively. For the three and nine months ended September 30, 2021, the Company recognized end of lease income, which is included in operating lease revenue, of $0.5 million and $26.9 million, respectively.

For the three and nine months ended September 30, 2022, amortization of lease incentives/premium recorded as a reduction of operating lease revenue totaled $1.2 million and $3.8 million, respectively. For the three and nine months ended September 30, 2021, amortization of lease incentives/premium recorded as a reduction of operating lease revenue totaled $1.2 million and $3.5 million, respectively.

At September 30, 2022, lease incentive amortization for the next five years and thereafter is as follows (dollars in thousands):

		(Dollars in thousands)
October 1 through December 31, 2022	$	1,396
Year ending December 31		
2023		2,038
2024		1,168
2025		1,459
2026		1,468
2027		1,162
Thereafter		501
Future amortization of lease incentives	**$**	**9,192**

(c) Rent receivables and rent deferrals

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 led the Company to place a number of lessees on non-accrual status in 2021 and 2022.

At September 30, 2022, the Company had 11 lessees, leasing a total of 18 aircraft and one engine, on non-accrual status, as the Company determined that it was not probable it 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. As a result, the Company will only recognize revenues related to these lessees upon receipt of payment. During the three months ended September 30, 2022, the Company recognized $0.3 million of operating lease revenue from these lessees as a result of cash receipts from these lessees and would have recognized $13.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 30, 2022, the Company recognized $13.2 million of operating lease revenue from these lessees, and would have recognized $28.8 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At September 30, 2021, the Company had 11 lessees, leasing a total of 20 aircraft and one 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. During the three months ended September 30, 2021, the Company recognized $2.9 million of operating lease revenue from these lessees, and would have recognized $18.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 30, 2021, the Company recognized $15.4 million of operating lease revenue from these lessees, and would have recognized $50.5 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

As of September 30, 2022, the Company had 11 agreements in place with 4 lessees to defer their rent payment obligations for 11 aircraft totaling $34.0 million due to the Company over the life of the leases. These deferrals are for an average of 13 months with approximately 45% of the deferrals to be repaid by the end of 2022. The Company has also agreed to lease restructurings with certain of its 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 September 30, 2022. 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 (Dollars in thousands)		Scheduled Deferral Repayments (Dollars in thousands)	
2021	$	21,131	$	12,347
2022		12,886		3,050
2023		—		2,170
Thereafter		—		16,450
Total	**$**	**34,017**	**$**	**34,017**

As of September 30, 2022 and December 31, 2021, the weighted average remaining lease term of the Company's aircraft held for operating lease was 5.8 years and 4.8 years, respectively. The increase is mainly driven by the derecognition of six aircraft on lease to Russian lessees due to the invasion of Ukraine.

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 three months ended September 30, 2022, the Company recognized $48.6 million of operating lease rental revenue, $2.5 million of which was from leases with variable rates. For the nine months ended September 30, 2022, the Company recognized $184.6 million of operating lease rental revenue, $2.5 million of which was from leases with variable rates. For the three months ended September 30, 2021, the Company recognized $50.9 million of operating lease rental revenue, $8.8 million of which was from leases with variable rates. For the nine months ended September 30, 2021, the Company recognized $183.9 million of operating lease rental revenue, $26.3 million of which was from leases with variable rates.

Variable rents are 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 September 30, 2022. For leases that have floating rental rates, the future minimum rental payments assume that LIBOR as of September 30, 2022, is constant for the duration of the lease.

	(Dollars in thousands)
October 1 through December 31, 2022	$ 54,095
Year ending December 31	
2023	194,012
2024	175,798
2025	166,457
2026	155,528
2027	125,490
Thereafter	148,595
Future minimum rental payments under operating leases	**$ 1,019,975**

The balances of Company's rent receivables are as follows:

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Rent receivables, gross	48,161	42,051
Allowance for doubtful accounts	(7,000)	(7,000)
Rent receivables, net	**$ 41,161**	**$ 35,051**

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 three months and nine months ended September 30, 2022, the Company recorded no provision for uncollectible operating lease receivables. During the three months and nine months ended September 30, 2021, the Company recorded provisions for uncollectible operating lease receivables of $2.0 and $3.0 million, respectively.

As of each of September 30, 2022 and December 31, 2021, the Company had an allowance for uncollectible operating lease receivables of $7.0 million and $7.0 million, respectively.

7. MAINTENANCE RIGHTS

The balances of the Company's maintenance right assets as of September 30, 2022 and December 31, 2021 were as follows (dollars in thousands:

	Nine months ended	
	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Maintenance rights	$ 235,394	$ 247,237
Maintenance rights	**$ 235,394**	**$ 247,237**

Changes in maintenance right assets, during the nine months ended September 30, 2022 and 2021 were as follows (dollars in thousands):

	Nine months ended	
	September 30, 2022	September 30, 2021
	(Dollars in thousands)	
Maintenance rights, beginning balance	$ 247,237	$ 279,124
Capitalized to aircraft improvements	—	(22,471)
Maintenance rights offset against end of lease income	—	(7,847)
Maintenance rights associated with aircraft sold or derecognised	(11,843)	(2,232)
Maintenance rights, ending balance	**$ 235,394**	**$ 246,574**

8. OTHER ASSETS

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

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Collateral placed	$ 23,000	$ 23,000
Equity certificates	645	3,013
Value added tax receivables	4,086	5,360
Inventories	4,002	6,037
Lease intangibles	3,664	6,309
Other assets	21,485	15,703
Total other assets	**$ 56,882**	**$ 59,422**

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 the life of the lease. 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 three months ended September 30, 2022 and September 30, 2021, the Company recognized income of $0.1 million and $0.1 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 and is included in other assets.

In 2018 and 2019, the Company purchased $5.7 million, or 4%, $7.4 million, or 6%, and $3.1 million, or 3%, of the equity certificates issued by Horizon I Limited, Horizon II Limited and Horizon III Limited, respectively, each of which were issued in connection with ABS transactions consummated by entities affiliated with Fly. For the nine months ended September 30, 2022, the Company recognized an unrealized fair value loss $2.4 million related to the write down of these equity certificates to estimated fair value. After the write-down, the carrying value of investment in equity certificates was $0.65 million as of September 30, 2022. For the nine months ended September 30, 2021, the Company recognized an unrealized fair value gain of $1.6 million related to the revaluation of the equity certificates to estimated fair value. After the write-down, the carrying value of investment in equity certificates was $4.5 million as of

September 30, 2021. It is expected that the fair value of investment in equity certificates will remain volatile while the COVID-19 pandemic and Russian invasion of Ukraine continues to affect the market for such securities.

Concurrently with the execution of the Merger Agreement, the Company entered into a turnover agreement (the “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	
	September 30, 2022	**December 31, 2021**
	(Dollars in thousands)	
Outstanding principal balance:		
2024 Notes	8,665	9,553
New Notes	341,228	390,307
Total outstanding principal balance	349,893	399,860
Unamortized debt discounts and loan costs	(3,510)	(5,224)
Unsecured borrowings, net	**$ 346,383**	**$ 394,636**

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, Carlyle Aviation Elevate Merger Subsidiary Ltd (“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.

In September 2022, the Company repurchased $0.8 million of the 2024 Notes at an average discount to par of 33% for $0.6million in aggregate consideration and $49.0 million of the New Notes at an average discount to par of 24% for $37.0 million in aggregate consideration.

As of September 30, 2022, $8.7 million of the 2024 Notes remained outstanding and $341.3 million of New Notes (including the Additional Notes) were outstanding. Each of the 2024 Notes and New Notes mature on October 15, 2024.

As of September 30, 2022, accrued interest on the New Notes was $11.0 million. As of September 30, 2022, accrued interest on the 2024 Notes was $0.1 million. 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.
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 related to non-recourse debt, and (vi) certain events of bankruptcy or insolvency with respect to Fly or a significant subsidiary.

As of September 30, 2022, the Company was not in default under either of the Indentures.

Subsequent to period end, the Company obtained board authorization to repurchase an additional $50 million face value of unsecured notes. Following the Board's approval, the Company successfully completed the repurchase of $0.2 million of the 2024 notes at an average discount to par of 26% for $0.16 million in aggregate consideration, and $49.8 million of the New Notes at an average discount to par of 20% for $39.9 million in aggregate consideration.

The Company may seek additional Board authorization to pursue the opportunistic repurchase of its 2024 and New Notes from time-to-time. Repurchases may occur through open market purchases, privately negotiated transactions, 10b-5 trading plans and will depend on market conditions.

10. SECURED BORROWINGS

The Company's secured borrowings, net balance as of September 30, 2022 and December 31, 2021 are presented below (dollars in thousands):

	Outstanding principal balance as of		Weighted average interest rate(1) as of		
	September 30, 2022(2)	December 31, 2021(2)	September 30, 2022	December 31, 2021	Maturity date
Nord LB Facility	—	58,774	4.21%	2.44%	August 2025
2012 Term Loan	320,096	337,282	3.69%	3.13%	August 2025
2020 Term Loan	—	160,295	7.00%	7.00%	October 2025
Magellan Acquisition Limited Facility	198,507	221,248	4.34%	3.90%	December 2025
Fly Aladdin Acquisition Facility	93,049	206,312	2.95%	4.79%	June 2023
Fly Aladdin Engine Funding Facility	—	8,535	4.95%	4.95%	April 2022
Other Aircraft - Secured Borrowings	90,928	454,779	3.31%	3.08%	February 2023 – June 2028
Class A Notes(3)	498,356	574,612	2.95%	2.95%	October 2028
Class B Notes(3)	109,894	114,969	3.80%	3.80%	October 2028
Class C Notes(3)	62,587	67,038	5.82%	5.82%	December 2027
Total outstanding principal balance	**1,373,417**	**2,203,844**			
Unamortized debt discounts and loan costs	(24,584)	(41,370)			
Total secured borrowings, net	**$ 1,348,833**	**$ 2,162,474**			

(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 September 30, 2022 and December 31, 2021, accrued interest on secured borrowings totaled $16.3 million and $13.3 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 September 30, 2022, the Company was not in default under any of its secured borrowings, with the exception of the Nord LB Facility. See below for additional details.

Nord LB Facility

The Company had previously entered into a non-recourse debt facility with Norddeutsche Landesbank Gironzentrale (the "Nord LB Facility"), which was secured by three aircraft. The Nord LB Facility was structured with three separate loans secured by each aircraft individually. The loans were cross-collateralized and contained cross-default provisions. The loans under the Nord LB Facility bore 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 notified the servicer under the facility that an event of default had occurred.. The facility was 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 was less than the amount of loans and accrued interest outstanding. Subsequent to the default, the loans bore interest at one-month LIBOR plus a margin of (i) 1.85% and (ii) 2.00% of default interest.

During the nine months ended September 30, 2022, in association with the Nord LB Facility, the lenders have brought a petition to the High Court in Ireland to wind up the subsidiaries in question under Section 569 of the Companies Act 2014. The High Court of Ireland ruled the subsidiaries should be wound up on a solvent basis and a liquidator was duly appointed by the court. Subsequent to the appointment of the liquidator, the Company has deconsolidated the Nord LB Facility from its balance sheet.

The event of default under the Nord LB Facility and related actions taken by the lenders and agents under the facility do not trigger a cross-default or cross-acceleration under any of the Company's other debt instruments.

2012 Term Loan

As of September 30, 2022, the Company had $320.1 million principal amount outstanding under its senior secured term loan (the "2012 Term Loan"), 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 breached of the LTV ratio covenant as of September 30, 2022. This was cured subsequent to the period end via a cash payment posted to the cash collateral account to cure the deficiency. The Company was in compliance with all other covenants and requirements as of September 30, 2022.

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, subject to customary exceptions for among other things non-recourse debt, 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, 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 to par value of 4.5%. The 2020 Term Loan incurred interest at three-month LIBOR plus a margin of 6.00%, with a LIBOR floor of 1.00% and required quarterly principal payments of 1.25% of the original loan amount.

In August 2022, the Company repaid in full the $11.3 million of principal that was outstanding on the 2020 Term Loan balance. Prior to that amounts were repaid with the proceeds of the AASET 2021-1 transaction.

Magellan Acquisition Limited Facility

As of September 30, 2022, the Company had $198.5 million principal amount outstanding in loans and notes under one of its term loan facilities (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. As of September 30, 2022 the Company had $178.3 million principal outstanding in loans and $20.2 million principal outstanding in notes.

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 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 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 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 triggered a cash sweep under the facility. The ICR breach was subsequently cured in April 2021. A further ICR breach occurred in July 2021 which was subsequently cured in January 2022. No further breaches of the ICR covenant have occurred since.

In July 2021, the Company made a prepayment in the amount of $4.4 million to cure the LTV deficiency. No further breaches of the LTV covenant have occurred since.

The Company was in compliance with all covenants and requirements under the Magellan Acquisition Limited Facility as of September 30, 2022.

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 September 30, 2022, the Company had an aggregate of $93.1 million principal amount outstanding of Series B loans under one of its term loan facilities (the "Fly Aladdin Acquisition Facility"), which was secured by 13 aircraft. During the nine months ended September 30, 2022, the Company prepaid $89.2 million of the principal amount outstanding. 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) an 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 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 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 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 was initially breached in the third quarter of 2020 and remained in a breached position as of September 30, 2022. 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 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

The Company repaid the entire principal amount outstanding under one of its term loan facilities (the "Fly Aladdin Engine Funding Facility"), which was secured by two engines, on its maturity date of April 30, 2022.

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 Euro. In connection with the AASET 2021-1 transaction, during the nine months ended September 30, 2022, the Company prepaid $172.1 million of the principal amounts outstanding under certain of its debt facilities. Included in these prepayments was the borrowing denominated in Euro. As of September 30, 2022, the Company had $90.9 million principal amount outstanding of other aircraft secured borrowings, which were secured by 2 aircraft. The entire balance of other aircraft secured borrowings were 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 2021-1 Trust ("AASET") consummated its offering of $620,000,000 aggregate principal amount of its 2.950% Class A Fixed Rate Secured Notes Series 2021-1 (the "Class A Notes"), $124,157,000 aggregate principal amount of its 3.800% Class B Fixed Rate Secured Notes Series 2021-1 (the "Class B Notes") and $73,425,000 aggregate principal amount of its 5.822% 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 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"). 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 of September 30, 2022, $670.8 million in aggregate principal amount remained outstanding under the AOE Notes issued by AASET International, and there were no events of default during the nine months ended September 30, 2022.

Future Minimum Principal Payments on Secured Borrowings

During the nine months period ended September 30, 2022, the Company made principal payments of $776.9 million on its secured borrowings primarily using proceeds from the AASET 2021-1 transaction. The anticipated future minimum principal payments due for its secured borrowings are as follows (dollars in thousands):

		(Dollars in thousands)
October 1 through December 31, 2022	$	21,791
Year ending December 31		
2023		148,594
2024		68,503
2025		422,957
2026		13,041
Thereafter		698,531
Future minimum principal payments due	**$**	**1,373,417**

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 September 30, 2022, the Company had $602.8 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 September 30, 2022 and December 31, 2021, the Company had interest rate swap contracts with notional amounts aggregating $435 million and $581.6 million, respectively. The unrealized fair value loss on the interest rate swap contracts, reflected as derivative assets, is $11.1 million as of September 30, 2022. The unrealized fair value gain on the interest rate swap contracts, reflected as derivative liabilities, was $22.8 million as of December 31, 2021.

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 $33.8 million in U.S. dollars. The unrealized fair value gain, reflected as a derivative asset, was $6.5 million and $4.2 million as of September 30, 2022 and December 31, 2021, 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 three and nine months ended September 30, 2022, the Company recorded $2.7 million and $12.7 million, respectively, of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

During the three and nine months ended September 30, 2021, the Company recorded $4.5 million and $11.1 million, respectively, 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 September 30, 2022, the Company had the following designated derivative instrument classified as derivative assets on its balance sheet (dollars in thousands):

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Gain Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Interest rate swap contracts .	20	2/9/23-12/8/25	2.28%-3.01%	$ 336,027	$ 9,824	$ 8,412
Accrued interest	—			—	26	—
Total – designated derivative assets as of September 30, 2022	**20**			**$ 336,027**	**$ 9,850**	**$ 8,412**

As of September 30, 2022, 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 September 30, 2022 (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	$ 31,350	$ 6,522	$ 2,453
Accrued rent	—			-	35	-
Total - dedesignated derivative asset as of September 30, 2022	**1**			**$ 31,350**	**$ 6,557**	**$ 2,453**

At September 30, 2022, the Company had an accumulated other comprehensive gain, net of deferred tax, of $2.4 million, which will be amortized over the remaining term of the cross currency swap contract. During the nine months ended September 30, 2022, the Company reclassified $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 and other prepayments. As of September 30, 2022, the Company had the following dedesignated derivative instruments classified as derivative assets 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%	$ 67,437	$ 1,267	(2,313)
Accrued interest	—			-	(31)	-
Total – dedesignated derivative assets as of September 30, 2022	**11**			**$ 67,437**	**$ 1,236**	**(2,313)**

At September 30, 2022, the Company had an accumulated other comprehensive loss, net of deferred tax, of $2.3 million attributable to both dedesignated interest rate swaps and terminated interest rate swaps that 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. During the nine months ended September 30, 2022, the Company amortized $1.2 million, from accumulated other comprehensive loss, net of deferred tax, to interest expense.

12. INCOME TAXES

Fly is a tax resident of Ireland and has wholly owned subsidiaries in Ireland, France, Luxembourg, Malta, Bermuda 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.

The Company's effective tax rates were 9.8% and 3.2% for the three and nine months ended September 30, 2022, respectively. The Company's effective tax rates were (9.8)% and (4.1)% for the three and nine months ended September 30, 2021, 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 three and nine months ended September 30, 2021, the Company incurred certain merger related expenses that are not expected to be tax deductible.

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.

The Company had no unrecognized tax benefits as of September 30, 2022 and December 31, 2021. The recent planned increase of the corporation tax rate from 12.5% to 15.0% is not expected to have material impact on the financial statements of the Company.

13. OTHER LIABILITIES

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

	September 30, 2022	December 31, 2021
	(Dollars in thousands)	
Current tax payable	$ 42	$ 42
Lease discount	68	1,900
Lease incentive obligation	9,191	9,650
Deferred rent payable	660	15,334
Refundable deposits	1,215	320
Other	6,513	10,364
Total other liabilities	**$ 17,689**	**$ 37,610**

14. SHAREHOLDERS' EQUITY

Share transactions

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 became a wholly owned by Parent.

Prior to the Merger, Fly had 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 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 became one validly issued, fully paid and non-assessable common share of Fly.

During the three months ended September 30, 2022, the Company sold 1,000,000 common shares with a par value of $0.001 to the Company's parent company Carlyle Aviation Fly Ltd (the "Parent").

During the three and nine months ended September 30, 2022, the Company entered into a series of transactions with the Parent, that resulted in the ultimate acquisition from the Parent of 467,394 common shares of the Company for a total purchase price of $106.6 million pursuant to the terms of the repurchase agreement between the Company and the Parent. The purchase price was settled with amounts otherwise due to the Company and previously recorded on the Company's Consolidated Balance Sheet as *Amounts due from related parties*.

As of September 30, 2022, the Company had 532,706 common shares issued and outstanding and no other capital stock outstanding.

The Company did not issue nor repurchase any shares during the three and nine months ended September 30, 2021.

Dividends

No dividends were declared or paid during the three and nine months ended September 30, 2022 and 2021.

15. 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 three and nine months ended September 30, 2022, the Company recognized income of $0.1 million and $0.3 million, respectively, related to the amortization of the residual guarantee fees. During each of the three and nine months ended September 30, 2021, the Company recognized income of $0.1 million and $0.3 million, respectively. 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 as of September 30, 2022 and December 31, 2021.

16. RELATED PARTY TRANSACTIONS

Servicer and Manager

Prior to the Merger, BBAM Limited Partnership and its subsidiaries (collectively, "BBAM"), the Company's former manager, 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.

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 Fly Leasing Co. Limited (the "BBAM Manager") and the Carlyle Manager entered into 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. BBAM is still entitled to receive minimal servicing fees as a result of continuing to be named servicer under the original contracts.

Servicer and Manager Fees paid to BBAM

For the three and nine months ended September 30, 2022, BBAM received servicing and administrative fees totaling $0.5 million and $3.2 million, respectively. For the three and nine months ended September 30, 2021, BBAM received servicing and administrative fees totaling $0.9 million and $1.7 million, respectively. As of September 30, 2022 and December 31, 2021, respectively, the Company has a total of $4.3 million and $2.6 million of servicing and administrative fees payable to BBAM. During the three and nine months ended September 30, 2022, the Company incurred disposition fees of $nil and $4.9 million, respectively, payable to BBAM. During the three and nine months ended September 30, 2021, the Company incurred disposition fees of $0.5 million and $0.9 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. As a result of the consummation of the Merger, the Company is no longer required to pay annual management fees to BBAM. For the three and nine months ended September 30, 2021, the Company incurred management fees of $1.7 million and $3.4 million, respectively.

Sub-Servicer and Manager Fees paid to the Carlyle Manager

After the consummation of the Merger in 2021, the Company incurred $2.2 million and $0.4 million, respectively, in sub-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. The total sub-servicing and administrative fees incurred for the three months period ended September 30, 2022 amounted to $1.2 million. The total sub-servicing and administrative fees incurred for the nine months period ended September 30, 2022 amounted to $5.8 million.

AASET 2021-1

Carlyle Aviation also acts as servicer for AASET International. During the nine months ended September 30, 2022, the Company incurred $2.5 million of service fees payable to Carlyle Aviation.

In connection with the AASET 2021-1 transaction, AASET International acquired 9 narrowbody aircraft in 2021. It has acquired a further 20 aircraft as of September 30, 2022. Of these 29 aircraft, 5 were purchased from the Ultimate Parent, with the remaining 24 already being part of Fly's portfolio and transferred among subsidiaries. In relation to the ABS aircraft transactions and the resultant cash flows, cash payments of $140.2 million as of September 2022 and $100.1 million as of December 2021 were advanced to the Ultimate Parent. Advances to the Ultimate Parent of $108.0 million and amounts payable to the Ultimate Parent of $32.2 million were settled during the period ended September 30, 2022, leaving no amounts receivable from the Ultimate Parent. At September 30, 2022, there is an amount payable to the Ultimate Parent of $9.2 million. The balance due at December 31, 2021 were offset by amounts owed to Ultimate Parent of $15.4 million. The amounts owed to Ultimate Parent relate to general expenses paid on behalf of the Company.

17. 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 three and nine months ended September 30, 2022, the Company recognized an unrealized fair value loss of $0.4 million and $2.4 million, respectively, on its investment in equity certificates to write down the equity certificates to estimated fair value. For the three and nine months ended September 30, 2021, the Company recognized an unrealized fair value loss of $0.5 million and an unrealized fair value gain of $1.1 million, respectively, on its investment in equity certificates to mark 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. During the nine months ended September 30, 2022, the Company did not record any impairment charge on its aircraft. During the nine months ended September 30, 2021, the Company recorded an impairment charge of $22.5 million related to two off-lease aircraft that have been classified as flight equipment held for sale.

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

	As of September 30, 2022		As of December 31, 2021	
	Principal Amount Outstanding	Fair Value	Principal Amount Outstanding	Fair Value
2012 Term Loan	$ 320,096	$ 268,881	$ 337,282	$ 330,958
2020 Term Loan	-	-	160,295	155,085
Magellan Acquisition Limited Facility	198,507	248,134	221,248	215,717
Fly Aladdin Acquisition Facility	93,049	89,211	206,312	204,766
New Notes	341,228	255,921	390,307	386,096
2024 Notes	8,665	6,175	9,553	9,331
Class A Notes	498,356	397,504	574,612	563,126
Class B Notes	109,894	76,090	114,969	108,662
Class C Notes	62,587	41,031	67,038	62,055

As of September 30, 2022, and December 31, 2021, 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
September 30, 2022:				
Derivative assets	—	$ 17,690	—	$ 17,690
Derivative liabilities	—	(48)	—	(48)
Investment in equity certificates	—	645	—	645
December 31, 2021:				
Derivative assets	—	$ 4,177	—	$ 4,177
Derivative liabilities	—	(22,826)	—	(22,825)
Investment in equity certificates	—	3,013	—	3,013

18. COMPARATIVE INFORMATION

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

19. SUBSEQUENT EVENTS

Subsequent to period end the Company obtained board authorization to repurchase an additional $50 million face value of the 2024 notes. Following the Board's approval the Company successfully completed the repurchase of $0.2 million of the 2024 notes at an average discount to par of 26% for $0.16 million, and $49.8 million of the New Notes at an average discount to par of 20% for $39.9 million.

Subsequent to period end the Company received surplus contributions of $90.0 million from the Parent, which have been credited to the contributed surplus account of the Company.

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

Item 2. 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 (i) consolidated financial statements and related notes included elsewhere in this Interim Report and (ii) Annual Report 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 "Preliminary Note and Forward Looking Statements."

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. As of September 30, 2022, the Company had 68 aircraft and 7 engines held for operating lease, of which 67 aircraft and 7 engines were on lease to 35 lessees in 23 countries and 1 aircraft was off-lease. As of September 30, 2022, the weighted average remaining lease term of the Company's aircraft held for operating lease was 5.8 years.

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 the three and nine months ended September 30, 2022, we had net income (loss) of $0.6 million and $116.6 million, respectively. Net cash flows provided by operating activities for the nine months ended September 30, 2022 totaled $29.0 million and net cash flows provided by investing activities totaled $257.6 million for the nine months ended September 30, 2022. Net cash flows used in financing activities totaled $804.6 million for the nine months ended September 30, 2022. As of September 30, 2022, we had $34.8 million in cash and cash equivalents and $85.0 million in restricted cash and cash equivalents.

Recent Developments

Note Repurchases

In October 2022, the Company obtained board authorization to buy an additional $50 million face value of its unsecured notes and subsequently repurchased of $0.2 million of the 2024 notes at an average discount to par of 26% for $0.16 million, and $49.8 million of the New Notes at an average discount to par of 20% for $39.9 million. After giving effect to these repurchases and previous repurchases an aggregate of $299 million of unsecured notes remain outstanding.

Ukraine/Russia

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 ("Regulation 2022/328"). 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 required the cessation of leasing to Russian aircraft operators by March 28, 2022. In order to comply with the sanctions, the Company terminated all 6 of its leases with Russian airlines prior to March 28, 2022 and is seeking to repossess the applicable aircraft. The Company anticipates the likelihood of successfully repossessing the aircraft to be remote.

For the nine months ended September 30, 2022, the Company recorded a loss on derecognition of flight equipment totaling $138.4 million related to five narrow-body and one wide-body aircraft that were leased to Russian lessees. These aircraft were derecognized as the likelihood of successfully repossessing the aircraft including the related technical records and documentation was considered remote. During the year ended December 31, 2021, the Company recognized $7.6 million (2.9% of consolidated lease revenue) of lease revenue derived from lessees based in Russia. Contracted future rentals from these lessees was $67.8 million (4.7% of consolidated contracted revenues). The Company held $3.0 million of security deposits and $26.6 million of maintenance reserves against these leases. These amounts were retained by the Company. As of December 31, 2021, there were accounts receivable of $1.7 million due from these lessees. These receivables, together with receivables due in 2022 in total of $2.2 million, were fully written off as of September 30, 2022.

The Company is also pursuing all available insurance claims in respect of the 6 aircraft on lease to Russian airlines, but it is likely that the administration of the claims will take some time and no assurance can be given as to the outcome of the claims. Our lessees are required to provide insurance coverage with respect to leased aircraft and we are named as "Contract Parties" (additional insureds) under those policies. We also purchase insurance which provides us with coverage when our flight equipment is not subject to a lease (or is in the course of repossession from a lessee) or where a lessee's policy fails to indemnify us. We have submitted insurance claims with respect to all 6 of our aircraft and engines remaining in Russia and intend to pursue all of our claims under these policies with respect to our assets leased to Russian airlines. Our claims are subject to the terms of the applicable policies and given the magnitude of potential claims, we anticipate that insurers and reinsurers may raise various objections and other defenses. Accordingly, we can give no assurance as to when or what amounts we may ultimately collect, if any. Insurance recoveries are generally recognized when they are realized or realizable, which typically occurs at the time cash proceeds are received or a claim agreement is executed, and also considers the counterparty's ability to pay the claim amount. Since the collection, timing and amount of any recoveries under these insurance policies are uncertain, we have not recognized any claim receivables as of September 30, 2022.

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 broader effect on the global economy, in general, and the aviation industry, in particular. Increased fuel prices, inflation, and airlines rerouting flights because of bans on the use of airspace have already and will likely continue to place additional financial pressure on already strained airlines. 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.

Flight Equipment Held for Sale

At September 30, 2022, the Company had no aircraft classified as flight equipment held for sale.

In January 2022, three aircraft previously classified as held for sale were sold to a third party. These aircraft were on lease to a lessee in India.

At December 31, 2021, the Company had three aircraft classified as flight equipment held for sale.

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 effects of the COVID-19 pandemic, 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%. The COVID-19 pandemic continued to have an adverse effect on the airline industry in 2021 and into 2022 and, beginning in the first quarter of 2022, the conflict between Russia and Ukraine caused additional volatility in the demand for air traffic. While there has been a recovery from the lows of the pandemic, especially in respect of domestic aviation, 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 in 2022 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. It is possible that the economic impact of the pandemic, the Russia/Ukraine conflict and the increase in inflation across of the globe, will lead to additional airline restructurings and bankruptcies in the future. In addition, market lease rates for competing wide-body and narrow-body 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 Interim Report.

In addition to the COVID-19 pandemic and the conflict between Russia and Ukraine, uncertainty about geopolitical events and other pressures such as environmental impact concerns, inflation and other decreases in purchasing power, rising interest rates, Brexit, and ongoing U.S.-China trade tensions 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 within this Interim Report.

The COVID-19 pandemic has had widespread and unprecedented impacts on regional, national and global economies. While many of the severe limitations imposed on travel by various governments have been lifted and travel has recovered from the lows experienced in 2020 and 2021, airlines continue to seek support from their respective governments, raise debt and equity, request concessions from lessors, and in certain cases, seek judicial protection. 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.

We recorded no additional provision for uncollectible operating lease receivables during the nine months ended September 30, 2022. 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 September 30, 2022, the Company had 68 aircraft and 7 engines held for operating lease, of which 67 aircraft and 7 engines were on lease to 35 lessees in 23 countries and 1 aircraft was off-lease. As of December 31, 2021, the Company had 79 aircraft (including six aircraft on lease to airlines in Russia) and 7 engines in our portfolio, of which 77 aircraft and 7 engines were on lease, to 41 lessees in 22 countries, and 2 aircraft were off-lease.

The Company purchased one narrow-body aircraft from affiliates of the Carlyle Manager during the nine months ended September 30, 2022. This acquisition was related to the AASET 2021-1 transaction described in Note. 10- Secured Borrowings (the “AASET 2021-1 transaction”).

In January 2022, three aircraft previously classified as held for sale were sold to a third party. These aircraft were on lease to a lessee in India.

In March 2022, the Company derecognized 5 narrow-body and one wide-body aircraft which were leased to Russian lessees. These aircraft were derecognized as the likelihood of successfully repossessing the aircraft including the related technical records and documentation was considered remote. The net book value of these aircraft amounted to $138.4 million. The Company is also pursuing all available insurance claims in respect of the 6 aircraft on lease to Russian airlines, but it is likely the administration of the claims will take some time and no assurance can be given as to the outcome of the claims.

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 September 30, 2022, all equipment previously classified as flight equipment held for sale were sold.

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. 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.

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 nine months period ended September 30, 2022, we recorded no additional provision for uncollectible operating lease receivables.

At September 30, 2022, the Company had 11 lessees, leasing a total of 17 aircraft and one 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. During the three months period ended September 30, 2022, the Company recognized $0.3 million of operating lease revenue from these lessees as a result of cash receipts from these lessees and would have recognized $13.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 30, 2022, the Company recognized $13.2 million of operating lease revenue from these lessees, and would have recognized $28.8 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At September 30, 2021, the Company had 11 lessees, leasing a total of 18 aircraft and one engine, on non-accrual status. During the three months ended September 30, 2021, we recognized $2.9 million of operating lease revenue from these lessees as a result of cash receipts, and would have recognized $18.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 30, 2021, we recognized $15.4 million of operating lease revenue from these lessees as a result of cash receipts, and would have recognized $50.5 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

As of September 30, 2022, the Company had 11 agreements in place with 4 lessees to defer their rent payment obligations for 11 aircraft totaling $18.6 million due to the Company over the life of the leases. These deferrals are for an average of 13 months with approximately 45% of the deferrals to be repaid by the end of 2022.. As of September 30, 2021, the Company had 34 agreements in place with 12 lessees to defer their rent payment obligations for 27 aircraft and six engines totaling $63.6 million due to the Company over the life of the leases. These deferrals were for an average of 12 months with 40% of the deferrals repaid by the end of 2021. 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 September 30, 2022. 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	12,886	3,050
2023	—	2,170
Thereafter	—	16,450
Total	**$ 34,017**	**$ 34,017**

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

For the three months ended September 30, 2022, the Company recognized $48.6 million of operating lease rental revenue, nil from leases with variable rates. For the nine months ended September 30, 2022, the Company recognized $184.6 million of operating lease rental revenue, $2.5 million of which was from leases with variable rates. For the three months ended September 30, 2021, the Company recognized $50.9 million of operating lease rental revenue, $8.8 million of which was from leases with variable rates. For the nine months ended September 30, 2021, the Company recognized $183.9 million of operating lease rental revenue, $26.3 million of which was from leases with variable rates.

Management's discussion and analysis of operating results presented below pertain to the consolidated statements of income (loss) of Fly for the three and nine months ended September 30, 2022 and 2021.

Consolidated Statements of Income (Loss) for the three months ended September 30, 2022 and 2021

	Three months ended	
	September 30, 2022	September 30, 2021
	(Dollars in thousands)	
Revenues		
Operating lease revenue	$ 48,586	$ 50,895
Finance lease revenue	36	121
Gain on sale of aircraft	—	1,993
Gain on derivatives	4,915	651
Gain on deconsolidation of subsidiaries	8,085	—
Gain on modification and extinguishment of debt	12,312	—
Interest and other income	323	660
Total revenues	**74,257**	**54,320**
Expenses		
Depreciation	22,767	30,457
Realized loss on Portfolio B	—	82,553
Interest expense	35,786	23,108
Selling, general and administrative	3,042	85,409
Fair value loss on marketable securities	358	492
Loss on modification and extinguishment of debt	—	2,644
Maintenance and other costs	4,785	3,366
Total expenses	**66,738**	**228,029**
Net income (loss) before (provision) / benefit for income taxes	**7,519**	**(173,709)**
Benefit (provision) for income taxes	886	(3)
Net income (loss)	**$ 8,405**	**$ (173,712)**

	Three months ended		
	September 30, 2022	September 30, 2021	Increase/ (Decrease)
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	$ 48,128	$ 51,487	$ (3,359)
End of lease income	1,629	525	1,104
Amortization of lease incentives	(1,061)	(1,255)	194
Amortization of lease premium, discounts and others	(110)	138	(248)
Total operating lease revenue	**$ 48,586**	**$ 50,895**	**$ (2,309)**

For the three months ended September 30, 2022, operating lease revenue totaled $48.6 million, a decrease of $2.3 million compared to the three months ended September 30, 2021. The decrease was primarily due to (i) a decrease of $2.6 million as a result of the derecognition of 6 aircraft on lease to Russian lessees due to the invasion of Ukraine and (ii) a decrease of $0.2 million in amortization of lease incentives, lease premium, discounts and others.

During the three months ended September 30, 2022, the Company sold one narrowbody aircraft to a related party, in connection with the AASET 2021-1 transaction for no gain. During the three months period ended September 30, 2021, the Company sold four aircraft for an aggregate gain on sale of aircraft of $2.0 million.

Gain on derivatives was $4.9 million for the three months ended September 30, 2022, an increase of $4.25 million compared to the three months ended September 30, 2021. The increase was attributable to an increase in LIBOR which has reduced the Company's derivative liabilities attributable to interest rate hedges.

Interest and other income was $0.3 million for the three months ended September 30, 2022, a decrease of $0.3 million compared to the three months ended September 30, 2021. The decrease was primarily due to lower cash balances resulting in lower interest earned on deposits in bank accounts in the 2021 period compared to 2022.

Depreciation expense was $22.8 million for the three months ended September 30, 2022, a decrease of $7.7 million compared to the three months ended September 30, 2021. The decrease was primarily due to the derecognition of 6 aircraft on lease to Russian lessees due to the invasion of Ukraine.

No provision for aircraft impairment was made for the three months ended September 30, 2022. and September 30, 2021.

Interest expense totaled $35.8 million for the three months ended September 30, 2022, an increase of $12.7 million compared to the three months ended September 30, 2021. The increase was primarily due to new loan facilities entered into from the third quarter of 2021 through the end of third quarter of 2022, primarily consisting of the unsecured notes issued in connection with the Merger and the debt incurred in the AASET 2021-1 transaction. This increase has been offset by the repayment of other debt facilities with the proceeds from the AASET 2021-1 transaction.

Selling, general and administrative expenses were $3.0 million for the three months ended September 30, 2022, a decrease of $82.4 million compared to the three months ended September 30, 2021. The decrease was primarily due to preliminary costs and expenses incurred in relation to the Merger in the prior year. In the 2021 period, these costs primarily consisted of change in control and other fees paid to BBAM in connection with the Merger which closed in third quarter of 2021. No such similar expenses were incurred in the current period.

In 2018 and 2019, the Company purchased $5.7 million, or 4%, $7.4 million, or 6%, and $3.1 million, or 3%, of the equity certificates issued by Horizon I Limited, Horizon II Limited and Horizon III Limited, respectively, each of which were issued in connection with ABS transactions by entities affiliated with Fly (collectively, the "Horizon Equity Certificates"). For the three months ended September 30, 2022, we recognized an unrealized fair value loss of $0.4 million related to the write down of the Horizon Equity Certificates to estimated fair value. After the write-down, the carrying value of our investment in the Horizon Equity Certificates was $0.6 million as of September 30, 2022. We expect the fair value of our investment in the Horizon Equity Certificates to remain volatile.. For additional information see, Note 8 Other Assets to the Interim Consolidated Financial Statements included in this report.

Benefit for income taxes was $0.9 million for the three months ended September 30, 2022, and provision for income taxes was nil for the three months ended September 30, 2021. 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 3.2% and (9.8)% for the three months ended September 30, 2022 and September 30, 2021, 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.

Consolidated Statements of Income (Loss) for the nine months ended September 30, 2022 and 2021

	Nine months ended	
	September 30, 2022	**September 30, 2021**
	(Dollars in thousands)	
Revenues		
Operating lease revenue	$ 184,572	$ 183,884
Finance lease revenue	257	376
Gain on sale of aircraft	—	2,227
Gain on derivatives	14,010	1,772
Gain on deconsolidation of subsidiaries	8,085	—
Fair value gain on marketable securities	—	1,073
Gain on modification and extinguishment of debt	11,861	—
Interest and other income	2,046	2,175
Total revenues	**220,831**	**192,507**
Expenses		
Depreciation	75,218	89,999
Provision for flight equipment impairment	—	22,546
Realized loss on Portfolio B	—	82,553
Interest expense	94,327	66,877
Selling, general and administrative	13,486	105,749
Provision for uncollectible operating lease receivables	—	3,000
Loss on sale of aircraft	674	—
Fair value (gain)/loss on marketable securities	2,367	—
(Gain)/Loss on modification and extinguishment of debt	—	2,644
Loss on derecognition of flight equipment	138,361	—
Maintenance and other costs	17,021	5,817
Total expenses	**341,454**	**379,185**
Net income (loss) before (provision) / benefit for income taxes	**(120,623)**	**(186,678)**
Benefit / (provision) for income taxes	4,045	(539)
Net income (loss)	**$ (116,578)**	**$ (187,217)**

	Nine months ended		
	September 30, 2022	**September 30, 2021**	**Increase/ (Decrease)**
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	$ 150,248	$ 160,582	$ (10,334)
End of lease income	38,126	26,940	11,186
Amortization of lease incentives	(3,401)	(3,497)	96
Amortization of lease premium, discounts and others	(401)	(141)	(260)
Total operating lease revenue	**$ 184,572**	**$ 183,884**	**$ 688**

For the nine months ended September 30, 2022, operating lease revenue totaled $184.6 million, an increase of $0.7 million compared to the nine months ended September 30, 2021. The increase was primarily due to an increase of $10.0 million from end of lease income as a result of the derecognition of 6 aircraft on lease to Russian lessees due to the invasion of Ukraine; and an increase of $0.1 million in amortization of lease incentives, lease premiums and others, offset by a decrease of $6.9 million in lease rental revenue associated with the derecognized aircraft on lease to Russian lessees.

During the nine months ended September 30, 2022, we sold four aircraft for an aggregate loss on sale of aircraft $0.7 million. During the nine months ended September 30, 2021, we sold four aircraft for an aggregate gain on sale of aircraft of $2.2 million.

Interest and other income totaled $2.0 million for the nine months ended September 30, 2022, a decrease of $0.2 million compared to the nine months ended September 30, 2021. The decrease was primarily due to lower cash balances resulting in lower interest earned on deposits in bank accounts.

Depreciation expense was $75.2 million for the nine months ended September 30, 2022, a decrease of $14.8 million compared to the nine months ended September 30, 2021. The decrease was primarily due to the derecognition of 6 aircraft on lease to Russian lessees due to the invasion of Ukraine.

During the nine months ended September 30, 2022, we did not recognize any flight equipment impairment. During the nine months ended September 30, 2021 we recognized flight equipment impairment of $22.5 million related to two off-lease aircraft that were classified as flight equipment held for sale.

Interest expense totaled $94.3 million for the nine months ended September 30, 2022, an increase of $27.4 million compared to the nine months ended September 30, 2021. The increase was primarily due to new loan facilities entered into from the second quarter of 2021 through the end of second quarter of 2022, primarily consisting of the unsecured notes issued in connection with the Merger ($10.4 million of the increase) and the debt incurred in the AASET 2021-1 transaction. This increase has been offset by the repayment of other debt facilities with the proceeds from the AASET 2021-1 transaction

Selling, general and administrative expenses were $13.5 million for the nine months ended September 30, 2022, a decrease of $92.2 million compared to the nine months ended September 30, 2021. The decrease was primarily due to preliminary costs and expenses incurred in relation to the Merger in the prior year. In the 2021 period, these costs primarily consisted of change in control and other fees paid to BBAM in connection with the Merger which closed in third quarter of 2021. No such similar expenses were incurred in the current period.

During the nine months ended September 30, 2022, we did not record a provision for uncollectible operating lease receivables. During the nine months ended September 30, 2021 we recorded a provision of $3.0 million.

During the nine months ended September 30, 2022, we recognized a gain on derivatives of $14.0 million primarily associated with the mark-to-market of de-designated interest rate and cross currency swaps, an increase of $11.2 million compared to the nine months ended September 30, 2021.

For the nine months ended September 30, 2022, we recognized an unrealized fair value loss on marketable securities of $2.4 million related to the write down of the Horizon Equity Certificates to estimated fair value. For the nine months ended September 30, 2021, we recognized an unrealized fair value gain on marketable securities of $1.1 million related to the mark-up of the Horizon Equity Certificates to estimated fair value.

During the nine months ended September 30, 2022, we recorded gain on debt extinguishment totaling $11.9 million due to unsecured debt repurchased. For the nine months ended September 30, 2021, we recognized debt extinguishment loss of $2.6 million.

Benefit (provision) for income taxes was $4.0 million and ($0.5) million for the nine months ended September 30, 2022 and 2021, 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 (9.8)% and (4.1)% for the nine months ended September 30, 2022 and 2021, 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. In addition, during the nine months ended September 30, 2021, we incurred certain merger related expenses that are not expected to be tax deductible.

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. We also have pursued opportunistic aircraft sales to rejuvenate our fleet. During the nine months ended September 30, 2022, we sold four aircraft and one engine, three of the aircraft had been classified as flight equipment held for sale as at 31 December 2021. During the nine months ended September 30, 2021, the Company sold four aircraft. During the nine months ended September 30, 2022, we purchased one narrow-body aircraft for $15.5 million from an affiliate in connection with the AASET 2021-1 transaction.

We finance our business with unrestricted cash, cash generated from flight equipment leases, aircraft sales and debt and equity financings. At September 30, 2022, we had $34.8 million of unrestricted cash. We also owned 2 unencumbered aircraft with an aggregate book value of $27 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, 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 related to other aircraft to cover any shortfall amounts.

Our liquidity plans are subject to a number of risks and uncertainties, including those described above.

Cash Flows for the nine months ended September 30, 2022 and 2021

Cash provided by operating activities for the nine months ended September 30, 2022, totaled $29.0 million, compared to cash used in operating activities of $18.7 million for the nine months ended September 30, 2021, a period-over-period increase of $47.7 million. The increase was primarily attributable to the decrease in selling and general expenses associated with the acquisition of Fly Leasing Ltd in the prior year.

Net cash provided by investing activities was $257.6 million and $39.5 million for the nine months ended September 30, 2022 and 2021, respectively. During the nine months ended September 30, 2022, 4 aircraft previously classified as held for sale on lease to a lessee in India were sold to a third party for aggregate proceeds of $285.3 million. During the nine months ended September 30, 2021, we sold four aircraft and one part out engine for net cash proceeds of $45.7 million.

Cash used in financing activities totaled $804.6 million and $35.7 million for the nine months ended September 30, 2022 and 2021, respectively. During the nine months ended September 30, 2022, the Company made repayments on its secured borrowings totaling $772.9 million, primarily utilizing the proceeds from the AASET 2021-1 transaction. During the nine months ended September 30, 2021, we made repayments on our secured borrowings totaling $138.8 million, which payments were partially offset by (i) an increase of $101.0 million in the outstanding principal amount of our unsecured notes outstanding, (ii) net security deposit receipts from our lessees of $0.2 million and (iii) net maintenance reserve receipts of $9.1 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 are required to make. During the nine months ended September 30, 2022, we received $17.4 million of maintenance payments from lessees and made maintenance payment disbursements of $12.9 million. During the nine months ended September 30, 2021, we received $9.6 million of maintenance payments from lessees and made maintenance payment disbursements of $7.4 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 consolidated financial statements included elsewhere in this report.

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 September 30, 2022, the weighted average age of our portfolio (excluding aircraft held for sale) was 5.8 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, two were delivered in 2022.

Inflation

Over the past few months, the global economy has experienced the effects of increasing inflation. 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. As of September 30, 2022 inflation has not had a material impact on the Company.