

# **Fly Leasing Limited**

## **Interim Consolidated Financial Report And Management's Discussion & Analysis of Financial Condition and Results of Operations**

**As of and for the Three and Six Months  
Ended**

**June 30, 2024**

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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., being 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**

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, 2023.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“U.S. 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 June 30, 2024.

## **FORWARD-LOOKING STATEMENTS**

This Interim 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 ongoing geopolitical tensions, such as the Russia/Ukraine war and the Israel/Hamas war, significant increases in inflation, increases in interest rates and other actions taken by central banks to address inflation, instability in the regional, national and international banks 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 this Interim Report.

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

## INDEX

	Page
Consolidated Balance Sheets	3
Consolidated Statements of (Loss) Income	4
Consolidated Statements of Comprehensive (Loss) Income	5
Consolidated Statements of Shareholders' Equity	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Management's Discussion & Analysis of Financial Condition and Results of Operations	33

**Fly Leasing Limited**  
Consolidated Balance Sheets

**AS OF JUNE 30, 2024 (UNAUDITED) AND DECEMBER 31, 2023**  
**(Dollars in thousands, except par value data)**

	Note	June 30, 2024	December 31, 2023
<b>Assets</b>			
Cash and cash equivalents		\$ 20,461	\$ 44,911
Restricted cash and cash equivalents		62,467	73,446
Rent receivables, net	5(c)	39,116	38,917
Flight equipment held for sale, net	4	281,928	—
Flight equipment held for operating lease, net	5(a)	1,365,036	1,700,257
Maintenance rights	6	236,544	224,354
Deferred tax asset, net	11	13,506	15,281
Fair value of derivative assets	10	6,209	5,099
Other assets, net	7	55,752	57,085
<b>Total assets</b>		<b><u>\$ 2,081,019</u></b>	<b><u>\$ 2,159,350</u></b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		\$ 14,599	\$ 15,578
Rentals received in advance		6,494	6,266
Payable to related parties	15	12,028	10,932
Security deposits		31,834	32,263
Maintenance payment liability, net		232,582	223,554
Unsecured borrowings, net	8	116,966	206,418
Secured borrowings, net	9	1,045,727	1,126,525
Deferred tax liability, net	11	67,799	68,047
Other liabilities	12	38,098	19,932
<b>Total liabilities</b>		<b><u>\$ 1,566,127</u></b>	<b><u>\$ 1,709,515</u></b>
<b>Shareholders' equity</b>			
Common shares, \$0.001 par value; 500,000,000 shares authorized; 532,706 common shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	13	1	1
Additional paid-in capital	13	403,202	403,202
Capital contribution surplus (contributed surplus)	13	160,900	103,400
Retained deficit		(54,706)	(62,509)
Accumulated other comprehensive income, net		5,495	5,741
<b>Total shareholders' equity</b>		<b><u>514,892</u></b>	<b><u>449,835</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>\$ 2,081,019</u></b>	<b><u>\$ 2,159,350</u></b>

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

**Fly Leasing Limited**  
Consolidated Statements of (Loss) Income

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024 AND 2023 (UNAUDITED)**  
**(Dollars in thousands)**

	<i>Note</i>	<u>Three months ended</u>		<u>Six months ended</u>	
		<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
<b>Revenues</b>					
Operating lease revenue	5(b)	\$ 48,888	\$ 52,566	\$ 106,813	\$ 106,619
Gain on modification and extinguishment of debt		—	2,606	—	3,380
Gain on derivatives	10	2,618	1,142	6,357	2,177
Interest and other income		3,009	5,886	6,207	10,526
<b>Total revenues</b>		<b>54,515</b>	<b>62,200</b>	<b>119,377</b>	<b>122,702</b>
<b>Expenses</b>					
Depreciation	5(a)	18,842	24,200	42,386	46,033
Interest expense		19,717	25,752	41,396	48,490
Selling, general and administrative		4,541	4,832	9,069	9,176
Write-off of uncollectible operating lease receivables	5(b)	474	267	891	267
Loss on sale of aircraft, net	5(a)	—	2,296	—	2,296
Provision for aircraft impairment		10,907	—	10,907	—
Loss on modification and extinguishment of debt		6	—	278	—
Fair value loss on marketable securities		84	—	84	—
Maintenance and other costs		2,384	4,656	5,030	8,936
<b>Total expenses</b>		<b>56,955</b>	<b>62,003</b>	<b>110,041</b>	<b>115,198</b>
<b>Net (loss) profit before benefit (provision) for income taxes</b>		<b>(2,440)</b>	<b>197</b>	<b>9,336</b>	<b>7,504</b>
Benefit (provision) for income taxes	11	259	(155)	(1,533)	(1,462)
<b>Net (loss) income</b>		<b>\$ (2,181)</b>	<b>\$ 42</b>	<b>\$ 7,803</b>	<b>\$ 6,042</b>

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

**Fly Leasing Limited**

## Consolidated Statements of Comprehensive (Loss) Income

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024 AND 2023 (UNAUDITED)****(Dollars in thousands)**

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>
<b>Net (loss) income</b>	\$ (2,181)	\$ 42	\$ 7,803	\$ 6,042
Other components of comprehensive income, net of deferred tax:				
Change in fair value of derivatives, net of deferred tax <sup>(1)</sup>	(329)	805	321	(2,649)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax <sup>(2)</sup>	(283)	(18)	(567)	(61)
<b>Comprehensive (loss) income</b>	<u>\$ (2,793)</u>	<u>\$ 829</u>	<u>\$ 7,557</u>	<u>\$ 3,332</u>

- (1) The associated deferred tax benefit/(expense) was \$47 and \$(46) for the three and six months ended June 30, 2024, respectively. The associated deferred tax benefit/(expense) was \$49 and \$(176) for the three and six months ended June 30, 2023, respectively.
- (2) The associated deferred tax benefit was \$25 and \$50 for the three and six months ended June 30, 2024, respectively. The associated deferred tax expense was \$(39) and \$(87) for the three and six months ended June 30, 2023, 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 SIX MONTHS ENDED JUNE 30, 2024 (UNAUDITED)**

**(Dollars in thousands)**

	Common Shares <sup>(2)</sup>		Additional Paid-in Capital	Capital Contribution (Contributed Surplus) <sup>(2)</sup>	Retained Deficit	Accumulated Other Comprehensive Income, net	Total Shareholders' Equity
	Shares	Amount					
<b>Balance December 31, 2023</b>	<b>532,706</b>	<b>\$ 1</b>	<b>\$ 403,202</b>	<b>\$ 103,400</b>	<b>\$ (62,509)</b>	<b>\$ 5,741</b>	<b>\$ 449,835</b>
Net income	—	—	—	—	9,984	—	9,984
Capital contribution (contributed surplus) from Parent <sup>(2)</sup>	—	—	—	68,000	—	—	68,000
Net change in the fair value of derivatives, net of deferred tax expense of \$93 <sup>(1)</sup>	—	—	—	—	—	650	650
Reclassification from other comprehensive income into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax benefit of \$25 <sup>(1)</sup>	—	—	—	—	—	(284)	(284)
<b>Balance March 31, 2024</b>	<b>532,706</b>	<b>\$ 1</b>	<b>\$ 403,202</b>	<b>\$ 171,400</b>	<b>\$ (52,525)</b>	<b>\$ 6,107</b>	<b>\$ 528,185</b>
Net loss	—	—	—	—	(2,181)	—	(2,181)
Dividends paid	—	—	—	(10,500)	—	—	(10,500)
Net change in the fair value of derivatives, net of deferred tax benefit of \$47 <sup>(1)</sup>	—	—	—	—	—	(329)	(329)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax expense of \$25 <sup>(1)</sup>	—	—	—	—	—	(283)	(283)
<b>Balance June 30, 2024</b>	<b>532,706</b>	<b>\$ 1</b>	<b>\$ 403,202</b>	<b>\$ 160,900</b>	<b>\$ (54,706)</b>	<b>\$ 5,495</b>	<b>\$ 514,892</b>

(1) See Note 10 of Notes to Consolidated Financial Statements.

(2) See Note 13 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 SIX MONTHS ENDED JUNE 30, 2023 (UNAUDITED)**

**(Dollars in thousands)**

	<u>Common Shares</u>		<u>Additional Paid-in Capital</u>	<u>Capital Contribution (Contributed Surplus)</u>	<u>Retained Deficit</u>	<u>Accumulated Other Comprehensive Income, net</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
<b>Balance December 31, 2022</b>	<b>532,706</b>	<b>\$ 1</b>	<b>\$ 403,202</b>	<b>\$ 90,000</b>	<b>\$ (97,024)</b>	<b>\$ 8,115</b>	<b>\$ 404,294</b>
Net income	—	—	—	—	6,000	—	6,000
Net change in the fair value of derivatives, net of deferred tax benefit of \$225 <sup>(1)</sup>	—	—	—	—	—	(3,454)	(3,454)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of \$(48) <sup>(1)</sup>	—	—	—	—	—	(43)	(43)
<b>Balance March 31, 2023</b>	<b>532,706</b>	<b>\$ 1</b>	<b>\$ 403,202</b>	<b>\$ 90,000</b>	<b>\$ (91,024)</b>	<b>\$ 4,618</b>	<b>\$ 406,797</b>
Net Income	—	—	—	—	42	—	42
Capital contribution (Contributed surplus) from Parent	—	—	—	13,400	—	—	13,400
Net change in the fair value of derivatives, net of deferred tax benefit of \$49 <sup>(1)</sup>	—	—	—	—	—	805	805
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax expense of \$(39) <sup>(1)</sup>	—	—	—	—	—	(18)	(18)
<b>Balance June 30, 2023</b>	<b>532,706</b>	<b>\$ 1</b>	<b>\$ 403,202</b>	<b>\$ 103,400</b>	<b>\$ (90,982)</b>	<b>\$ 5,405</b>	<b>\$ 421,026</b>

(1) See Note 10 of Notes to Consolidated Financial Statements.

(2) See Note 13 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 SIX MONTHS ENDED JUNE 30, 2024 AND 2023 (UNAUDITED)**  
**(Dollars in thousands)**

	Note	Six months ended	
		June 30, 2024	June 30, 2023
<b>Cash Flows from Operating Activities</b>			
<b>Net income</b>		<b>\$ 7,803</b>	<b>\$ 6,042</b>
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Loss on sale of aircraft, net	5(a)	—	2,296
Depreciation	5(a)	42,386	46,033
Flight equipment impairment	5(a)	10,907	—
Maintenance payment liability and security deposits recognized in earnings		(8,041)	(5,894)
Amortization of debt discounts and debt issuance costs		3,586	3,808
Amortization of lease incentives and other items		322	1,601
Bad debt expense		891	267
Fair value loss on marketable securities	7	84	—
Gain on modification and extinguishment of debt	8	278	(3,380)
Provision for deferred income taxes		1,533	1,462
Other		(2,916)	4,349
Changes in operating assets and liabilities:			
Rent receivables		(1,203)	(2,567)
Other assets		926	8,053
Payable to related parties		1,096	(1,670)
Accounts payable, accrued liabilities and other liabilities		8,501	798
<b>Net cash flows provided by operating activities</b>		<b>\$ 66,153</b>	<b>\$ 61,198</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of flight equipment	5(a)	—	(1,488)
Proceeds from sale of aircraft, net	5(a)	—	13,898
<b>Net cash flows provided by investing activities</b>		<b>\$ —</b>	<b>\$ 12,410</b>
<b>Cash Flows from Financing Activities</b>			
Security deposits received		715	1,086
Security deposits returned		(864)	—
Maintenance payment liability receipts		27,693	15,840
Maintenance payment liability disbursements		(10,529)	(955)
Debt modification and extinguishment costs		(278)	—
Repayment of unsecured borrowings	8	(90,053)	(25,434)
Drawdown of unsecured borrowings	8	—	76,432
Repayment of secured borrowings	9	(85,766)	(170,988)
Capital contribution (contributed surplus)	13	68,000	13,400
Dividends paid		(10,500)	—
<b>Net cash flows used in financing activities</b>		<b>\$ (101,582)</b>	<b>\$ (90,619)</b>
Effect of exchange rate changes on unrestricted and restricted cash and cash equivalents		—	(113)
<b>Net decrease in unrestricted and restricted cash and cash equivalents</b>		<b>(35,429)</b>	<b>(17,124)</b>
Unrestricted and restricted cash and cash equivalents at beginning of period		118,357	151,059
<b>Unrestricted and restricted cash and cash equivalents at end of period</b>		<b>\$ 82,928</b>	<b>\$ 133,822</b>
<b>Reconciliation to Consolidated Balance Sheets:</b>			
Cash and cash equivalents		\$ 20,461	\$ 61,733
Restricted cash and cash equivalents	3	62,467	72,089
<b>Unrestricted and restricted cash and cash equivalents</b>		<b>\$ 82,928</b>	<b>\$ 133,822</b>

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

Note 3 – “Supplemental Disclosure to Consolidated Statements of Cash Flows” provides further breakdown of non-cash activities.

## **Fly Leasing Limited**

### Notes to Consolidated Financial Statements

#### **1. ORGANIZATION**

Fly Leasing Limited (“Fly”) is a Bermuda exempted company that was incorporated on May 3, 2007 (Registration number: 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 (Registration number: IE905729) and is subject to Irish corporation tax on its income in the same way, and to the same extent, as if the Company were organized under the laws of Ireland.

The immediate parent of the Company is Carlyle Aviation Fly Ltd. (“Parent”) (formerly, Carlyle Aviation Elevate Ltd.), a Cayman exempted company. The Company’s ultimate parent and controlling party is SASOF International Master Fund V LP an exempted 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. GAAP.

##### **BASIS OF CONSOLIDATION**

The consolidated financial statements include the accounts of Fly and all of its subsidiaries. In instances where it is the primary beneficiary, the Company consolidates a Variable Interest Entity (“VIE”). Fly is deemed the primary beneficiary when it has both the power to direct the activities of the VIE that most significantly impact the economic performance of such VIE, and it bears significant risk of loss and participates in gains of the VIE. Note 8, Secured Borrowings, details the nature, quantum, and qualitative information in respect of the VIE that is consolidated, “ASSET 2021-1”. 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.

##### **USE OF ESTIMATES AND JUDGMENTS**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. 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. Actual results could differ from these estimates and such differences could be material.

Significant judgments were involved in determining whether the Company should consolidate a VIE. The principles outlined in the basis of consolidation paragraph above were applied by the Company in making the necessary judgments.

##### **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. Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash, and credit exposure to customers, including outstanding receivables as well as bank deposit and borrowing lines. The Company operates as a supplier to airlines. The airline industry is cyclical, economically sensitive and highly competitive.

The Company's ability to succeed is dependent on the financial strength of the airlines it leases to and their ability to react to and cope with the volatile competitive environment in which they operate. If a contracted lessee experiences financial difficulties, this may result in defaults or the early termination of the lease. The Company mitigates this risk by collecting deposits and/or maintenance reserves, putting in place appropriate settlement conditions in the event of default or early termination of the lease by the lessees, as detailed in the lease agreements. The Company monitors the performance of the lessees on an ongoing basis. Credit risk with respect to trade accounts receivable is generally mitigated due to the number of lessees and their dispersal across different geographic areas. Credit risk pertaining to cash and cash equivalents is addressed in the cash and cash equivalents section below.

The Company manages its exposure to particular countries through obtaining security from certain of its lessees by way of deposits and letters of credit. The Company continually evaluates the financial position of lessees and based on this evaluation, the amounts outstanding and the available security, makes an appropriate provision for impairment of receivables.

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. Escalating global conflicts, including the 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 and the conflicts in the Middle East have led to, among other things, volatility in the capital markets, increases in inflation and supply chain issues, all of which have increased capital market and other risks faced by the Company.

## **RUSSIAN INVASION OF UKRAINE**

Following the Russian invasion of Ukraine on February 24, 2022, the U.S., the EU 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. In order to comply with the sanctions, the Company, as an Irish (EU) domiciled lessor, terminated all six of its leases to Russian airlines during the year ended December 31, 2022.

For the six months ended June 30, 2024, the Company did not have any flight equipment that was the subject of leases with any Russian counterparties.

The invasion of Ukraine is a significant geopolitical and economic event for the global economy, in particular the aviation industry, and there is uncertainty over how the future development of this conflict will affect the Company. The conflict has led to increased fuel prices, inflation, supply chain concerns, and rerouting of flights because of restrictions on the use of airspace will all place additional pressure on airlines. Prolonged unrest, additional military activities, expansion of hostilities, or additional broad-based sanctions, could also have a material adverse effect on our operations and business outlook. For example, if Russia were to invade other countries, such as Moldova, it could adversely affect our business. The specific impacts on the Company may include the inability of airline customers to meet their lease obligations because of reduced cash flow, which in turn may lead to an increase in lease defaults and related repossessions. At the date of this report, the complete financial impact of these events on the Company cannot be fully determined until the insurance claims submitted have been completed.

Due to restrictions under applicable sanctions and export control laws and regulations, the actions of the Russian government and the stance adopted by the Russian lessees, attempts to repossess the aircraft located in Russia were unsuccessful and while such attempts continue, we do not expect them to be successful. The Company made a claim for recovery of insurance proceeds under its insurance policy. The likelihood of success regarding the claim made is unknown. 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 June 30, 2024.

## **CASH AND CASH EQUIVALENTS**

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. All cash and cash equivalents are held by major financial institutions. The Company is subject to credit risk should a financial institution be unable to fulfill its obligations. The Company manages its exposure to credit risk in respect of cash and cash equivalents by placing all cash with several banks, namely Citibank, Wells Fargo, Deutsche Bank, and UMB Bank NA, all recognized, highly rated financial institutions.

## **RESTRICTED CASH AND CASH EQUIVALENTS**

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

## **RENT RECEIVABLES**

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

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

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

## **FLIGHT EQUIPMENT HELD FOR SALE**

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

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

## **FLIGHT EQUIPMENT HELD FOR OPERATING LEASE**

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

- Flight equipment where original manufacturer's prices are not relevant due to plane modifications and conversions.
- Flight equipment that is out of production and may have a shorter useful life or lower residual value due to obsolescence.

- Flight equipment that management believes will be disposed of prior to the end of its estimated useful life.

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

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

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

## **IMPAIRMENT OF FLIGHT EQUIPMENT**

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

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

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

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

During the six months ended June 30, 2024 and June, 30 2023, the Company recognized an impairment expense for flight equipment of \$10.9 million and \$Nil, respectively.

## **MAINTENANCE RIGHTS**

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

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

### **EOL Leases**

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

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

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

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

### **MR Leases**

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

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

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

There are no maintenance right liabilities for MR Leases.

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

### **DERIVATIVE FINANCIAL INSTRUMENTS**

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

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either a freestanding asset or liability. Changes in the fair value of a derivative that is

designated and qualifies as an effective cash flow hedge are recorded in accumulated other comprehensive income, net of tax, until earnings are affected by the variability of cash flows of the hedged item. Any gains or losses from derivatives that are not highly effective in hedging the variability of expected cash flows of the hedged items or that do not qualify for hedge accounting treatment are recognized directly into income.

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

## **OTHER ASSETS**

Other assets consist primarily of inventories, collateral placed on residual value guarantee deals (see Note 7 below), investment in equity certificates which are considered marketable securities, net value added tax receivables, purchase deposit for aircraft acquired, and other miscellaneous receivables.

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

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

## **SECURITY DEPOSITS**

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

## **MAINTENANCE PAYMENT LIABILITY**

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

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

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

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

## REVENUE RECOGNITION

The Company principally leases flight equipment under operating leases. Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Where revenue amounts do not meet these recognition criteria, recognition is delayed until the criteria are met. The Company's revenue streams are recognized in accordance with ASC 842, *Lease Accounting*.

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

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

- *End of lease income.* The amount of end of lease income the Company recognizes in any reporting period is inherently volatile and depends upon a number of factors, including the timing of both scheduled and unscheduled lease expiries and the timing of maintenance performed on the aircraft or aircraft equipment by the lessee, among others.
- *Lease incentives.* The Company's leases may contain provisions which require it to contribute a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. The Company accounts for these expected payments as lease incentives, which are amortized as a reduction of lease revenue over the life of the lease.
- *Lease premiums and lease discounts.* Lease premiums and lease discounts are amortized as operating lease revenue over the lease term. Amortization of lease premiums decreases rental revenue and amortization of lease discounts increases rental revenue.

## INCOME TAXES

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

The Company recognizes an uncertain tax benefit only to the extent that it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The Company has elected to classify interest on unpaid income taxes and penalties as a component of the provision (benefit) for income taxes. No interest on unpaid income taxes and penalties were incurred during each of the six months ended June 30, 2024 or June 30, 2023.

## NEW ACCOUNTING PRONOUNCEMENTS

On December 21, 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, to defer the sunset date of ASC 848 until December 31, 2024. The ASU became effective upon issuance. In March 2020, the FASB issued ASU 2020-04 to provide temporary, optional expedients related to the accounting for contract modifications and hedging transactions as a result of the global markets' anticipated transition away from the use of LIBOR and other interbank offered rates to alternative reference rates. Preceding the issuance of ASU 2020-04, which established ASC 848, the United Kingdom's Financial Conduct Authority ("FCA") announced that it would no longer need to persuade or compel banks to submit to LIBOR after December 31, 2021. In response, the FASB established a December 31, 2022, expiration date for ASC 848. In March 2021, the FCA announced that the intended cessation date of LIBOR in the United States would be June 30, 2023. Accordingly, ASU 2022-06 defers the expiration date of ASC 848 to December 31, 2024. 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

	Six months ended	
	June 30, 2024	June 30, 2023
	(Dollars in thousands)	
<b>Cash paid during the period for:</b>		
Interest	\$ 62,467	\$ 40,001

As of June 30, 2024, the Company had a restricted cash balance of \$62.5 million, a decrease of \$10.9 million from \$73.4 million at December 31, 2023.

### 4. FLIGHT EQUIPMENT HELD FOR SALE

As of June 30, 2024, the Company had two wide-body aircraft with an aggregate fair value of \$249.9 million and two narrow-body aircraft with an aggregate fair value of \$32.0 million classified as flight equipment held for sale. Refer to the table included in Note 5(a), Flight equipment held for operating lease, for details regarding the changes in number of flight equipment.

### 5. FLIGHT EQUIPMENT HELD FOR OPERATING LEASE, NET

#### (a) Flight equipment held for operating lease

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

	June 30, 2024	December 31, 2023
Cost	\$ 2,114,939	\$ 2,503,367
Accumulated depreciation and impairment	(749,903)	(803,110)
<b>Flight equipment held for operating lease, net</b>	<b>\$ 1,365,036</b>	<b>\$ 1,700,257</b>

Numbers in the table below are numbers (count) of flight equipment.

	Total flight equipment			Flight equipment held for operating lease		Flight equipment held for sale	
	Total Assets	Aircraft	Engine	Aircraft	Engines	Aircraft	Engines
<b>December 31, 2023</b>	<b>71</b>	<b>64</b>	<b>7</b>	<b>64</b>	<b>7</b>	—	—
Addition	4	4	—	—	—	4	—
Transfer to held for sale	(4)	(4)	—	(4)	—	—	—
Disposal	—	—	—	—	—	—	—
<b>June 30, 2024</b>	<b>71</b>	<b>64</b>	<b>7</b>	<b>60</b>	<b>7</b>	<b>4</b>	—

As of June 30, 2024, the Company had 60 aircraft and seven engines held for operating lease, four aircraft held for sale, and one aircraft was off lease. Aircraft and engines held for operating lease were on lease to 34 lessees in 20 countries. As of December 31, 2023, the Company had 64 aircraft and seven engines held for operating lease, and one aircraft was off lease. Aircraft and engines held for operating lease were on lease to 34 lessees in 20 countries.

During the six months ended June 30, 2023, the Company sold one engine under operating lease to a third party for a total consideration of \$1.7 million and recorded a loss on sale of flight equipment of \$2.3 million.

The Company capitalized \$Nil and \$1.6 million of major maintenance for the six months ended June 30, 2024 and 2023, respectively.

The Company recognized depreciation expense on flight equipment held for operating lease of \$42.4 million and \$46.0 million for the six months ended June 30, 2024 and 2023, respectively.

The Company recognized a provision for aircraft impairment amounting to \$10.9 million and \$Nil for the six months ended June 30, 2024 and 2023, respectively.

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

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

	<b>June 30, 2024</b>		<b>December 31, 2023</b>	
Europe:				
Spain	\$ 148,199	11%	\$ 134,579	8%
France	110,545	8%	114,058	7%
Other	125,361	9%	145,805	8%
<b>Europe — Total</b>	<b>384,105</b>	<b>28%</b>	<b>394,442</b>	<b>23%</b>
Asia and South Pacific:				
India	87,847	6%	90,142	5%
Malaysia	448,072	33%	444,502	26%
Indonesia	128,279	9%	131,279	8%
China	93,335	7%	96,248	6%
Philippines	65,519	5%	67,108	4%
Other	104,174	8%	124,069	7%
<b>Asia and South Pacific — Total</b>	<b>927,226</b>	<b>68%</b>	<b>953,348</b>	<b>56%</b>
<b>Mexico, South and Central America — Total</b>	<b>40,700</b>	<b>3%</b>	<b>55,471</b>	<b>3%</b>
North America:				
United States	-	-	18,968	1%
<b>North America — Total</b>	<b>-</b>	<b>-%</b>	<b>18,968</b>	<b>1%</b>
Middle East and Africa:				
Ethiopia	-	-	263,655	15%
<b>Middle East and Africa — Total</b>	<b>-</b>	<b>-%</b>	<b>263,655</b>	<b>15%</b>
<b>Off-Lease — Total</b>	<b>13,005</b>	<b>1%</b>	<b>14,373</b>	<b>1%</b>
<b>Total flight equipment held for operating lease, net</b>	<b>\$ 1,365,036</b>	<b>100%</b>	<b>\$ 1,700,257</b>	<b>100%</b>

*(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 revenue does not meet these criteria, recognition is delayed until the criteria are met. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when the Company determines that collection is not probable regardless of the existence of any of the aforementioned criteria.

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

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

During the six months ended June 30, 2024 and 2023, the Company had directly written off \$0.9 million and \$0.3 million, respectively, of uncollectible operating lease receivables. As of June 30, 2024 and December 31, 2023, the Company had an allowance for uncollectible operating lease receivables of \$4.9 million and \$4.9 million, respectively.

The distribution of operating lease revenue by geographic region for three months ended June 30, 2024 and 2023 was as follows (dollars in thousands):

	<b>Three months ended</b>			
	<b>June 30, 2024</b>		<b>June 30, 2023</b>	
Europe:				
Spain	\$ 4,184	9%	\$ 3,334	6%
France	4,760	10%	5,146	10%
Other	4,217	10%	8,603	17%
<b>Europe — Total</b>	<b>13,161</b>	<b>29%</b>	<b>17,083</b>	<b>33%</b>
Asia and South Pacific:				
India	3,139	6%	2,119	4%
Malaysia	15,318	31%	14,679	28%
Indonesia	1,259	3%	4,016	8%
China	2,197	4%	-	-
Philippines	1,520	3%	1,773	3%
Other	2,198	4%	1,719	3%
<b>Asia and South Pacific — Total</b>	<b>25,631</b>	<b>51%</b>	<b>24,306</b>	<b>46%</b>
<b>Mexico, South and Central America — Total</b>	<b>1,514</b>	<b>3%</b>	<b>1,274</b>	<b>2%</b>
North America:				
United States	-	-	516	1%
<b>North America — Total</b>	<b>-</b>	<b>-</b>	<b>516</b>	<b>1%</b>
Middle East and Africa:				
Ethiopia	7,505	15%	7,505	14%
Other	567	1%	1,372	3%
<b>Middle East and Africa — Total</b>	<b>8,072</b>	<b>16%</b>	<b>8,877</b>	<b>17%</b>
<b>Australia</b>				
Australia	510	1%	510	1%
<b>Australia — Total</b>	<b>510</b>	<b>1%</b>	<b>510</b>	<b>1%</b>
<b>Total Operating Lease Revenue</b>	<b>\$ 48,888</b>	<b>100%</b>	<b>\$ 52,566</b>	<b>100%</b>

The distribution of operating lease revenue by geographic region for the six months ended June 30, 2024 and 2023 is as follows (dollars in thousands):

	<b>Six months ended</b>			
	<b>June 30, 2024</b>		<b>June 30, 2023</b>	
Europe:				
Spain	\$ 7,614	7%	\$ 7,070	7%
France	9,603	9%	10,379	10%
Other	8,060	7%	11,895	11%
<b>Europe — Total</b>	<b>25,277</b>	<b>23%</b>	<b>29,344</b>	<b>28%</b>
Asia and South Pacific:				
India	7,089	7%	4,012	4%
Malaysia	30,565	29%	29,844	27%
Indonesia	2,853	3%	7,298	7%
China	5,146	5%	2,841	2%
Philippines	3,039	3%	7,039	7%
Other	4,395	4%	3,916	4%
<b>Asia and South Pacific — Total</b>	<b>53,087</b>	<b>50%</b>	<b>54,950</b>	<b>51%</b>
<b>Mexico, South and Central America — Total</b>	<b>2,787</b>	<b>3%</b>	<b>2,548</b>	<b>2%</b>
North America:				
United States	8,496	8%	1,004	1%
<b>North America — Total</b>	<b>8,496</b>	<b>8%</b>	<b>1,004</b>	<b>1%</b>
Middle East and Africa:				
Ethiopia	15,009	14%	15,009	14%
Other	1,137	1%	2,744	3%
<b>Middle East and Africa — Total</b>	<b>16,146</b>	<b>15%</b>	<b>17,753</b>	<b>17%</b>
<b>Australia</b>				
Australia	1,020	1%	1,020	1
<b>Australia — Total</b>	<b>1,020</b>	<b>1%</b>	<b>1,020</b>	<b>1</b>
<b>Total Operating Lease Revenue</b>	<b>\$ 106,813</b>	<b>100%</b>	<b>\$ 106,619</b>	<b>100%</b>

In the three months ended June 30, 2024, Ethiopian Airlines and AirAsia Berhad accounted for 15% and 11% of total operating lease revenue respectively. For the six months ended June 30, 2024, Ethiopian Airlines accounted for 14.0% of total operating lease revenue. In the three months ended June 30, 2023, Ethiopian Airlines and C.A. Air Moldova S.R.L. accounted for 14.0% and 11.1% of total operating lease revenue, respectively. The revenue recognized for C.A. Air Moldova S.R.L. includes end of lease income earned from retaining maintenance reserves and release of lessor contribution liability related to the lease. For the six months ended June 30, 2023, Ethiopian Airlines accounted for 14.0% of total operating lease revenue.

For the three and six months ended June 30, 2024, the Company recognized end of lease income, which is included in operating lease revenue, of \$1.3 million and \$9.3 million, respectively. For the three and six months ended June 30, 2023, the Company recognized end of lease income, which is included in operating lease revenue, of \$5.9 million.

For the three and six months ended June 30, 2024, amortization of lease incentives/premium recorded as reduction of operating lease revenue totaled \$0.9 million and \$1.9 million, respectively. For the three and six months ended June 30, 2023, amortization of lease incentives/premium recorded as reduction of operating lease revenue totaled \$0.3 million and \$1.3 million, respectively.

At June 30, 2024, lease incentive amortization for the next five years is as follows (dollars in thousands):

<b>Year ending December 31,</b>	<b>(Dollars in thousands)</b>
July 1 through December 31, 2024	\$ 1,515
2025	3,354
2026	2,869
2027	2,631
2028	2,045
<b>Thereafter</b>	<b>3,339</b>
<b>Future amortization of lease incentives</b>	<b>\$ 15,753</b>

*(c) Rent receivables and rent deferrals*

The COVID-19 pandemic 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 2022 and 2023, which remains the case as of June 30, 2024.

As of June 30, 2024, the Company had six lessees, leasing a total of 10 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 six months ended June 30, 2024, the Company recognized \$16.6 million of operating lease revenue from these lessees and would have recognized a \$3.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

As of June 30, 2023, the Company had 8 lessees, leasing a total of 12 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 month period ended June 30, 2023, the Company recognized \$8.8 million of operating lease revenue from these lessees and would have recognized \$12.3 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the six months ended June 30, 2023, the Company recognized \$21.6 million of operating lease revenue from these lessees and would have recognized \$12.4 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the six months ended June 30, 2023, the Company collected \$4.0 million of outstanding lease rental payments from one lessee, where the lease had also expired during the three months ended March 31, 2023.

The Company has also agreed to lease restructurings with certain of its lessees. At June 30, 2024, the Company had 13 agreements in place with six lessees to defer their rent payment obligations for 13 aircraft totaling \$35.7 million due to the Company over the life of the leases. These deferrals are for an average of 25 months with approximately 56% of the deferrals to be repaid by the end of 2024. At June 30, 2023, the Company had 13 agreements in place with five lessees to defer their rent payment obligations for 13 aircraft totaling \$31.3 million due to the Company over the life of the leases. These deferrals are for an average of 25 months with approximately 33.5% of the deferrals to be repaid by the end of 2023.

Presented below are the rent deferrals granted and scheduled deferral repayments for deferral agreements in place as of June 30, 2024. 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. As of June 30, 2024 and December 31, 2023, the deferral repayments received as a percentage of the scheduled deferral repayments were 45.6% and 60.0%, respectively.

	<b>Rent Deferrals Granted</b>	<b>Scheduled Deferral Repayments</b>
	<b>(Dollars in thousands)</b>	
2021	\$ 9,755	\$ 405
2022	19,106	7,504
2023	6,861	4,810
2024	—	7,132
2025	—	7,132
Thereafter	—	8,739
<b>Total</b>	<b>\$ 35,722</b>	<b>\$ 35,722</b>

As of June 30, 2024 and December 31, 2023, the weighted average remaining lease term of the Company's aircraft held for operating lease was 6.6 years and 6.3 years, respectively.

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

For the six months ended June 30, 2024, the Company recognized \$99.4 million of operating lease rental revenue, \$Nil of which was from leases with variable rates. For the six months ended June 30, 2023 the Company recognized \$102.3 million of operating lease rental revenue, \$Nil of which was from leases with variable rates. For the three months ended June 30, 2024, the Company recognized \$48.9 million of operating lease rental revenue, \$Nil of which was from leases with variable rates. For the three months ended June 30, 2023, the Company recognized \$51.1 million of operating lease rental revenue, \$2.5 million of which was from leases with variable rates.

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 June 30, 2024.

<b>Year ending December 31,</b>	<b>(Dollars in thousands)</b>
July 1 through December 31, 2024	\$ 97,270
2025	191,978
2026	178,361
2027	143,581
2028	100,263
Thereafter	206,431
<b>Future minimum rental payments under operating leases</b>	<b>\$ 917,884</b>

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

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
	<b>(Dollars in thousands)</b>	
Rent receivables, gross	\$ 44,019	\$ 43,820
Allowance for doubtful accounts	(4,903)	(4,903)
<b>Rent receivables, net</b>	<b>\$ 39,116</b>	<b>\$ 38,917</b>

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 and six months ended June 30, 2024 and 2023, the Company recorded no provision for uncollectible operating lease receivables.

As of June 30, 2024 and December 31, 2023, the Company had an allowance for uncollectible operating lease receivables of \$4.9 million and \$4.9 million, respectively.

## 6. MAINTENANCE RIGHTS

The balances of and changes in maintenance right assets, during the six months ended June 30, 2024 and as at December 31, 2023 were as follows (dollars in thousands):

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
<b>Maintenance rights, beginning balance</b>	<b>\$ 224,354</b>	<b>\$ 235,394</b>
Maintenance rights recognized at inception of lease	12,190	—
Maintenance rights derecognized associated with end of lease	—	(11,040)
<b>Maintenance rights, ending balance</b>	<b>\$ 236,544</b>	<b>\$ 224,354</b>

## 7. OTHER ASSETS

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

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
Collateral placed	\$ 23,000	\$ 23,000
Equity certificates	459	543
Value added tax receivables	2,285	2,255
Inventories	259	2,461
Lease intangibles	2,619	2,918
Other financial assets	10,455	10,327
Deferred lease income receivable	10,070	10,423
Other assets	6,605	5,158
<b>Total other assets</b>	<b>\$ 55,752</b>	<b>\$ 57,085</b>

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 June 30, 2024 and 2023, 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 prior to the Merger in connection with ABS transactions consummated by entities affiliated with the Company at that time.

For the six months ended June 30, 2024, the Company recognized an unrealized fair value loss of \$0.1 million related to the write down of these equity certificates to their estimated fair value. The carrying value of investment in equity certificates was \$0.5 million as of June 30, 2024. It is expected that the fair value of investment in equity certificates will remain volatile while ongoing geopolitical events continue to affect the market for such securities.

Concurrently with the execution of the Merger Agreement, the Company entered into a Turnover Agreement with Carlyle Aviation Vista Certificates LLC (“Transferee”), whereby it assigned its rights in the equity certificates to the Transferee. As part of this Turnover Agreement, the Company will continue to receive any proceeds in respect of the equity certificates and as such is deemed to have retained the beneficial interest in the equity certificates. The Company continues to recognize the equity certificates at fair value on the consolidated balance sheets.

On July 6, 2023, a lessee settled a portion of the outstanding lease receivables in the form of equity issued by the lessee to the Company. The fair value of the equity received at date of settlement was estimated at \$8.2 million. As at June 30, 2024 and December 31, 2023, the fair value of the equity was estimated at \$10.1 million.

On December 28, 2022, a lessee settled the outstanding lease receivables in the form of notes and equity issued by the lessee to the Company. The difference between the balance outstanding from the lessee and the fair value of notes and equity of \$6.2 million was written off as bad debt during the year ended December 31, 2022. The fair value of the notes and equity received, at each of the dates of settlement and as at year end December 31, 2022 was estimated at \$1.2 million. On December 27, 2023 the notes have been disposed for a total consideration of \$0.8 million, including interest income earned. The fair value of the equity as at the period ended June 30, 2024 was estimated at \$0.2 million.

On December 30, 2022, a lessee settled a portion of the outstanding lease receivables in the form of notes issued by the lessee to the Company. The fair value of the notes at date of settlement was estimated at \$0.1 million. As at June 30, 2024, the fair value of the notes was estimated at \$0.1 million.

## 8. UNSECURED BORROWINGS

	<u>Balance as of</u>	
<b>Outstanding principal balance:</b>	<b>June 30, 2024</b>	<b>December 31, 2023</b>
	<b>(Dollars in thousands)</b>	
2024 Notes	\$ 5,982	\$ 7,097
New Notes	111,161	200,113
Total outstanding principal balance	<u>117,143</u>	<u>207,210</u>
Unamortized debt discounts and loan costs	(177)	(792)
<b>Unsecured borrowings, net</b>	<b><u>\$ 116,966</u></b>	<b><u>\$ 206,418</u></b>

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, including the New Notes described below. 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 \$290.4 million in principal amount of the 2024 Notes participated in the Exchange Offer and received an aggregate of \$290.3 million 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.

On a number of occasions since September 2022, we have received board authorization to opportunistically repurchase the New Notes and 2024 Notes. Since commencement of this program, we have acquired \$3.6 million in principal amount of 2024 Notes and \$279.1 million in principal amount of New Notes at an average price of 85.9% and 88.6%, respectively.

During the three and six months ended June 30, 2024, the Company recorded a loss on modification and extinguishment of debt of \$0.1 million and \$0.3 million, respectively, mainly arising from the repurchase of unsecured notes. During the three and six months ended June 30, 2023, the Company recorded a gain on modification and extinguishment of debt of \$0.8 million and \$0.8 million, respectively, mainly arising from the repurchase of the New Notes in February 2023.

All repurchases of New Notes and 2024 Notes by the Company have been made pursuant to applicable Board authorizations of the Company. The Company may seek additional Board authorization to pursue the opportunistic repurchase of additional 2024 Notes and New Notes from time-to-time. Repurchases may occur through open market purchases, privately negotiated transactions, or 10b-5 trading plans and will depend on market conditions.

As of June 30, 2024, \$6.0 million of the 2024 Notes remained outstanding and \$111.2 million of New Notes (including the Additional Notes) were outstanding. As of December 31, 2023, \$7.1 million of the 2024 Notes remained outstanding and \$200.1 million of New Notes (including the Additional Notes) were outstanding. Each of the 2024 Notes and the New Notes mature on October 15, 2024.

As of June 30, 2024, accrued interest on the New Notes was \$1.6 million. As of June 30, 2024, accrued interest on the 2024 Notes was \$0.1 million. As of December 31, 2023, accrued interest on the New Notes was \$3.6 million. As of December 31, 2023, 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 June 30, 2024, the Company was not in default under either of the Indentures.

The company plans to repay the 2024 Notes and the New Notes on their due date October 15, 2024.



## 9. SECURED BORROWINGS

The Company's secured borrowings, net balance as of June 30, 2024 and December 31, 2023 are presented below (dollars in thousands):

	<u>Outstanding principal balance as of</u>		<u>Weighted average interest rate<sup>(1)</sup> as of</u>		<u>Maturity date</u>
	<u>June 30, 2024<sup>(2)</sup></u>	<u>December 31, 2023<sup>(2)</sup></u>	<u>June 30, 2024</u>	<u>December 31, 2023</u>	
2012 Term Loan	\$ 254,188	\$ 261,975	7.41%	7.03%	August 2025
Magellan Acquisition Limited Facility	148,417	161,688	4.20%	7.36%	December 2025
Fly Aladdin Senior Secured Credit Facility	65,564	71,000	Compounded reference rate plus 3.5%	Compounded reference rate plus 3.5%	November 2029
Other Aircraft – Secured Borrowings	59,318	65,262	4.12%	4.12%	June 2028
Class A Notes <sup>(3)</sup>	386,407	422,675	2.95%	2.95%	October 2028
Class B Notes <sup>(3)</sup>	78,109	95,169	3.80%	3.80%	October 2028
Class C Notes <sup>(3)</sup>	69,282	67,299	5.82%	5.82%	December 2027
<b>Total outstanding principal balance</b>	<b>1,061,285</b>	<b>1,145,068</b>			
Unamortized debt discounts and loan costs	(15,558)	(18,543)			
<b>Total secured borrowings, net</b>	<b>\$ 1,045,727</b>	<b>\$ 1,126,525</b>			

(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 June 30, 2024 and December 31, 2023, accrued interest on secured borrowings totaled \$4.7 million and \$5.3 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 or debt instrument, such as the New Notes.

As of June 30, 2024, the Company was not in default under any of its secured borrowings.

### **2012 Term Loan**

As of June 30, 2024 and December 31, 2023, the Company had \$254.2 million and \$262.0 million principal amount outstanding, respectively, under its senior secured term loan (the "2012 Term Loan"), which was secured by 18 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 SOFR plus a margin of 1.75%.

The 2012 Term Loan requires that the Company maintain a maximum loan-to-value ratio (“LTV”) of 70.0% based on the lower of the mean or median of half-life adjusted base values of the financed aircraft as determined by three independent appraisers on a semi-annual basis. The 2012 Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings. The Company was in compliance with all covenants and requirements as of June 30, 2024. During the three months ended June 30, 2024, the Company did not make any prepayments. During the six months ended June 30, 2024, the Company made a prepayment of \$6.9 million on the loan.

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.

### ***Magellan Acquisition Limited Facility***

As of June 30, 2024 and December 31, 2023, the Company had principal amount outstanding in loans and notes of \$148.4 million and \$161.7 million, respectively, 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 SOFR 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 June 30, 2024, the Company had \$133.0 million principal outstanding in loans and \$15.4 million principal outstanding in notes. As of December 31, 2023, the Company had \$144.9 million principal outstanding in loans and \$16.8 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 ratio of (a) 70% through December 8, 2022, (b) 65% from December 9, 2022 through December 8, 2024 and (c) 60% thereafter. The LTV is based on the lower of the average half-life adjusted current market value and base value of all aircraft financed under the facility as determined by three independent appraisers on an annual basis.

Upon the occurrence of certain conditions, including a failure by Fly to maintain a minimum liquidity of at least \$25.0 million, the borrower will be required to deposit certain amounts of maintenance reserves and security deposits received into pledged accounts. Also, upon the occurrence of a breach of the ICR or the LTV ratio and certain other events, all cash collected will be applied to repay the outstanding principal balance of the loans and notes until such breach is cured. The LTV 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 June 30, 2024.

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 obligations may accelerate or demand repayment of amounts due thereunder.

### ***Fly Aladdin Senior Secured Credit Facility***

On November 10, 2023, the Company entered into a \$71.0 million Senior Secured Credit Agreement with BNP Paribas (Singapore branch) and Deutsche Bank AG (Singapore branch) (the “Fly Aladdin Senior Secured Credit Facility”), which is secured by eight aircraft. The maturity dates of each of the loans granted under the Fly Aladdin Senior Secured Credit Facility fall between May 2027 and November 2029. The loans granted under the Fly Aladdin Senior Secured Credit Facility accrue interest on a quarterly basis using the daily non-cumulative compounded RFR Rate plus a margin of 3.5%. Additionally, the Fly Aladdin Senior Secured Credit Facility contains covenants that require the borrower to enter into interest rate swaps to limit the exposure to adverse movements in interest rates in relation to the Fly Aladdin Senior Secured Credit Facility. As of June 30, 2024, the Company had \$65.6 million principal amount outstanding under the Fly Aladdin Senior Secured Credit Facility.

### ***Other Aircraft Secured Borrowings***

The Company has entered into other aircraft secured borrowings to finance the acquisition of aircraft, one of which is denominated in Euros. Scheduled repayments of \$3.0 million and \$6.0 million were made during the three and six months ended June 30, 2024, respectively. As of June 30, 2024 and December 31, 2023, the Company had principal amount outstanding of \$59.3 million and \$65.3 million, respectively, of other aircraft secured borrowings, which was secured by one 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 \$620.0 million aggregate principal amount of its 2.950% Class A Fixed Rate Secured Notes Series 2021-1 (the "Class A Notes"), \$124.2 million aggregate principal amount of its 3.800% Class B Fixed Rate Secured Notes Series 2021-1 (the "Class B Notes") and \$73.4 million 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 "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"). AASET 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 \$584.9 million, \$117.2 million and \$69.3 million, 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 of the Notes and the AOE Notes have a final legal maturity date of November 16, 2041.

As of June 30, 2024 and December 31, 2023, there was \$533.8 million and \$585.1 million, respectively, in aggregate principal amount remaining outstanding under the AOE Notes issued by AASET International, and there were no events of default during the three and six months ended June 30, 2024.

### ***Future Minimum Principal Payments on Secured Borrowings***

During the six months ended June 30, 2024, the Company made scheduled principal payments of \$83.8 million on its secured borrowings. The anticipated future minimum principal payments due for its secured borrowings are as follows (dollars in thousands):

<b>Year ending December 31,</b>	
July 1 through December 31, 2024	\$ 26,824
2025	412,062
2026	26,143
2027	40,735
Thereafter	21,723
<b>Future minimum principal payments due</b>	<b>\$ 527,487</b>

## **10. 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 June 30, 2024 and 2023, the Company had \$319.8 million and \$186.5 million, respectively, 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 SOFR applied to the notional amounts over the life of the contracts. As of June 30, 2024 and June 30, 2023, the Company had interest rate swap contracts with notional amounts aggregating \$205.9 million and \$186.5 million, respectively. The unrealized fair value gain on the interest rate swap contracts, reflected as derivative assets, was \$3.5 million and \$3.3 million as of June 30, 2024 and December 31, 2023, respectively.

To mitigate its exposure to foreign currency exchange fluctuations, the Company entered into a cross-currency swap contract in 2018 in conjunction with a lease in which a portion of the lease rental is denominated in Euros. Pursuant to such cross-currency swap, the Company receives U.S. dollars based on a fixed conversion rate through the maturity date of the swap contract. Over the remaining life of the cross-currency swap contract, the Company expects to receive \$14.0 million in U.S. dollars. The unrealized fair value gain, reflected as a derivative asset, was \$1.0 million and \$1.3 million as of June 30, 2024 and December 31, 2023, 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 six months ended June 30, 2024, the Company recorded \$2.0 million and \$4.1 million, respectively, of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

During the three and six months ended June 30, 2023, the Company recorded \$0.9 million and \$2.1 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 June 30, 2024, the Company had the following designated 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	Gain Recognized in Accumulated Comprehensive Income, Net of Deferred Tax
Interest rate swap contracts	9	12/8/25-11/15/29	2.50%-4.49%	\$ 246,889	\$ 3,698	\$ 3,487
Interest rate swap contract terminated	1	—	—	—	—	1,017
Accrued interest	—	—	—	—	212	—
<b>Total – designated derivative assets as of June 30, 2024</b>	<b>10</b>			<b>\$ 246,889</b>	<b>\$ 3,910</b>	<b>\$ 4,504</b>

As of December 31, 2023, the Company had the following designated derivative instruments classified as derivative liabilities on its balance sheet (dollars in thousands):

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Gain Recognized in Accumulated Comprehensive Income, Net of Deferred Tax
Interest rate swap contracts.	9	12/8/25-11/15/29	2.50%-4.49%	\$ 246,889	\$ 2,357	\$ 3,168
Interest rate swap contract terminated	1	—	—	—	—	1,231
Accrued interest	—	—	—	—	265	—
<b>Total – designated derivative assets as of December 31, 2023</b>	<b>10</b>			<b>\$ 246,889</b>	<b>\$ 2,622</b>	<b>\$ 4,399</b>

#### *Dedesignated Derivatives*

As of June 30, 2024 and December 31, 2023, the Company's cross currency swap no longer qualified for hedge accounting and was dedesignated due to missed rent payments associated with a lease denominated in Euros. The Company had the following dedesignated derivative instrument classified as derivative assets on its balance sheet as of June 30, 2024 and December 31, 2023 (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	\$ 14,029	\$ 2,274	\$ 991
Accrued rent	—	—	—	—	25	—
<b>Total - designated derivative asset as of June 30, 2024</b>	<b>1</b>			<b>\$ 14,029</b>	<b>\$ 2,299</b>	<b>\$ 991</b>

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 Income, Net of Deferred Tax
Cross currency swap contract	1	11/26/25	1 Euro to \$1.3068	\$ 18,980	\$ 2,456	\$ 1,342
Accrued rent	—	—	—	—	21	—
<b>Total - dedesignated derivative asset as of December 31, 2023</b>	<b>1</b>			<b>\$ 18,980</b>	<b>\$ 2,477</b>	<b>\$ 1,342</b>

At June 30, 2024 and December 31, 2023, the Company had an accumulated other comprehensive gain, net of deferred tax, of \$1.0 million and \$1.3 million, respectively, which will be amortized over the remaining term of the cross currency swap contract. During the six months ended June 30, 2024 and June 30, 2023, respectively, the Company reclassified \$0.6 million and \$0.3 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.

The Company had no dedesignated derivative instruments as of June 30, 2024.

## 11. 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 10.7% and 16.4% for the three and six months ended June 30, 2024, 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.

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 June 30, 2024 and December 31, 2023. The recent planned increase of the corporation tax rate from 12.5% to 15.0% is not expected to have a material impact on the financial statements of the Company.

## 12. OTHER LIABILITIES

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

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
Lease incentive obligation	\$ 21,543	\$ 8,969
Deferred rent	5,238	4,431
Refundable deposits	2,115	295
Other	9,202	6,237
<b>Total other liabilities</b>	<b>\$ 38,098</b>	<b>\$ 19,932</b>

## 13. 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 Depositary Shares, were cancelled and converted into the right to receive \$17.05 in cash, without interest, subject to deduction for any required withholding tax. Following the Merger, Fly became 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.

As of June 30, 2024 and December 31, 2023, The Company had 532,706 common shares issued and outstanding and no other shares of share capital outstanding, respectively.

During the six months ended June 30, 2024, Parent contributed \$68.0 million in cash to Fly's contributed surplus account. This contributed surplus represents cash contributed to Fly by its shareholder in excess of Fly's issued share capital. Contributed surplus can be in the form of cash or other assets. The distinguishing feature of contributed surplus is that Fly does not issue shares in exchange for contributions to contributed surplus. No approval from the Bermuda Monetary Authority is required for the making of contributions into Fly's contributed surplus account.

The Company did not issue nor repurchase any shares during the three and six months ended June 30, 2024 and 2023.

### **Dividends**

The Company paid dividends amounting to \$10.5 million during the three and six months ended June 30, 2024. No dividends were declared or paid during the three and six months ended June 30, 2023.

## **14. 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 six month periods ended June 30, 2024 and June 30, 2023, the Company recognized income of \$0.1 million and \$0.3 million, respectively, related to the amortization of the residual guarantee fees. The RVGs contain covenants requiring the Company to post cash collateral in an aggregate amount of \$23.0 million as security for the Company's obligations upon the occurrence of certain corporate events, including a change in control, a downgrade in the Company's corporate family rating beyond a specified threshold, or a sale of all or substantially all of the Company's assets. The consummation of the Merger triggered the requirement to post cash collateral for the RVGs, which was posted during the year ended December 31, 2021. This cash collateral is included as other assets in the consolidated balance sheet.

## **15. 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 "BBAM Manager") and the Carlyle Manager entered into the sub-servicing agreement whereby the BBAM Manager and related 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 six months ended June 30, 2024, BBAM received servicing and administrative fees from the Company totaling \$1.2 million and \$2.3 million, respectively. For the three and six months ended June 30, 2023, BBAM did not receive servicing and administrative fees from the Company. As of June 30, 2024 and December 31, 2023, respectively, the Company has a total of \$9.6 million and \$8.1 million of servicing and administrative fees payable to BBAM.

BBAM also was entitled to receive an acquisition fee of 1.5% of the gross acquisition cost for any aviation asset purchased by the Company, and a disposition fee of 1.5% of the gross proceeds for any aviation asset sold by the Company. During the three and six months ended June 30, 2024, the Company did not incur disposition fees that are payable to BBAM. During the three and six months ended June 30, 2023, the Company did not incur disposition fees that are payable to BBAM.

## *AASET 2021-1*

Carlyle Aviation also acts as servicer for AASET International. During the six months ended June 30, 2024 and 2023, the Company incurred service fees of \$2.1 million and \$2.1 million, respectively.

As of June 30, 2024 and December 31, 2023, the Company had an amount payable to a related party, AASET US, of \$2.4 million and \$2.4 million, respectively, for service fees.

### **16. 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).

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 U.S. GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include Portfolio B orderbook value and flight equipment held for operating lease, net (Level 3).

The Company records flight equipment at fair value when the carrying value may not be recoverable. Such fair value measurements are based on management's best estimates and judgment and use Level 3 inputs which include assumptions of future projected lease rates, re-leasing costs, estimated down time and estimated residual or scrap values of the aircraft on its eventual disposition. The Company will record an impairment charge if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset. The impairment charge is equal to the excess of the carrying amount of the impaired asset over its fair value. Fair value reflects the present value of the expected future cash flows, discounted at an appropriate rate. The Company did not record an impairment charge on flight equipment during the three and six months ended June 30, 2024 and 2023.



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

	<u>As of June 30, 2024</u>		<u>As of December 31, 2023</u>	
	<b>Principal</b>		<b>Principal</b>	
	<b>Amount</b>		<b>Amount</b>	
	<u>Outstanding</u>	<u>Fair Value</u>	<u>Outstanding</u>	<u>Fair Value</u>
2012 Term Loan	\$ 254,188	\$ 246,880	\$ 261,975	\$ 247,566
Magellan Acquisition Limited Facility <sup>(1)</sup>	148,417	148,417	161,688	161,688
Fly Aladdin Senior Secured Credit Facility <sup>(1)</sup>	65,564	65,564	71,000	71,000
New Notes	5,982	5,922	200,113	193,109
2024 Notes	111,161	104,908	7,097	6,634
Class A Note	386,407	352,209	422,675	380,133
Class B Note	78,109	65,916	95,169	80,261
Class C Note	69,282	57,792	67,299	49,455

(1) The Company has determined that the fair value of the Magellan Acquisition Limited Facility and the Fly Aladdin Senior Secured Credit Facility approximate their carrying value.

As of June 30, 2024, and December 31, 2023, 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):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>June 30, 2024:</b>				
Derivative assets	\$ —	\$ 6,209	\$ —	\$ 6,209
Investment in equity certificates	—	459	—	459
Financial assets held at fair value (Note 7)	—	10,455	—	10,455
<b>December 31, 2023:</b>				
Derivative assets	—	5,099	—	5,099
Investment in equity certificates	—	543	—	543
Financial assets held at fair value	—	10,327	—	10,327

## 17. COMPARATIVE INFORMATION

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

## 18. SUBSEQUENT EVENTS

Subsequent to the period end, during August 2024, the Company repurchased \$18.6 million of the New Notes, at an average discount of 0.19%, for \$18.6 million in aggregate consideration.

On August 28, 2024, the Company sold eight of the nine aircraft that served as collateral for the Magellan Acquisition Limited facility. A portion of the proceeds were used to fully repay the Magellan Acquisition Limited facility.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements for the year ended December 31, 2023. The consolidated financial statements have been prepared in accordance with U.S. GAAP and are presented in U.S. dollars. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global, regional, or local political, economic, business, competitive, market, regulatory and other factors, many of which are beyond our control. See "Forward Looking Statements" at the beginning of this report. Capitalized terms used herein and not otherwise defined have the meaning given to them in the financial statements included elsewhere in this report.*

### Overview

Fly Leasing Limited is a Bermuda exempted company that was incorporated on May 3, 2007, under the provisions of Section 14 of the Companies Act 1981 of Bermuda. We are principally engaged in purchasing commercial aircraft and aircraft equipment, which we lease under multi-year contracts to a diverse group of airlines throughout the world. As of June 30, 2024, the Company had 60 aircraft and seven engines held for operating lease, four aircraft held for sale, and one aircraft was off lease. Aircraft and engines held for operating lease were on lease to 34 lessees in 20 countries. As of June 30, 2024, the weighted average remaining lease term of the Company's aircraft held for operating lease was 6.6 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 three and six months ended June 30, 2024, we had a net loss of \$2.2 million and net income of \$7.8 million, respectively. For the six months ended June 30, 2024, net cash flows provided by operating activities totaled \$66.2 million, net cash flows provided by investing activities totaled \$Nil and net cash flows used in financing activities totaled \$101.6 million. As of June 30, 2024, we had \$20.5 million in unrestricted cash and cash equivalents and an additional \$62.5 million in restricted cash and cash equivalents.

### Recent Developments

#### Note Repurchases

In the six month ended June 30, 2024, the Company repurchased \$89.0 million of the New Notes at an average discount to par of 0.6% for \$88.6 million in aggregate consideration and repurchased \$1.1 million of the 2024 Notes at an average discount to par of 0.6% for \$1.1 million in aggregate consideration. Each class of Notes mature on October 15, 2024 and we intend to repay them with cash on hand upon maturity.

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

#### Russia-Ukraine Conflict

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. In order to comply with the sanctions, the Company, as an Irish (EU) domiciled lessor, terminated all six of its leases to Russian airlines during the year ended December 31, 2022.

For the six months ended June 30, 2024, the Company did not have any flight equipment that was the subject of leases with Russian counterparties.

Due to restrictions under applicable sanctions and export control laws and regulations, the actions of the Russian government and the stance adopted by the Russian lessees, attempts to repossess the aircraft were unsuccessful and while such attempts continue, we do not expect them to be successful. The Company made a claim for recovery of insurance proceeds under its insurance policy. The likelihood of success regarding the claim made is unknown. 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 June 30, 2024. At the date of this report, the complete financial impact of these events on the Company cannot be fully determined until the insurance claims submitted have been completed.

The invasion of Ukraine is a significant geopolitical and economic event for the global economy, in particular the aviation industry, and there is uncertainty over how the future development of this conflict will affect the Company. The conflict has led to increased fuel prices, inflation, interest rate increases, supply chain concerns, and rerouting of flights because of restrictions on the use of airspace, which will all place additional pressure on airlines. Prolonged unrest, additional military activities, expansion of hostilities, or additional broad-based sanctions, could also have a material adverse effect on the operations and business outlook of the Company. For example, if Russia were to invade other countries, such as Moldova, it could adversely affect the Company's business. The specific impacts on the Company may include the inability of airline customers to meet their lease obligations because of reduced cash flow, which in turn may lead to an increase in lease defaults and related repossessions.

## **Market Conditions**

### **Covid-19 Recovery**

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. According to the International Air Transport Association ("IATA"), air traffic has largely recovered from the lows of the pandemic, especially in respect of domestic aviation, with December 2023 domestic traffic at 2.3% above December 2019 levels. International air traffic demand has made almost a full recovery and is expected to fully recover by the end of 2024, with December 2023 international traffic at 94.7% of the level in December 2019. However, many airlines continue to experience negative cash flows, likely due to the lingering effects of these events.

### **Inflation and Interest Rates:**

Our operations could also be impacted by global economic conditions, including inflation, increased interest rates and supply chain constraints. Many developed and developing economies throughout the world have been experiencing significant inflation. We are monitoring the effects of inflation on both our customers and the global economy in order to address any potential effects on our business.

In 2023 and for the six months ended June 30, 2024, inflationary pressures increased our costs for interest rates and professional fees necessary to operate our business. After almost 10 years of low interest rate environments, inflationary pressures have resulted in increased interest rates by central banks globally in a bid to combat inflation. As a result, the costs of our floating rate debt increased and to the extent we incur additional indebtedness the interest rates we are charged may be significantly higher than our interest rates in prior years, which increases our cost to operate our business.

While we attempt to manage these increases through hedging arrangements and lease rate increases, they may take time to put in place and may not be successful.

### **Market Risk:**

It is possible that the lingering economic impact of the COVID-19 pandemic, the Russia-Ukraine conflict and geopolitical conflicts generally, and the increase in inflation and interest rates across the globe, will lead to additional airline restructurings and bankruptcies in the future. Downturns in the general economy or in the airline market, as well as adverse credit market conditions, could disproportionately affect the demand for our aircraft and cause business to decrease.

In addition, other pressures such as environmental impact concerns, inflation and other decreases in purchasing power, rising interest rates, Brexit, the conflicts in the Middle East, and ongoing U.S.-China trade tensions could affect the economic health of airlines and the aircraft leasing market. Similar risk could affect the financial condition of our customers which, in turn, could lead to difficulties in complying with lease terms. These and other factors, known and unknown, may adversely affect the airline industry and the airline leasing market long into the future.

## 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.

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 June 30, 2024, the Company had 60 aircraft and seven engines held for operating lease, four aircraft held for sale, and one aircraft was off lease. Aircraft and engines held for operating lease were on lease to 34 lessees in 20 countries. As of December 31, 2023, the Company had 64 aircraft and seven engines held for operating lease, of which 63 aircraft and seven engines were on lease to 34 lessees in 20 countries and one aircraft was off lease.

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.

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 three and six months ended June 30, 2024, the Company recorded no additional provision for uncollectible operating lease receivables.

At June 30, 2024, the Company had seven lessees, leasing a total of 10 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. For the three months ended June 30, 2024, the Company recognized \$7.4 million of operating lease revenue from these lessees and would have recognized \$2.1 million of additional operating lease revenue had these lessees not been placed on non-accrual status. For the six months ended June 30, 2024, the Company recognized \$16.6 million of operating lease revenue from these lessees and would have recognized \$3.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At June 30, 2023, the Company had eight lessees, leasing a total of 12 aircraft and one engine, on non-accrual. For the three month period ended June 30, 2023, the Company recognized \$8.8 million of operating lease revenue from these lessees and would have recognized \$12.3 million of additional operating lease revenue had these lessees not been placed on non-accrual status. For the six months ended June 30, 2023, the Company recognized \$21.6 million of operating lease revenue from these lessees and would have recognized \$12.4 million of additional operating lease revenue had these lessees not been placed on non-accrual status. For the six months ended June 30, 2023, the Company collected \$4.0 million of outstanding lease rental payments from one lessee, where the lease had also expired during the six months ended March 31, 2023.

The Company has also agreed to lease restructurings with certain of its lessees. At June 30, 2024, the Company had 13 agreements in place with six lessees to defer their rent payment obligations for 13 aircraft totaling \$35.7 million due to the Company over the life of the leases. These deferrals are for an average of 25 months with approximately 56% of the deferrals to be repaid by the end of 2024. As of June 30, 2024 and December 31, 2023, the deferral repayments received as a percentage of the scheduled deferral repayments were 45.6% and 60.0%, respectively.

	<u>Rent Deferrals Granted</u>	<u>Scheduled Deferral Repayments</u>
	<u>(Dollars in thousands)</u>	
2021	\$ 9,755	\$ 405
2022	19,106	7,504
2023	6,861	4,810
2024	—	7,132
2025	—	7,132
Thereafter	—	8,739
<b>Total</b>	<b>\$ 35,722</b>	<b>\$ 35,722</b>

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

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

Management's discussion and analysis of operating results presented below pertain to the consolidated statements of income of Fly for the six months ended June 30, 2024 and 2023.

*Consolidated Statements of Income for the six months ended June 30, 2024 and 2023*

	<u>Six months ended June 30</u>		
	<u>2024</u>	<u>2023</u>	<u>Increase/ (Decrease)</u>
	<u>(Dollars in thousands)</u>		
<b>Revenues</b>			
Operating lease revenue	\$ 106,813	\$ 106,619	\$ 194
Gain on modification and extinguishment of debt	—	3,380	(3,380)
Gain on derivatives	6,357	2,177	4,180
Interest and other income	6,207	10,526	(4,319)
<b>Total revenues</b>	<b>\$ 119,377</b>	<b>\$ 122,702</b>	<b>\$ (3,325)</b>
<b>Expenses</b>			
Depreciation	\$ 42,386	46,033	\$ (3,647)
Interest expense	41,396	48,490	(7,094)
Selling, general and administrative	9,069	9,176	(107)
Write-off of uncollectible operating lease receivables	891	267	624
Loss on sale of aircraft, net	—	2,296	(2,296)
Provision for aircraft impairment	10,907	—	10,907
Loss on modification and extinguishment of debt	278	—	278
Fair value loss on marketable securities	84	—	84
Maintenance and other costs	5,030	8,936	(3,906)
<b>Total expenses</b>	<b>\$ 110,041</b>	<b>\$ 115,198</b>	<b>\$ (5,157)</b>
<b>Net income before provision for income taxes</b>	<b>\$ 9,336</b>	<b>\$ 7,504</b>	<b>\$ 1,832</b>

	<u>Six months ended</u>		<u>Increase/ (Decrease)</u>
	<u>June 30, 2024</u>	<u>June 30, 2023</u>	
	(Dollars in thousands)		
<b>Operating lease revenue:</b>			
Operating lease rental revenue	\$ 99,413	\$ 102,293	\$ (2,880)
End of lease income	9,255	5,894	3,361
Amortization of lease incentives	(1,533)	(303)	(1,230)
Amortization of lease premium, discounts and other	(322)	(1,265)	943
<b>Total operating lease revenue</b>	<b><u>\$ 106,813</u></b>	<b><u>\$ 106,619</u></b>	<b><u>\$ 194</u></b>

For the six months ended June 30, 2024, operating lease revenue totaled \$106.8 million, an increase of \$0.2 million compared to the six months ended June 30, 2023. The increase was primarily due to an increase of \$1.3 million in maintenance payment liabilities recognized into earnings as a result of one aircraft that was re-delivered from an airline customer, additional end of lease income of \$0.7 million received in relation to one aircraft and an increase in end of lease income due to the release of a lessor contribution liability of \$1.4 million. The increase was partially offset by a decrease in operating lease rental revenue of \$2.9 million due to lower collections from lessees categorized under non-accrual status and an increase in the net amortization of lease premiums and lease incentives of \$0.3 million during the six months ended June 30, 2024 compared to the same period in 2023.

Interest and other income totaled \$6.2 million for the six months ended June 30, 2024, a decrease of \$4.3 million compared to the six months ended June 30, 2023. The decrease was primarily due to a reduction in interest income related to interest rate swap contracts as a number of interest rate swap positions were closed during the year ended December 31, 2023.

Net gain on derivatives totaled \$6.4 million for the six months ended June 30, 2024, an increase of \$4.2 million compared to the six months ended June 30, 2023. The increase is primarily attributed to the reduction in losses recognized on the fair value adjustments on open interest rate swap positions and as well as reduction on the losses that have arisen from the closed interest swap contracts.

Depreciation expense was \$42.4 million for the six months ended June 30, 2024, a decrease of \$3.6 million compared to the six months ended June 30, 2023. The decrease was primarily due to the sale of two aircraft from the portfolio subsequent to the six months ended June 30, 2023, and the resultant decrease in depreciation on the aircraft and associated aircraft improvements that were capitalized.

Interest expense totaled \$41.4 million for the six months ended June 30, 2024, a decrease of \$7.1 million compared to the six months ended June 30, 2023. The decrease was primarily due to the repurchase of \$92.7 million of New Notes and 2024 Notes subsequent to the six months ended June 30, 2023, in addition to the repurchase of \$89.7 million of New Notes and 2024 Notes during the six months ended June 30, 2024.

For the six months ended June 30, 2024, we recorded a loss on debt extinguishment totaling \$0.3 million related to the repurchase of the New and 2024 Notes. For the six months ended June 30, 2023, we recognized a gain on debt extinguishment of \$3.4 million related to the repurchase of the New Notes and 2024 Notes.

Provision for aircraft impairment totaled \$10.9 million for the six months ended June 30, 2024, an increase of \$10.9 million compared to the six months ended June 30, 2023. The increase was due to the impairment assessment carried out on four aircraft that were classified as held for sale during the six months ended June 30, 2024. The four aircraft had a carrying value that was higher than the expected sales price less costs to sell of the aircraft upon held for sale classification and the aircraft were consequently written down to their respective sales price less costs to sell with the resultant impairment amounting to \$10.9 million.

Maintenance and other costs totaled \$5.0 million for the six months ended June 30, 2024, a decrease of \$3.9 million compared to the six months ended June 30, 2023. The decrease was primarily due to a reduction in the number of aircraft off-lease and the associated maintenance and technical expenses incurred when compared to the six months ended June 30, 2023.

## Liquidity and Capital Resources

### Overview

Our business is capital intensive, requiring significant investment to maintain and expand our fleet. We have pursued a strategy of disciplined fleet growth.

We finance our business with unrestricted cash, cash generated from flight equipment leases, aircraft sales and debt and equity financings. As of June 30, 2024, we had \$20.5 million of unrestricted cash and \$62.5 million restricted cash. We also owned one

unencumbered aircraft on lease with an aggregate book value of \$17.3 million and seven unencumbered engines with an aggregate book value of \$24.7 million.

In recent years, our debt financing strategy has been to diversify our lending sources and to utilize both secured and unsecured debt financing.

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 ongoing conflict between Russia and Ukraine, and the related economic sanctions, increasing interest rates and geopolitical conflicts generally, our liquidity is sufficient to satisfy our anticipated operational and other business needs for the foreseeable future; however, we cannot guarantee 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.

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

### ***Cash Flows for the six months ended June 30, 2024 and 2023***

Cash provided by operating activities for the six months ended June 30, 2024, totaled \$66.2 million, compared to cash provided by operating activities of \$61.7 million for the six months ended June 30, 2023, a period-over-period increase of \$4.5 million. The increase was primarily attributable to an improvement in the working capital position in the six months ended June 30, 2024 as compared to June 30, 2023.

Net cash flows provided by investing activities was \$Nil and \$12.4 million for the six months ended June 30, 2024 and 2023, respectively. Cash used by investing activities totaled \$Nil and \$1.5 million, for the six months ended June 30, 2024 and 2023, respectively. During the six months ended June 30, 2024, the Company did not acquire or dispose of any flight equipment held for operating lease. During the six months ended June 30, 2023, three engines previously classified as held for sale were sold to a third party for aggregate proceeds of \$11.0 million.

Net cash flows used in financing activities totaled \$101.6 million and \$91.1 million for the six months ended June 30, 2024 and 2023, respectively. Cash used in financing activities totaled \$198.0 million and \$197.9 million, for the six months ended June 30, 2024 and 2023, respectively. During the six months ended June 30, 2024 and 2023, the Company made repayments on its unsecured and secured borrowings totaling \$175.8 million and \$196.9 million, respectively. During the six months ended June 30, 2024, Fly incurred no additional borrowings. During the six months ended June 30, 2024 and 2023, the Company paid a dividend of \$10.5 million and \$Nil, respectively.

### ***Maintenance Cash Flows***

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

We generally expect that the aggregate maintenance reserve and lease end adjustment payments we receive from lessees will meet the aggregate maintenance contributions and lease end adjustment payments that we will be required to make. During the three and six months ended June 30, 2024, we received \$15.0 million and \$27.7 million of maintenance payments from lessees and made maintenance payment disbursements of \$10.1 and \$10.5 million, respectively.

### ***Debt securities and credit agreements***

For a discussion of the Company's debt securities and credit agreements, see Note 8. Unsecured Borrowings and Note 9. 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 June 30, 2024, the weighted average age of our portfolio was 11.4 years.

We currently have no fleet acquisitions planned for 2024.