Fly Leasing Limited

Interim Consolidated Financial Report

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

As of and for the Three and Nine Months Ended

September 30, 2023

Unless the context requires otherwise, when used in this interim report (the "Interim Report"), (1) the term "Fly" refers to Fly Leasing Limited; (2) the terms "Company," "we," "our" and "us" refer to Fly and its subsidiaries; (3) the term "Carlyle Manager" refers to Carlyle Aviation Management Limited, as servicer or sub-servicer, as applicable; and (4) the term "Parent" refers to Carlyle Aviation Fly Ltd. Fly's parent.

EXPLANATORY NOTE

On August 2, 2021, an affiliate of Carlyle Aviation Partners Ltd. ("Carlyle Aviation") completed its previously announced acquisition (the "Merger") of Fly pursuant to a merger agreement (the "Merger Agreement"). Upon consummation of the Merger, Fly became a privately held company and ceased reporting with the United States Securities and Exchange Commission (the "SEC"). Affiliates of Carlyle Aviation are the owners of Fly and the primary manager and servicer for Fly and certain of its subsidiaries and the sub-servicer for certain other subsidiaries. This Interim 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, 2022.

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 September 30, 2023.

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 and 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.

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Fly Leasing Limited
Consolidated Balance Sheets

AS OF SEPTEMBER 30, 2023 (UNAUDITED) AND DECEMBER 31, 2022
(Dollars in thousands, except par value data)

	Note	September 30, 2023	December 31, 2022
Assets			
Cash and cash equivalents		$ 29,389	$ 75,429
Restricted cash and cash equivalents		65,547	75,630
Rent receivables, net	6(c)	35,457	37,007
Flight equipment held for sale, net	5	-	15,950
Flight equipment held for operating lease, net	6(a)	1,719,886	1,795,467
Maintenance rights	7	224,354	235,394
Deferred tax asset, net	12	-	221
Fair value of derivative assets	11	10,134	15,611
Other assets, net	8	55,580	63,175
Total assets		**$ 2,140,347**	**$ 2,313,884**
Liabilities			
Accounts payable and accrued liabilities		$ 20,708	$ 19,917
Rentals received in advance		6,129	5,858
Payable to related parties	16	7,186	8,855
Security deposits		32,454	32,005
Maintenance payment liability, net		214,085	186,780
Unsecured borrowings, net	9	280,286	297,338
Secured borrowings, net	10	1,079,401	1,288,733
Deferred tax liability, net	12	55,717	53,252
Other liabilities	13	18,859	16,852
Total liabilities		$ **1,714,825**	$ **1,909,590**
Shareholders' equity			
Common shares, $0.001 par value; 500,000,000 shares authorized; 532,706 shares issued and outstanding as of September 30, 2023 and December 31, 2022	14	1	1
Additional paid-in capital	14	403,202	403,202
Capital contribution surplus	14	103,400	90,000
Retained deficit		(88,232)	(97,024)
Accumulated other comprehensive income, net		7,151	8,115
Total shareholders' equity		**425,522**	**404,294**
Total liabilities and shareholders' equity		**$ 2,140,347**	**$ 2,313,884**

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

Fly Leasing Limited
Consolidated Statements of Income (Loss)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022 (UNAUDITED)
(Dollars in thousands)

		Three months ended		Nine months ended	
	Note	**September 30, 2023**	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Revenues					
Operating lease revenue	*6(b)*	$ 55,235	$ 48,586	$ 161,854	$ 184,572
Finance lease revenue	*4*	—	36	-	257
Gain on modification and extinguishment of debt, net		5,871	12,312	9,251	11,861
Gain on derivatives	*11*	707	4,915	2,884	14,010
Gain on deconsolidation of subsidiaries		—	8,085	—	8,085
Interest and other income		1,833	323	12,359	2,046
Total revenues		**63,646**	**74,257**	**186,348**	**220,831**
Expenses					
Depreciation	*6(a)*	23,978	22,767	70,011	75,218
Derecognition of maintenance rights		11,040	—	11,040	—
Interest expense		22,351	35,786	70,841	94,327
Selling, general and administrative		4,052	3,042	13,228	11,246
Write-off of uncollectible operating lease receivables	*6(c)*	—	—	267	2,240
Loss on sale of aircraft, net	*5*	2,805	—	5,101	674
Fair value loss on marketable securities		—	358	—	2,367
Loss on derecognition of flight equipment	*6(a)*	—	—	—	138,361
Maintenance and other costs		(4,261)	4,785	4,675	17,021
Total expenses		**59,965**	**66,738**	**175,163**	**341,454**
Net profit (loss) before (provision) benefit for income taxes		**3,681**	**7,519**	**11,185**	**(120,623)**
(Provision) benefit for income taxes	*12*	(931)	886	(2,393)	4,045
Net income (loss)		**$ 2,750**	**$ 8,405**	**$ 8,792**	**$ (116,578)**

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

Fly Leasing Limited
Consolidated Statements of Comprehensive Income (Loss)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022 (UNAUDITED)
(Dollars in thousands)

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net income (loss)	**$ 2,750**	**$ 8,405**	**$ 8,792**	**$ (116,578)**
Other components of comprehensive income (loss), net of deferred tax:				
Change in fair value of derivatives, net of deferred tax(1)	187	7,259	(2,462)	25,218
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax(2)	1,559	(181)	1,498	(705)
Comprehensive income (loss)	**$ 4,496**	**$ 15,483**	**$ 7,828**	**$ (92,065)**

(1) The associated deferred tax (expense) and deferred tax benefit was $(23) and $251 for the three and nine months ended September 30, 2023, respectively. The associated deferred tax benefit was $1,195 and $4,235 for the three and nine months ended September 30, 2022, respectively. The deferred tax expense and benefit is a function of differing tax rates across multiple jurisdictions within the Company.

(2) The associated deferred tax expense was $(258) and $(345) for the three and nine months ended September 30, 2023, respectively. The associated deferred tax expense was $(94) and $(332) for the three and nine months ended September 30, 2022, respectively. The deferred tax expense and benefit is a function of differing tax rates in a single jurisdiction within the Company.

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

Fly Leasing Limited
Consolidated Statement of Shareholders' Equity

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 (UNAUDITED)
(Dollars in thousands)

	Common Shares (2)		Additional Paid-in Capital	Capital Contribution (2)	Retained Deficit	Accumulated Other Comprehensive Income, net	Total Shareholders' Equity
	Shares	Amount					
Balance December 31, 2022	**532,706**	**$ 1**	**$ 403,202**	**$ 90,000**	**$ (97,024)**	**$ 8,115**	**$ 404,294**
Net income	—	—	—	—	6,000	—	6,000
Net change in the fair value of derivatives, net of deferred tax benefit of $225 (1)	—	—	—	—	—	(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 $(48) (1)	—	—	—	—	—	(43)	(43)
Balance March 31, 2023	**532,706**	**$ 1**	**$ 403,202**	**$ 90,000**	**$ (91,024)**	**$ 4,618**	**$ 406,797**
Net income	—	—	—	—	42	—	42
Capital contribution from parent (2)	—	—	—	13,400	—	—	13,400
Net change in the fair value of derivatives, net of deferred tax benefit of $49 (1)	—	—	—	—	—	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 $(39) (1)	—	—	—	—	—	(18)	(18)
Balance June 30, 2023	**532,706**	**$ 1**	**$ 403,202**	**$ 103,400**	**$ (90,982)**	**$ 5,405**	**$ 421,026**
Net income	—	—	—	—	2,750	—	2,750
Net change in the fair value of derivatives, net of deferred tax expense of $(23) (1)	—	—	—	—	—	187	187
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax expense of $(258) (1)	—	—	—	—	—	1,559	1,559
Balance September 30, 2023	**532,706**	**$ 1**	**$ 403,202**	**$ 103,400**	**$ (88,232)**	**$ 7,151**	**$ 425,522**

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

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

Fly Leasing Limited
Consolidated Statement of Shareholders' Equity

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

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

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

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

Fly Leasing Limited
Consolidated Statements of Cash Flows

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022 (UNAUDITED)
(Dollars in thousands)

	Note	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash Flows from Operating Activities			
Net income (loss)		**$ 8,792**	**$ (116,578)**
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Loss on sale of aircraft, net	5	5,101	674
Depreciation	6(a)	70,011	75,218
Loss on derecognition of flight equipment	6(a)	—	138,361
Gain on derecognition of subsidiaries		—	(8,085)
Maintenance payment liability and security deposits recognized in earnings		(5,651)	—
Maintenance rights recognized in earnings		11,040	—
Amortization of debt discounts and debt issuance costs		5,483	16,464
Amortization of lease incentives and other items		4,147	576
Write-off of uncollectible operating lease receivables		267	2,240
Fair value loss on marketable securities	8	—	2,367
Gain on modification and extinguishment of debt	9	(9,251)	(11,816)
Provision (benefit) for deferred income taxes		2,393	(4,045)
Other		1,424	(11,790)
Changes in operating assets and liabilities:			
Rent receivables		674	(13,053)
Other assets		6,629	(7,230)
Payable to related parties		(1,669)	—
Accounts payable, accrued liabilities and other liabilities		357	(34,317)
Net cash flows provided by operating activities		**$ 99,747**	**$ 28,986**
Cash Flows from Investing Activities			
Proceeds from sale of aircraft, net	6(a)	27,751	285,313
Purchase of aircraft engine	6(a)	(3,365)	(15,028)
Payments for aircraft improvement		(743)	(7,323)
Advances to ultimate parent		—	(2,242)
Other		—	(3,072)
Net cash flows provided by investing activities		**$ 23,643**	**$ 257,648**
Cash Flows from Financing Activities			
Security deposits received		165	1,510
Security deposits returned		(801)	—
Maintenance payment liability receipts		34,340	17,384
Maintenance payment liability disbursements		(955)	(12,859)
Repayment of secured borrowings	10	(207,348)	(772,906)
Repayment of unsecured borrowings	9	(95,009)	(37,683)
Debt drawdown	9	76,432	—
Capital contribution	14	13,400	—
Net cash flows used in financing activities		**$ (179,776)**	**$ (804,554)**
Effect of exchange rate changes on unrestricted and restricted cash and cash equivalents		263	568
Net decrease in unrestricted and restricted cash and cash equivalents		(56,123)	(517,352)
Unrestricted and restricted cash and cash equivalents at beginning of period		151,059	637,090
Unrestricted and restricted cash and cash equivalents at end of period		**$ 94,936**	**$ 119,738**
Reconciliation to Consolidated Balance Sheets:			
Cash and cash equivalents		$ 29,389	$ 34,752
Restricted cash and cash equivalents	3	65,547	84,986
Unrestricted and restricted cash and cash equivalents		**$ 94,936**	**$ 119,738**

The accompanying notes are an integral part of these 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 Fly was organized under the laws of Ireland.

The immediate parent of Fly is Carlyle Aviation Fly Ltd. ("Parent") (formerly, Carlyle Aviation Elevate Ltd.), a Cayman exempted company. Fly'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 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 10, 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 JUDGEMENTS

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 judgements 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 judgements.

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. The ongoing conflict between Russia and Ukraine, and the related economic sanctions imposed including those on Russia by the United States (the "U.S."), the European Union (the "EU"), Japan and other countries throughout the world have led to, among other things, volatility in the capital markets, increases in inflation and supply chain issues, all of which have been exacerbated by the Israel/Hamas war and increased these and other risks faced by the Company. More recently, capital markets have also been affected by concerns regarding the health of the banking system.

COVID-19 PANDEMIC

The COVID-19 pandemic had widespread and unprecedented impacts on regional, national, and global economies. While many of the severe limitations imposed on travel by various governments have been lifted and travel has recovered from the lows experienced in 2020 and 2021, in 2022, and the nine months ended September 30, 2023 some airlines still required additional support from their respective governments, raised debt and equity, requested concessions from lessors, and in certain cases, sought judicial protection, and may continue doing so as the industry continues its recovery.

RUSSIAN INVASION OF UKRAINE

Following the Russian invasion of Ukraine on February 24, 2022, the United States, the European Union and other jurisdictions have imposed sanctions and other restrictive measures against certain Russian individuals and entities, and certain activities involving Russia or Russian entities. Such measures include Regulation 2022/328 adopted by the EU on February 26, 2022 ("Regulation 2022/328"). Among other things, Regulation 2022/328 prohibits the supply of aircraft by EU entities to Russian entities or for use in Russia, subject to a 30-day wind-down period. In order to comply with the sanctions, the Company, as an Irish (EU) domiciled lessor, terminated all six of its leases to Russian airlines.

For the nine months ended September 30, 2022, the Company recorded a loss on derecognition of flight equipment of $138.4 million related to five of its narrow-body and one wide-body aircraft that were on lease to Russian lessees. These aircraft were derecognized in March 2022 as attempts of repossessing the aircraft including the related technical records were unsuccessful and, while such attempts continue, we do not expect them to be successful. During the nine months ended September 30, 2022, the Company recognized $2.7 million of lease revenue from lessees based in Russia. The leases were terminated in the second quarter of 2022. Contracted future rentals from these lessees as at termination of the leases was $67.8 million. The Company held $4.0 million of security deposits and $28.0 million of maintenance reserves against these leases. These amounts were retained by the Company in the nine months ended September 30, 2022, derecognized from the Balance Sheet, and recognized as end of lease income, within operating lease revenue in the consolidated statement of income (loss). Lease rental receivables totaling $2.2 million were fully written off during the nine months ended September 30, 2022.

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 September 30, 2023. 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 due to 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, 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.

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 nine months ended September 30, 2023 and 2022, the Company did not recognize any impairment expense for flight equipment.

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 8 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.

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

INCOME TAXES

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

The Company recognizes an uncertain tax benefit only to the extent that it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The Company has elected to classify interest on unpaid income taxes and penalties as a component of the provision (benefit) for income taxes. No interest on unpaid income taxes and penalties were incurred during the nine months ended September 30, 2023 and 2022.

NEW ACCOUNTING PRONOUNCEMENTS

In March 2022, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method,* which clarifies the guidance in Accounting Standards Codification ("ASC") 815 on fair value hedge accounting of inherent rate risk for portfolios of financial assets. ASU 2022-01 amends the guidance in ASU 2017-12 (released on August 28, 2017) that, among other things, establishes the "last layer" method for making the fair value hedge accounting for these portfolios accessible. ASU 2022-01 renames that method the "portfolio layer" method and addresses feedback from stakeholders regarding its application. The FASB's objectives in issuing ASU 2017-12 were to better align an entity's financial reporting with the results of its risk management strategy and to improve the hedge accounting model by simplifying it. To that end, the FASB also issued a proposed ASU on November 12, 2019, that would clarify certain amendments made by ASU 2017-12; however, those are unrelated to portfolio fair value hedge accounting. The proposal has not yet been finalized. The ASU became effective for accounting periods beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of the standard by the Company did not have a material effect on the Company's consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326)*: *Troubled Debt Restructurings and Vintage Disclosures,* which eliminates the accounting guidance on troubled debt restructurings ("TDRs") for creditors in ASC 310-40 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancing and restructurings for borrowers experiencing financial difficulty. The ASU became effective for accounting periods beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of the standard by the Company did not have a material effect on the Company's consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, which aims to (1) clarify the guidance in Topic 820, *Fair Value Measurement*, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of the equity security, (2) amend the related illustrative example, and (3) introduce new disclosure requirements for such securities that are measured at fair value in accordance with Topic 820. The ASU will become effective for accounting periods beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect the adoption of the standard to have a material effect on the Company's consolidated financial statements.

In September 2022, the FASB issued ASU 2022-04, *Disclosure of Supplier Finance Program Obligations*, which adds to the Codification a new Subtopic ASC 405-50, Liabilities – Supplier Finance Programs. ASC 405-50 requires certain annual and interim disclosures for buyers involved in supplier finance programs, which are also referred to as reverse factoring, payables finance, or structured payables arrangements. The ASU became effective for accounting periods beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on roll forward information, which is effective beginning December 15, 2023. The adoption of the standard by the Company did not have a material effect on the Company's consolidated financial statements.

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.

In March 2023, the FASB issued ASU 2023-01, *Common Control Arrangements (Topic 842)* which amends certain provisions of ASC 842 that apply to arrangements between related parties under common control. Specifically, the ASU offers private companies, as well as not-for profit entities that are not conduit bond obligors, a practical expedient that gives such entities the option to elect to use the written terms and conditions a common control arrangement when determining (1) whether a lease exists and (2) the subsequent accounting for the lease, including the lease's classification. In addition, the ASU amends the accounting for leasehold improvements in common control arrangements for all entities. The ASU will become effective for accounting periods beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect the adoption of the standard to have a material effect on the Company's consolidated financial statements.

In March 2023, the FASB issued ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures using Proportional Amortization Method*. Under the ASU, if certain conditions are met, a reporting entity may elect to account for its tax equity investments by using the proportional amortization method regardless of the program from which it receives income tax credits. The ASU will become effective for accounting periods beginning after December 15, 2023. The Company does not expect the adoption of the standard to have a material effect on the Company's consolidated financial statements.

3. SUPPLEMENTAL DISCLOSURE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended	
	September 30, 2023	**September 30, 2022**
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	$ 70,841	$ 95,142
Noncash Activities:		
Security deposits applied to rent receivables, maintenance payment liability and other liabilities	—	4,715
Maintenance payment liability applied to rent receivables, maintenance payment liability and other liabilities	—	3,223

As of September 30, 2023, the Company had restricted cash balance of $65.5 million, a decrease of $10.1 million from $75.6 million at December 31, 2022.

4. INVESTMENT IN FINANCE LEASE

As of September 30, 2023, the Company had no investments in finance leases and the Company did not recognize finance lease revenue for the nine months then ended. As of September 30, 2022, the Company had no aircraft classified as an investment in finance lease and recognized $0.2 million in finance lease revenue for the nine months then ended. The investment in finance lease was de-consolidated during the three months ended September 30, 2022, as the Company no longer maintained control over the entity which owned the aircraft.

5. FLIGHT EQUIPMENT HELD FOR SALE

As of September 30, 2023, the Company had no assets classified as held for sale. During the three months ended September 30, 2023, the Company sold two engines previously classified as flight equipment held for sale for $5.0 million. During the nine months ended September 30, 2023, the Company sold five engines previously classified as flight equipment held for sale for $16.0 million. As of December 31, 2022, the Company had five engines classified as flight equipment held for sale with an aggregate fair value of $16.0 million. Refer to the table included in Note 6(a), Flight equipment held for operating lease, for details regarding the changes in number of flight equipment.

As of December 31, 2021, the Company had three wide-body aircraft classified as flight equipment held for sale amounting to a fair value of $278.0 million. These aircraft were on lease to a lessee in India. In January 2022, these aircraft were sold to a third party for $284.5 million resulting in a gain of $9.5 million. The gain is included within the Loss on sale of aircraft, net line item in the Consolidated Statements of Income (Loss). The debt associated with these aircraft was repaid from the proceeds from the sale.

6. 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):

	September 30, 2023		December 31, 2022	
Cost	$	2,503,843	$	2,513,443
Accumulated depreciation and impairment		(783,957)		(717,976)
Flight equipment held for operating lease, net	**$**	**1,719,886**	**$**	**1,795,467**

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
December 31, 2022	**78**	**66**	**12**	**66**	**7**	**—**	**5**
Addition	—	—	—	—	—	—	—
Disposal	(6)	(1)	(5)	(1)	—	—	(5)
September 30, 2023	**72**	**65**	**7**	**65**	**7**	**—**	—

As of September 30, 2023, the Company had 65 aircraft and seven engines held for operating lease, all of which were on lease to 35 different lessees in 21 countries. No aircraft or engines were off-lease. As of December 31, 2022, the Company had 66 aircraft and seven engines held for operating lease, of which 64 aircraft and seven engines were on lease to 31 different lessees in 22 countries and two aircraft were off-lease.

During the nine months ended September 30, 2022, the Company derecognized five narrow-body and one wide-body aircraft which were leased to Russian lessees. These aircraft were derecognized as the likelihood of successfully repossessing the aircraft, including the related technical records and documentation, was considered remote. The net book value of these aircraft amounted to $138.4 million and the loss on derecognition of $138.4 million was included in the loss on de-recognition of flight equipment in the consolidated statements of income (loss) for the nine months ended September 30, 2022. As a result of the lease terminations, security deposits of $4.0 million and maintenance reserve liabilities of $28.0 million associated with the Russian lessees were derecognized from the consolidated balance sheets and recognized as end of lease income, within operating lease revenue in the Consolidated Statements of Income (Loss) during the nine months ended September 30, 2022. These aircraft are no longer part of the Company's fleet.

During the three months ended September 30, 2022, the Company sold one aircraft under operating lease to a third party for a total consideration of $10.8 million.

The Company recognized depreciation expense on flight equipment held for operating lease of $70.0 million and $75.2 million for the nine months ended September 30, 2023 and 2022, 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):

	September 30, 2023		December 31, 2022	
Europe:				
Spain	$ 136,141	8%	$ 140,826	8%
France	115,815	7%	121,084	7%
Other	145,619	8%	139,797	8%
Europe — Total	**397,575**	**23%**	**401,707**	**23%**
Asia and South Pacific:				
India	91,284	5%	84,906	5%
Malaysia	464,632	27%	366,365	20%
Indonesia	132,779	8%	179,986	10%
China	97,697	6%	102,186	6%
Philippines	67,902	4%	137,216	8%
Other	126,232	7%	144,896	8%
Asia and South Pacific — Total	**980,526**	**57%**	**1,015,555**	**57%**
Mexico, South and Central America — Total	**56,354**	**3%**	**58,559**	**3%**
North America:				
United States	19,331	1%	20,419	1%
North America — Total	**19,331**	**1%**	**20,419**	**1%**
Middle East and Africa:				
Ethiopia	266,100	16%	273,437	15%
Middle East and Africa — Total	**266,100**	**16%**	**273,437**	**15%**
Off-Lease — Total	**-**	**-%**	**25,790**	**1%**
Total flight equipment held for operating lease, net	**$ 1,719,886**	**100%**	**$ 1,795,467**	**100%**

(b) Lease revenue from flight equipment under operating leases

The Company receives lease revenue from flight equipment under operating leases. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. If 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 nine months ended September 30, 2023 and 2022, the Company had directly written off $0.3 million and $2.2 million, respectively, of uncollectible operating lease receivables. As of September 30, 2023 and December 31, 2022, the Company had an allowance for uncollectible operating lease receivables of $7.0 million and $7.0 million, respectively.

The distribution of operating lease revenue by geographic region for three months ended September 30, 2023 and 2022 was as follows (dollars in thousands):

	Three months ended			
	September 30, 2023		September 30, 2022	
Europe:				
Spain	$ 3,413	6%	$ 2,682	6%
France	4,672	8%	4,837	10%
Other	4,362	8%	5,980	12%
Europe — Total	**12,447**	**22%**	**13,499**	**28%**
Asia and South Pacific:				
India	4,280	7%	1,716	4%
Malaysia	15,378	28%	11,229	23%
Indonesia	2,708	5%	3,699	8%
China	2,084	4%	3,500	7%
Philippines	1,520	3%	1,267	3%
Other	2,198	4%	2,910	5%
Asia and South Pacific — Total	**28,168**	**51%**	**24,321**	**50%**
Mexico, South and Central America — Total	**1,274**	**2%**	**1,379**	**3%**
North America:				
United States	585	1%	516	1%
North America — Total	**585**	**1%**	**516**	**1%**
Middle East and Africa:				
Ethiopia	7,505	14%	7,505	15%
Other	4,746	9%	1,366	3%
Middle East and Africa — Total	**12,251**	**23%**	**8,871**	**18%**
Australia:				
Australia	**510**	**1%**	**—**	**—%**
Australia — Total	**510**	**1%**	—	**—%**
Total Operating Lease Revenue	**$ 55,235**	**100%**	**$ 48,586**	**100%**

The distribution of operating lease revenue by geographic region for the nine months ended September 30, 2023 and 2022 was as follows (dollars in thousands):

	Nine months ended			
	September 30, 2023		September 30, 2022	
Europe:				
Spain	$ 10,493	6%	$ 7,385	4%
France	15,050	9%	15,472	8%
Other	16,256	10%	49,721	27%
Europe — Total	**41,799**	**25%**	**72,578**	**39%**
Asia and South Pacific:				
India	8,291	5%	7,647	4%
Malaysia	48,122	31%	34,731	19%
Indonesia	7,107	4%	7,118	4%
China	4,437	3%	10,337	6%
Philippines	8,559	5%	7,196	4%
Other	6,593	4%	10,642	67%
Asia and South Pacific — Total	**83,109**	**52%**	**77,671**	**43%**
Mexico, South and Central America — Total	**3,822**	**2%**	**4,140**	**2%**
North America:				
United States	1,589	1%	3,822	2%
North America — Total	**1,589**	**1%**	**3,822**	**2%**
Middle East and Africa:				
Ethiopia	22,514	14%	22,514	12%
Other	7,491	5%	3,847	2%
Middle East and Africa — Total	**30,005**	**19%**	**26,361**	**14%**
Australia:				
Australia	**1,530**	1%	—	—%
Australia — Total	**1,530**	1%	—	—**%**
Total Operating Lease Revenue	**$ 161,854**	**100%**	**$ 184,572**	**100%**

In the three months ended September 30, 2023, Ethiopian Airlines accounted for 13.6% of total operating lease revenue. For the nine months ended September 30, 2023, Ethiopian Airlines accounted for 14.0% of total operating lease revenue. No other customer accounted for 10% or more of our revenues for the three or nine months ended September 30, 2023. For the three months ended September 30, 2022, the Company had two customers (Ethiopian Airlines and AirAsia Berhad) that accounted for 10% or more of total operating lease revenue at 12% and 10%, respectively. For the nine months ended September 30, 2022, the Company had one customer (Ethiopian Airlines) that accounted for 10% or more of total operating lease revenue at 12%.

For the three and nine months ended September 30, 2023, the Company recognized end of lease income, which is included in operating lease revenue, of $4.2 million and $10.1 million, respectively. For the three and nine months ended September 30, 2022, the Company recognized end of lease income, which is included in operating lease revenue, of $1.6 million and $38.1 million, respectively.

During the three and nine months ended September 30, 2023, the Company has recognized $17.9 million of lease incentive assets and a corresponding lessor contribution liability of $17.9 million in relation to three aircraft that were re-leased to new customers in 2023. For the three and nine months ended September 30, 2023, amortization of lease incentives/premium recorded as reduction of operating lease revenue totaled $2.6 million and $4.1 million, respectively. For the three and nine months ended September 30, 2022, amortization of lease incentives/premium recorded as a reduction of operating lease revenue totaled $1.2 million and $3.8 million, respectively.

At September 30, 2023, lease incentive amortization for the next five years is as follows (dollars in thousands):

Year ending December 31,	**(Dollars in thousands)**
October 1 through December 31, 2023	$ 477
2024	4,207
2025	4,207
2026	3,720
2027	3,340
2028	2,759
Thereafter	3,270
Future amortization of lease incentives	**$ 21,980**

(c) Rent receivables and rent deferrals

As noted above, 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 2021 and 2022, some of which remains on non-accrual status as of September 30, 2023.

As of September 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 months ended September 30, 2023, the Company recognized $12.0 million of operating lease revenue from these lessees and would have recognized a $1.7 million reduction in operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 30, 2023, the Company recognized $33.6 million of operating lease revenue from these lessees and would have recognized a $2.8 million reduction in operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 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.

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

The Company has also agreed to lease restructurings with certain of its lessees. At September 30, 2023, the Company had 13 agreements in place with five lessees to defer their rent payment obligations for 13 aircraft totaling $35.9 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. As of September 30, 2022, the Company had 11 agreements in place with 4 lessees to defer their rent payment obligations for 11 aircraft totaling $34.0 million due to the Company over the life of the leases. These deferrals are for an average of 13 months with approximately 45% of the deferrals to be repaid by the end of 2022.

Presented below are the rent deferrals granted and scheduled deferral repayments for deferral agreements in place as of September 30, 2023. 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 September 30, 2023 and December 31, 2022, the deferral repayments received as a percentage of the scheduled deferral repayments were 81.3% and 32.1%, respectively.

	Rent Deferrals Granted	Scheduled Deferral Repayments
	(Dollars in thousands)	
2021	$ 12,019	$ 1,198
2022	12,234	4,199
2023	11,610	4,959
2024	—	7,631
2025	—	7,631
Thereafter	—	10,245
Total	**$ 35,863**	**$ 35,863**

As of September 30, 2023 and December 31, 2022, the weighted average remaining lease term of the Company's aircraft held for operating lease was 6.5 years and 5.7 years, respectively.

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

For the three months ended September 30, 2023, the Company recognized $53.6 million of operating lease rental revenue, none of which was from leases with variable rates. For the nine months ended September 30, 2023, the Company recognized $155.9 million of operating lease rental revenue, none of which was from leases with variable rates. For the three months ended September 30, 2022, the Company recognized $48.6 million of operating lease rental revenue, $2.5 million of which was from leases with variable rates. For the nine months ended September 30, 2022, the Company recognized $184.6 million of operating lease rental revenue, $2.5 million of which was from leases with variable rates.

Variable rates rents are rents that reset based on changes in the contractual reference rate (LIBOR or SOFR) or usage of aircraft. Presented below are the contracted future minimum rental payments, inclusive of rents due from lessees on non-accrual status and rent deferrals, due under non-cancellable operating leases for flight equipment held for operating lease, as of September 30, 2023.

Year ending December 31		(Dollars in thousands)
October 1 through December 31, 2023	$	51,067
2024		186,589
2025		178,555
2026		168,258
2027		138,742
Thereafter		213,282
Future minimum rental payments under operating leases	**$**	**936,493**

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

		September 30, 2023		December 31, 2022
		(Dollars in thousands)		
Rent receivables, gross	$	42,457	$	44,007
Allowance for doubtful accounts		(7,000)		(7,000)
Rent receivables, net	**$**	**35,457**	**$**	**37,007**

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 nine months ended September 30, 2023 and 2022, the Company recorded no provision for uncollectible operating lease receivables.

As of September 30, 2023 and December 31, 2022, the Company had an allowance for uncollectible operating lease receivables of $7.0 million and $7.0 million, respectively.

7. MAINTENANCE RIGHTS

The balances of and changes in maintenance right assets, as of the nine months ended September 30, 2023 and as at year ended December 31, 2022 were as follows (dollars in thousands):

		September 30, 2023		December 31, 2022
Maintenance rights, beginning balance	$	**235,394**	**$**	**247,237**
Acquisitions		—		8,600
Maintenance rights associated with deconsolidation		—		(12,531)
Maintenance rights derecognized associated with Russian aircraft derecognition		—		(7,912)
Maintenance rights derecognized associated with end of lease		(11,040)		—
Maintenance rights, ending balance	**$**	**224,354**	**$**	**235,394**

8. OTHER ASSETS

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

		September 30, 2023		December 31, 2022
Collateral placed	$	23,000	$	23,000
Equity certificates		543		543
Value added tax receivables		2,137		4,886
Inventories		2,502		3,242
Lease intangibles		3,067		3,515
Other financial assets		1,182		1,182
Deferred lease income receivable		14,250		15,378
Other assets		8,899		11,429
Total other assets	**$**	**55,580**	**$**	**63,175**

In 2016, the Company entered into residual value guarantee 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 the nine months ended September 30, 2023 and 2022, the Company recognized income of $0.3 million and $0.3 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 the consolidated balance sheet.

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 year ended December 31, 2022, the Company recognized an unrealized fair value loss of $2.5 million related to the write-down of these equity certificates to their estimated fair value. After the write-down, the carrying value of investment in equity certificates was $0.5 million as of December 31, 2022. As of September 30, 2023, the carrying value of the equity certificates was $0.5 million. 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 December 28, 2022, a lessee settled the outstanding receivables in the form of notes and equity issued by the lessee to the Company. The fair value of the notes and equity received, at each of the date of settlement and as of September 30, 2023 was estimated at $1.2 million. 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 three months ended December 31, 2022.

9. UNSECURED BORROWINGS

	Balance as of			
	September 30, 2023		**December 31, 2022**	
	(Dollars in thousands)			
Outstanding balance:	**Principal**	**Accrued Interest**	**Principal**	**Accrued Interest**
2024 Notes, maturity date October 15, 2024	$ 7,083	$ 150	$ 8,447	$ 71
New Notes, maturity date October 15, 2024	200,113	6,517	291,446	4,240
Promissory Note from Parent, maturing June 1, 2024	74,120	31	—	—
Total outstanding principal balance	281,316	6,698	299,893	4,311
Unamortized debt discounts and loan costs	(1,030)	—	(2,555)	—
Unsecured borrowings, net	**$ 280,286**	**$ 6,698**	**$ 297,338**	**$ 4,311**

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 the 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. Each of the 2024 Notes and the New Notes mature on October 15, 2024.

During the third and fourth quarters of 2022, upon receipt of applicable board authorizations, the Company successfully completed the repurchase of $0.22 million of the 2024 Notes at an average discount to par of 25.8% for $0.16 million in aggregate consideration, and $49.8 million of the New Notes at an average discount to par of 19.8% for $39.9 million in aggregate consideration.

In December 2022, the Company obtained board authorization to repurchase an additional $50.0 million face value of the 2024 Notes and New Notes.

In the three months ended March 31, 2023, the Company repurchased $6.73 million of the New Notes at an average discount to par of 12.3% for $5.9 million in aggregate consideration. During the three months ended March 31, 2023, the Company recorded a gain on modification and extinguishment of debt of $0.8 million, mainly arising from the repurchase of unsecured notes.

In the three months ended June 30, 2023, the Company repurchased $22.3 million of the New Notes at an average discount to par of 12.1% for $19.6 million in aggregate consideration and repurchased $0.5 million of the 2024 Notes at an average discount to par of 12.6% for $0.4 million in aggregate consideration. During the three months ended June 30, 2023, the Company recorded a gain on modification and extinguishment of debt of $2.6 million, mainly arising from the repurchase of unsecured notes.

In the three months ended September 30, 2023, the Company repurchased $62.3 million of the New Notes at an average discount to par of 9.8% for $56.2 million in aggregate consideration and repurchased $0.9 million of the 2024 Notes at an average discount to par of 10.3% for $0.8 million in aggregate consideration. During the three months ended September 30, 2023, the Company recorded a gain on modification and extinguishment of debt of $5.9 million, mainly arising from the repurchase of unsecured notes.

The Company may 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.

As of September 30, 2023, $7.1 million in aggregate principal amount of the 2024 Notes remained outstanding and $200.1 million in aggregate principal amount of New Notes remained outstanding.

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

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

As of September 30, 2023, the Company was not in default under either of the Indentures.

Promissory Note issued by Fly to Parent

On June 14, 2023, Fly issued a promissory note to the Parent amounting to $76.4 million as additional funding in consideration of the final settlement on maturity of the Fly Aladdin Acquisition Facility in June 2023 (the “Promissory Note”). The Promissory Note represents a senior debt instrument of Fly, carries a fixed interest rate of 7.75% per annum and is repayable, along with the principal on June 1, 2024, the maturity date. Fly may at any time prepay the Promissory Note, in whole or in part, without premium or penalty.

10. SECURED BORROWINGS

The Company's secured borrowings, net balance as of September 30, 2023 and December 31, 2022 are presented below (dollars in thousands):

	Outstanding principal balance as of		Weighted average interest rate[1] as of		
	September 30, 2023[2]	December 31, 2022[2]	September 30, 2023	December 31, 2022	Maturity date
2012 Term Loan	$ 262,899	$ 304,286	6.84%	3.85%	August 2025
Magellan Acquisition Limited Facility	168,323	191,872	4.90%	3.82%	December 2025
Fly Aladdin Acquisition Facility	—	87,220	—	5.25%	June 2023
Other Aircraft – Secured Borrowings	68,188	76,789	4.12%	3.42%	June 2028
Class A Notes[3]	435,411	478,200	2.95%	2.95%	October 2028
Class B Notes[3]	96,842	109,894	3.80%	3.80%	October 2028
Class C Notes[3]	66,329	63,502	5.82%	5.82%	December 2027
Total outstanding principal balance	**1,097,992**	**1,311,763**			
Unamortized debt discounts and loan costs	(18,591)	(23,030)			
Total secured borrowings, net	**$ 1,079,401**	**$ 1,288,733**			

(1) Represents the contractual interest rates and effect of derivative instruments and excludes the amortization of debt discounts and debt issuance costs.
(2) As of September 30, 2023 and December 31, 2022, accrued interest on secured borrowings totaled $2.9 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 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 2024 Notes and the New Notes.

As of September 30, 2023, the Company was not in default under any of its secured borrowings.

The Company has transitioned from LIBOR to SOFR effective June 30, 2023 and the change did not have any material impact on the financial statements of the Company.

2012 Term Loan

As of September 30, 2023 and December 31, 2022, the Company had $262.9 million and $304.3 million principal amount outstanding, respectively, under its senior secured term loan (the "2012 Term Loan"), which was secured by 18 aircraft as of September 30, 2023 and 19 aircraft as of December, 31 2022. One aircraft was sold by the Company during the three months ended September 30, 2023. 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 bore interest at three-month LIBOR plus a margin of 1.75% up to June 30, 2023. LIBOR was replaced by SOFR effective June 30, 2023.

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. During the three months ended September 30, 2023, the Company made a prepayment of $11.8 million on the loan. During the nine months ended September 30, 2023, the Company made prepayments of $32.1 million on the loan. The Company was in compliance with all covenants and requirements under the 2012 Term Loan as of September 30, 2023.

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 September 30, 2023 and December 31, 2022, the Company had principal amount outstanding in loans and notes of $168.3 million and $191.9 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 was based on one-month LIBOR plus an applicable margin of 1.65% per annum through June 30, 2023 and has now transitioned from LIBOR to SOFR thereafter. The interest rate on the notes is a fixed rate of 3.93% per annum. As of September 30, 2023, the Company had $150.8 million principal outstanding in loans and $17.5 million principal outstanding in notes. As of December 31, 2022, the Company had $172.4 million principal outstanding in loans and $19.5 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 covenant 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. 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. A breach of the ICR covenant occurred on the payment date falling in March 2021. Breaches of both the LTV and ICR covenants 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.

An event of default under the Magellan Acquisition Limited Facility includes a default in respect of Fly's recourse obligations in excess of $50.0 million in the aggregate and holders of such obligation accelerate or demand repayment of amounts due thereunder.

The Company was in compliance with all covenants and requirements under the Magellan Acquisition Limited Facility as of September 30, 2023.

Fly Aladdin Acquisition Facility

As of December 31, 2022, the Company had an aggregate principal amount outstanding of $87.2 million of Series B loans under this term loan facility (the "Fly Aladdin Acquisition Facility"), which was secured by 8 aircraft. The Series B loans bear interest based on three-month LIBOR, plus an applicable margin of 1.80% per annum, and had a maturity date of June 15, 2023. The loans were fully repaid on the maturity date.

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 $2.9 million and $8.6 million were made during the three and nine months ended September 30, 2023, respectively. As of September 30, 2023 and December 31, 2022, the Company had principal amount outstanding of $68.2 million and

$76.8 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"). ASSET International is a subsidiary of Fly, while AASET US is owned by other affiliates of Carlyle Aviation and is not a subsidiary of Fly. The Series A AOE Notes, Series B AOE Notes and Series C AOE Notes issued by AASET International have an initial aggregate principal amount of $584.9 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 three classes of Notes have a final legal maturity date of November 16, 2041.

As of September 30, 2023 and December 31, 2022, there was $598.6 million and $651.6 million, respectively, in aggregate principal amount remaining outstanding under the AOE Notes issued by AASET International and AASET was in compliance with all covenants and there were no events of default during the three and nine months ended September 30, 2023.

Future Minimum Principal Payments on Secured Borrowings

During the nine months ended September 30, 2023, the Company made scheduled principal payments of $160.8 million on its secured borrowings. The anticipated future minimum principal payments due for its secured borrowings are as follows (dollars in thousands):

Year ending December 31,	
October 1 through December 31, 2023	$ 9,561
2024	48,160
2025	400,593
2026	13,041
Thereafter	27,695
Future minimum principal payments due	**$ 499,050**

11. DERIVATIVES

Derivatives are used by the Company to manage its exposure to identified risks, such as interest rate and foreign currency exchange fluctuations. The Company uses interest rate swap contracts to hedge variable interest payments due on borrowings associated with aircraft with fixed-rate rentals. As of September 30, 2023, the Company had $186.5 million of floating rate debt associated with aircraft with fixed-rate rentals. As of September 30, 2022, the Company had $602.8 million of floating rate debt associated with aircraft with fixed-rate rentals.

Interest rate swap contracts allow the Company to pay fixed interest rates and receive variable interest rates with the swap counterparty based on either the one-month or three-month LIBOR applied to the notional amounts over the life of the contracts. As of September 30, 2023 and December 31, 2022, the Company had interest rate swap contracts with notional amounts aggregating $186.5 million and $359.6 million, respectively. The unrealized fair value gain on the interest rate swap contracts, reflected as derivative assets, was $6.6 million and $11.0 million as of September 30, 2023 and December 31, 2022, 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 $23.9 million in U.S. dollars. The unrealized fair value gain, reflected as a derivative asset, was $3.5 million as of September 30, 2023. The unrealized fair value gain, reflected as a derivative asset, was $4.6 million as of December 31, 2022.

The Company determines the fair value of derivative instruments using a discounted cash flow model. The model incorporates an assessment of the risk of non-performance by the swap counterparty in valuing derivative assets and an evaluation of the Company's credit risk in valuing derivative liabilities. The Company considers in its assessment of non-performance risk, if applicable, netting arrangements under master netting agreements, any collateral requirement, and the derivative payment priority in the Company's debt agreements. The valuation model uses various inputs including contractual terms, interest rate curves and credit spreads.

During the three and nine months ended September 30, 2023, the Company recorded $0.8 million and $2.9 million, respectively, of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

During the three and nine months ended September 30, 2022, the Company recorded $2.7 million and $12.7 million, respectively, of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

Designated Derivatives

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

As of September 30, 2023, 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	7	12/8/25-9/15/29	2.5%-3.05%	$ 186,483	$ 6,436	$ 5,632
Accrued interest	—			—	180	
Total – designated derivative assets as of September 30, 2023	**7**			**$ 186,483**	**$ 6,616**	**$ 5,632**

As of December 31, 2022, 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	20	2/9/23-12/8/25	2.28%-3.13%	$ 303,617	$ 9,203	$ 8,088
Accrued interest	—			—	418	—
Total – designated derivative assets as of December 31, 2022	**20**			**$ 303,617**	**$ 9,621**	**$ 8,088**

Dedesignated Derivatives

As of September 30, 2023 and December 31, 2022, the Company's cross currency swap did not qualify for hedge accounting and was dedesignated due to missed rent payments associated with a lease denominated in Euros. The Company had the following dedesignated currency related derivative instrument classified as derivative assets on its balance sheet as of September 30, 2023 and December 31, 2022 (dollars in thousands):

Type	Quantity	Maturity Date	Contracted Fixed Conversion Rate to U.S. Dollar	Total Contracted USD to be Received	Credit Risk Adjusted Fair Value	Gain Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Cross currency swap contract	1	11/26/25	1 Euro to $1.3068	$ 21,456	$ 3,492	$ 1,520
Accrued rent	—			—	26	—
Total - dedesignated derivative asset as of September 30, 2023	**1**			**$ 21,456**	**$ 3,518**	**$ 1,520**

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	$ 28,875	$ 4,576	$ 2,047
Accrued rent	—			—	26	—
Total - dedesignated derivative asset as of December 31, 2022	**1**			**$ 28,875**	**$ 4,602**	**$ 2,047**

At September 30, 2023 and December 31, 2022, the Company had an accumulated other comprehensive gain, net of deferred tax, of $1.5 million and $2.0 million, respectively, which will be amortized over the remaining term of the cross currency swap contract. During the nine months ended September 30, 2023 and September 30, 2022, respectively, the Company reclassified $0.5 million and $0.5 million from accumulated other comprehensive loss, net of deferred tax, to gain on derivatives.

Certain of the Company's interest rate swap contracts no longer qualify for hedge accounting and have been dedesignated due to debt repayments associated with aircraft sales and other prepayments. As of September 30, 2023, the Company had the following dedesignated interest related derivative instruments classified as derivative assets on its balance sheet (dollars in thousands):

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Loss Recognized in Accumulated Comprehensive Income, Net of Deferred Tax
Interest rate swap contracts	—	—	—%	$ —	$ —	$ —
Accrued interest	—			—	—	—
Total – dedesignated derivative liabilities as of September 30, 2023	—			**$** —	**$** —	**$** —

As of December 31, 2022, the Company had the following dedesignated derivative instruments classified as derivative liabilities on its balance sheet (dollars in thousands):

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Loss Recognized in Accumulated Comprehensive Income, Net of Deferred Tax
Interest rate swap contracts	11	6/15/23	2.66%-3.12%	$ 56,036	$ 1,251	$ (2,020)
Accrued interest	—			—	137	—
Total – dedesignated derivative liabilities as of December 31, 2022	**11**			**$ 56,036**	**$ 1,388**	**$ (2,020)**

At September 30, 2023 and December 31, 2022, the Company had an accumulated other comprehensive loss, net of deferred tax, of $Nil and $2.0 million, respectively, attributable to both dedesignated interest rate swaps and terminated interest rate swaps, which will be amortized over the remaining term of the designated interest rate swap contracts and the original term of the terminated interest rate swap contracts.

The Company has switched from LIBOR to SOFR effective June 30, 2023, and it did not have a material impact on the financial statements of the Company.

12. INCOME TAXES

Fly is a tax resident of Ireland and has wholly owned subsidiaries in Ireland, France, Luxembourg, Malta, and Bermuda 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 25.3% and 21.4% for the three and nine months ended September 30, 2023, 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 September 30, 2023 and December 31, 2022. The recently adopted global minimum effective corporation tax rate framework that will increase the corporation tax rate from 12.5% to 15.0% is not expected to have material impact on the financial statements of the Company.

13. OTHER LIABILITIES

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

	September 30, 2023	December 31, 2022
Current tax payable	$ 29	$ 42
Lease discount	1	40
Lease incentive obligation	8,789	6,044
Deferred rent	4,649	1,833
Refundable deposits	650	1,084
Other	4,741	7,809
Total other liabilities	**$ 18,859**	**$ 16,852**

14. SHAREHOLDERS' EQUITY

Share transactions

On August 2, 2021, the Merger was completed and each common share, par value $0.001, of Fly issued and outstanding prior to the effective time of the Merger, including shares represented by American Depository Shares, were cancelled and converted into the right to receive $17.05 in cash, without interest, subject to deduction for any required withholding tax. Following the Merger, Fly became wholly owned by the 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, 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 September 30, 2023 and December 31, 2022, Fly had 532,706 common shares issued and outstanding and no other share capital issued and outstanding, respectively.

During the three months ended September 30, 2022, the Parent contributed $90.0 million in cash to Fly's contributed surplus account.

During the three months ended June 30, 2023, the Parent contributed $13.4 million in cash to Fly's contributed surplus account. This contributed surplus represents cash contributed by the shareholder in excess of the issued share capital.

Fly did not issue or repurchase any shares during the three and nine months ended September 30, 2023. In August 2022, as part of discharging certain intragroup liabilities resulting from the AASET 2021-1 transaction, Fly issued to, and repurchased from, the Parent certain common shares of Fly, the net result being that a further 532,606 common shares of Fly were issued to the Parent. As of August 3, 2022 and September 30, 2023, the Parent is the registered holder of 532,706 common shares of Fly and Fly has no other equity securities outstanding.

Dividends

No dividends were declared or paid during the three and nine months ended September 30, 2023 and 2022.

15. COMMITMENTS AND CONTINGENCIES

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

In 2016, the Company entered into the RVGs with third-party lessors to guarantee the residual value of three aircraft subject to twelve-year leases and received residual value guarantee fees totaling $6.6 million, which are being amortized over 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 the nine month periods ended September 30, 2023 and 2022, the Company recognized income of $0.3 million and $0.3 million, respectively, from 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.

16. RELATED PARTY TRANSACTIONS

Servicer and Manager

Prior to the Merger, BBAM US LP 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, Carlyle Aviation Management Limited (the "Carlyle Manager") became the manager and sub-servicer of Fly and its subsidiaries. Concurrently with the execution of the Merger Agreement, the Parent, 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 nine months ended September 30, 2023, BBAM did not receive servicing and administrative fees from the Company. For the three and nine months ended September 30, 2022, BBAM received servicing and administrative fees totaling $0.5 million and $3.2 million, respectively. As of September 30, 2023 and December 31, 2022, respectively, the Company has no 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 nine months ended September 30, 2023, the Company did not incur disposition fees that are payable to BBAM.

Sub-Servicer and Manager Fees paid to the Carlyle Manager

For the nine months ended September 30, 2023 and 2022, total sub-servicing and administrative fees were $2.2 million and $5.8 million, respectively.

AASET 2021-1

Carlyle Aviation also acts as servicer for AASET International. During the nine months ended September 30, 2023 and 2022, the Company incurred service fees of $3.3 million and $2.5 million, respectively.

As of September 30, 2023 and December 31, 2022, the Company had an amount payable to a related party, AASET US, of $2.4 million and $3.5 million, respectively, for service fees.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

Where available, the fair value of the Company's investment in equity certificates, notes payable and debt facilities is based on observable market prices or parameters or derived from such prices or parameters (Level 2). For the three and nine months ended September 30, 2023, the Company has not recognized any unrealized fair value loss on its investment in equity certificates. For the three and nine months ended September 30, 2022, the Company recognized an unrealized fair value loss of $0.7 million and $2.0 million, respectively, on its investment in equity certificates to write down the equity certificates to estimated fair value.

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

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

The Company also measures the fair value for certain assets and liabilities on a non-recurring basis, when 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 nine months ended September 30, 2023 and 2022.

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

	As of September 30, 2023		As of December 31, 2022	
	Principal Amount Outstanding	Fair Value	Principal Amount Outstanding	Fair Value
2012 Term Loan	$ 262,899	$ 252,055	$ 304,286	$ 255,600
Magellan Acquisition Limited Facility	168,323	161,170	191,872	183,717
Fly Aladdin Acquisition Facility	—	—	87,220	86,893
New Notes	200,113	179,441	291,446	209,773
2024 Notes	7,083	6,499	8,447	6,589
Class A Note	435,411	384,815	478,200	360,348
Class B Note	96,842	82,093	109,894	76,404
Class C Note	66,329	34,723	63,502	31,694

As of September 30, 2023, and December 31, 2022, 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):

September 30, 2023:	Level 1	Level 2	Level 3	Total
Derivative assets	$ —	$ 10,134	$ —	$ 10,134
Investment in equity certificates	—	543	—	543
Financial assets held at fair value (Note 8)	—	1,182	—	1,182
December 31, 2022:				
Derivative assets	—	15,611	—	15,611
Derivative liabilities	—	543	—	543
Investment in equity certificates	—	1,182	—	1,182

18. COMPARATIVE INFORMATION

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

19. SUBSEQUENT EVENTS

Subsequent to the period end, in October 2023, the Company took possession of one aircraft from an airline and terminated the operating lease.

On July 6, 2023, the Company, through its subsidiaries, Citrine Aircraft Leasing Limited, Fly Aircraft Holdings Seven Limited and Fly Aircraft Holdings One Limited, entered into an Equity Subscription Agreement with SpiceJet Ltd, an Indian airline headquartered in Gurgaon, Haryana, India. The purpose of the agreement is to settle $8.2 million of the total rent due to these subsidiaries in exchange for $.07 million and 14,002,408 shares of SpiceJet Ltd. SpiceJet Ltd. is publicly traded with its shares listed on the Bombay Stock Exchange. The shares were received on October 4, 2023 and are subject to a lock up period of six months ending on April 3, 2024. The cash was received before September 30, 2023. SpiceJet Ltd. is considered to be a non-accrual lessee.

Subsequent to the period end, in October 2023, the Company repaid $10.0 million of the Promissory Note outstanding to the Parent. After the repayment, $64.1 million remained outstanding under the Promissory Note.

Subsequent to the period end, on November 10, 2023, Fly Aladdin Funding Limited (the "Borrower") a subsidiary of Fly, entered into a Senior Secured Credit Agreement (the "Facility") in the amount of $71 million. The Facility is secured by eight aircraft and has varying maturity dates ranging from May 2027 through November 2029. The Facility bears interest at a rate of 3.5% per annum plus Compounded SOFR. Additionally, the 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 Facility. On November 20, 2023, part of the proceeds received from the Facility were used to repay the remaining balance of the Promissory Note.

Management’s Discussion and 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, 2022. 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 September 30, 2023, the Company had 65 aircraft and seven engines held for operating lease, of which 65 aircraft and seven engines were on lease to 35 lessees in 21 countries and no aircraft was off-lease. As of September 30, 2023, the weighted average remaining lease term of the Company’s aircraft held for operating lease was 6.5 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 nine months ended September 30, 2023, we had net income of $2.8 million and $8.8 million, respectively. For the nine months ended September 30, 2023, net cash flows provided by operating activities totaled $99.8 million, net cash flows provided by investing activities totaled $23.6 million and net cash flows used in financing activities totaled $179.8 million. As of September 30, 2023, we had $29.4 million in cash and cash equivalents and an additional $65.5 million in restricted cash and cash equivalents.

Recent Developments

Note Repurchases

Since the third quarter of 2022, we have received board authorization on a number of occasions to conduct opportunistic repurchases of our New Notes and 2024 Notes. Since initial authorization was received, through September 30, 2023, we repurchased a total of $141.2 million of New Notes and $1.6 million in 2024 notes. See Note 9. Unsecured Borrowings for additional details.

As of September 30, 2023, $200.1 million and $7.1 million of New Notes and 2024 Notes remained outstanding, respectively.

The Company may 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.

For the nine months ended September 30, 2022, the Company recorded a loss on derecognition of flight equipment of $138.4 million related to five of its narrow-body and one wide-body aircraft that were on lease to Russian lessees. These aircraft were derecognized in March 2022 as attempts of repossessing the aircraft including the related technical records were unsuccessful and, while such attempts continue, we do not expect them to be successful. During the nine months ended September 30, 2022, the Company recognized $2.7 million of lease revenue from lessees based in Russia. The leases were terminated in the second quarter of 2022. Contracted future rentals from these lessees as at termination of the leases was $67.8 million. The Company held $4.0 million of security deposits and $28.0 million of maintenance reserves against these leases. These amounts were retained by the Company in the three months ended March 31, 2022, derecognized from the Balance Sheet, and recognized as end of lease income, within operating lease revenue in the consolidated statement of income (loss). Lease rental receivables totaling $2.2 million were fully written off during the nine months ended September 30, 2022.

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 September 30, 2023. 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, 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.

Flight Equipment Held for Sale

As of September 30, 2023, the Company had no aircraft or engines classified as held for sale. At December 31, 2022 the Company had five engines classified as flight equipment held for sale, with a carrying value of $16.0 million. For the three and nine months ended September 30, 2023, the Company sold two and five engines, respectively, totaling $5.0 million and $16.0 million.

Market Conditions

The airline industry is cyclical, and subject to macroeconomic, geopolitical and other risks which may negatively impact airline profitability or create volatility in the aircraft leasing market. Global passenger air traffic grew, and the airline industry was profitable in every year from 2012 to 2019. However, due to the effects of the COVID-19 pandemic, global passenger air traffic and load factors declined significantly in 2020 with overall passenger traffic decreasing 66% and a global load factor of 64.8% for the year, a decline of nearly 18%. The COVID-19 pandemic continued to have an adverse effect on the airline industry in 2021 and into 2022 and, beginning in the first quarter of 2022, the conflict between Russia and Ukraine caused additional volatility in the demand for air traffic. While there has been a recovery from the lows of the pandemic, especially in respect of domestic aviation, global air traffic demand is not expected to fully recover to pre-pandemic levels until 2024 with many airlines continuing to experience negative cash flows.

The COVID-19 pandemic has negatively impacted the financial health of some airlines and led a number of airlines to consummate financial restructurings, including bankruptcy and similar proceedings. It is possible that the economic impact of the pandemic, the Russia-Ukraine conflict and the increase in inflation across of the globe, will lead to additional airline restructurings and bankruptcies in the future. In addition to the COVID-19 pandemic and the conflict between Russia and Ukraine, uncertainty about geopolitical events and other pressures such as environmental impact concerns, inflation and other decreases in purchasing power, rising interest rates, Brexit, and ongoing U.S.-China trade tensions could affect the economic health of airlines and the aircraft leasing market. More recently, concerns about the health of regional, national and international banking systems, the related government takeover of two banks in the U.S. and the Swiss Government's arranging for the combination of the two largest Swiss banks have caused uncertainty and significant volatility in the credit and capital markets. These and other factors, known and unknown, may adversely affect the airline industry and the airline leasing market in 2023 and beyond.

Critical Accounting Policies and Estimates

Fly prepares its consolidated financial statements in accordance with U.S. GAAP, which requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The use of estimates is a significant factor affecting the reported carrying values of flight equipment, investments, deferred assets, accruals, and reserves. We utilize third party appraisers and industry valuation professionals, where possible, to support estimates, particularly with respect to flight equipment. Despite our best efforts to accurately estimate such amounts, actual results could differ from those estimates. For a discussion of our Critical Accounting Policies, see Note 2. Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements, included within this interim Report.

The COVID-19 pandemic has had widespread and unprecedented impacts on regional, national, and global economies. While many of the severe limitations imposed on travel by various governments have been lifted and travel has recovered from the lows experienced in 2020 and 2021, in 2022 and the nine months ended September 30, 2023, some airlines required additional support from their respective governments, raised debt and equity, requested concessions from lessors, and in certain cases, sought judicial protection. Domestic air travel has rebounded and is at or near pre-pandemic levels and international travel continued to recover. It is possible that governments will re-implement some of the COVID-19 related travel restrictions if infection rates increase.

We recorded no additional provision for uncollectible operating lease receivables during the nine months ended September 30, 2023. Future changes to our assumptions, which could be caused by airline bankruptcies or otherwise, could result in further provisions for uncollectible operating lease receivables or impairment charges, and these charges could be material.

Summary of Operating Results

As of September 30, 2023, the Company had 65 aircraft and seven engines held for operating lease, all of which were on lease to 35 different lessees in 21 countries and no aircraft was off-lease. As of December 31, 2022, the Company had 66 aircraft and seven engines held for operating lease, of which 64 aircraft and seven engines were on lease to 31 different lessees in 22 countries and two aircraft were off-lease.

During the nine months ended September 30, 2023, the Company disposed of five engines classified as held for sale as of December 31, 2022 for total consideration of $16.0 million. During the nine months ended September 30, 2023, the Company disposed of one aircraft held for operating lease for total consideration of $11.7 million and exchanged one engine for a net consideration of $3.3 million.

We classify flight equipment as held for sale when we commit to and commence a plan of sale that is reasonably expected to be completed within one year and satisfies other criteria. We recognize revenue from each aircraft until the date that such aircraft is delivered to the purchaser and cease to recognize depreciation as of the date the aircraft is classified as flight equipment held for sale.

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 nine months ended September 30, 2023, we recorded no additional provision for uncollectible operating lease receivables.

As of September 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 months ended September 30, 2023, the Company recognized $12.0 million of operating lease revenue from these lessees and would have a recognized $1.7 million reduction in operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 30, 2023, the Company recognized $33.6 million of operating lease revenue from these lessees and would have recognized a $2.8 million reduction in operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 30, 2023, the Company collected $4.0 million of outstanding lease rental payments from one lessee, where the lease had also expired during the nine months ended September 30, 2023.

At September 30, 2022, the Company had 11 lessees, leasing a total of 17 aircraft and one engine, on non-accrual status, as the Company had determined that it was not probable that the Company would receive the economic benefits of the leases, principally due to (i) the lessees' failure to pay rent and maintenance payments on a timely basis and (ii) the Company's evaluation of the lessees' financial condition. During the three months ended September 30, 2022, the Company recognized $0.3 million of operating lease revenue from these lessees as a result of cash receipts from these lessees and would have recognized $13.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the nine months ended September 30, 2022, the Company recognized $19.7 million of operating lease revenue from these lessees and would have recognized $28.8 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

The Company has also agreed to lease restructurings with certain of its lessees. At September 30, 2023, the Company had 13 agreements in place with five lessees to defer their rent payment obligations for 13 aircraft totaling $35.9 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. As of September 30, 2023 and December 31, 2022, the deferral repayments received as a percentage of the scheduled deferral repayments were 81.3% and 32.1%, respectively.

	Rent Deferrals Granted	Scheduled Deferral Repayments
	(Dollars in thousands)	
2021	$ 12,019	$ 1,198
2022	12,234	4,199
2023	11,610	4,959
2024	—	7,631
2025	—	7,631
Thereafter	—	10,245
Total	**$ 35,863**	**$ 35,863**

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.

Management's discussion and analysis of operating results presented below pertain to the consolidated statements of income (loss) of Fly for the nine month periods ended September 30, 2023 and 2022.

Consolidated Statements of Income (Loss) for the nine months ended September 30, 2023 and 2022

	Nine months ended	
	September 30, 2023	September 30, 2022
	(Dollars in thousands)	
Revenues		
Operating lease revenue	$ 161,854	$ 184,572
Finance lease revenue	—	257
Gain on modification and extinguishment of debt, net	9,251	11,861
Gain on derivatives	2,884	14,010
Gain on deconsolidation of subsidiaries	—	8,085
Interest and other income	12,359	2046
Total revenues	**$ 186,348**	**$ 220,831**
Expenses		
Depreciation	$ 70,011	$ 75,218
Derecognition of maintenance rights	11,040	—
Interest expense	70,841	94,327
Selling, general and administrative	13,228	11,246
Write-off of uncollectible operating lease receivables	267	2,240
Loss on sale of aircraft, net	5,101	674
Fair value loss on marketable securities	—	2,367
Loss on derecognition of flight equipment	—	138,361
Maintenance and other costs	4,675	17,021
Total expenses	**175,163**	**341,454**
Net profit (loss) before (provision) benefit for income taxes	**11,185**	**(120,623)**
(Provision) benefit for income taxes	(2,393)	4,045
Net income (loss)	**$ 8,792**	**$ (116,578)**

	Nine months ended		
	September 30, 2023	September 30, 2022	Increase/ (Decrease)
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	$ 155,860	$ 150,248	$ 5,612
End of lease income	10,140	38,126	(27,986)
Amortization of lease incentives	(3,691)	(3,401)	(290)
Amortization of lease premium, discounts and other	(455)	(401)	(54)
Total operating lease revenue	**$ 161,854**	**$ 184,572**	**$ (22,718)**

For the nine months ended September 30, 2023, operating lease revenue totaled $161.9 million, a decrease of $22.7 million compared to the nine months ended September 30, 2022. The decrease was primarily due to a decrease of $28.0 million in end of lease income. During the nine months ended September 30, 2022, end of lease income of $38.1 million was recognized, $33.6 million of which was as a result of the derecognition of six aircraft on lease to Russian lessees due to the invasion of Ukraine. $10.1 million of end of lease income was recognized in the nine months ended September 30, 2023, $6.8 million of which related to the derecognition of maintenance payment liabilities associated with an aircraft asset lease agreement that was terminated by the Company due to failure by the lessee to make the lease rental payments. $4.3 million of end of lease income related to end of lease compensation received from a lessee upon expiry of the lease.

For the nine months ended September 30, 2023, we recorded a gain on debt extinguishment totaling $9.3 million related to the repurchase of the New Notes and 2024 Notes. For the nine months ended September 30, 2022, we recognized a gain on debt extinguishment of $11.9 million for similar repurchases.

Interest and other income totaled $12.4 million for the nine months ended September 30, 2023, an increase of $8.1 million compared to the nine months ended September 30, 2022. The increase was primarily due to the increase in interest payments received by the Company arising from the interest rate swap contracts. Increases in consignment sales was also a contributing factor to the increase in other income.

Depreciation expense was $70.0 million for the nine months ended September 30, 2023, a decrease of $5.2 million compared to the nine months ended September 30, 2022. The decrease was primarily due to the derecognition of six aircraft during the nine months ended September 30, 2022 that were on lease to Russian lessees, due to the invasion of Ukraine.

Interest expense totaled $70.8 million for the nine months ended September 30, 2023, a decrease of $23.5 million compared to the nine months ended September 30, 2022. The decrease was primarily due to the repurchases of $141.2 million of New Notes and $1.6 million 2024 Notes beginning in the third quarter of 2022 through the nine months ended September 30, 2023.

Selling, general and administrative expenses were $13.2 million for the nine months ended September 30, 2023, a decrease of $2.0 million compared to the nine months ended September 30, 2022. The provision for uncollectable operating lease receivables was $7.0 million as of both September 30, 2023 and 2022, respectively.

Provision for income taxes was $2.4 million for the nine months ended September 30, 2023. Benefit for income taxes was $4.0 million for the nine months ended September 30, 2022. We are a tax resident in Ireland and expect to pay the corporation tax rate of 12.5% on trading income and 25.0% on non-trading income. Our effective tax rates were 21.4% and (4.1)% for the nine months ended September 30, 2023 and 2022, respectively. The difference between the statutory and effective tax rate in each period is primarily attributable to changes in valuation allowances.

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 also have pursued opportunistic aircraft sales to rejuvenate our fleet. During the nine months ended September 30, 2023, we sold five engines that had been classified as flight equipment held for sale for consideration of $16.0 million and an aircraft held on operating lease for $11.7 million.

We finance our business with unrestricted cash, cash generated from flight equipment leases, aircraft sales and debt and equity financings. As of September 30, 2023, we had $29.4 million of unrestricted cash and $65.5 million restricted cash. We also owned one unencumbered aircraft on lease with an aggregate book value of $18.0 million and seven unencumbered engines with an aggregate book value of $25.3 million. Due to the repayment of the Fly Aladdin Debt Facility during the nine months ended September 30, 2023, we also own a further eight aircraft with an aggregate book value of $148.4 million that is financed by a loan from the Parent as of September 30, 2023.

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

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

We expect that, even with current market conditions, including the COVID-19 pandemic and the Russia-Ukraine conflict, and increasing interest rates, 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.

Cash Flows for the nine months ended September 30, 2023 and 2022

Cash provided by operating activities for the nine months ended September 30, 2023, totaled $99.7 million, compared to cash provided by operating activities of $29.0 million for the nine months ended September 30, 2022, a period-over-period increase of $70.7 million. The increase was primarily attributable to an improvement in the working capital positions in the nine months ended September 30, 2023 as compared to September 30, 2022.

Net cash flows provided by investing activities was $23.6 million and $257.6 million for the nine months ended September 30, 2023 and 2022, respectively. Cash used by investing activities totaled $4.1 million and $27.7 million for the nine months ended September 30, 2023 and 2022, respectively. During the nine months ended September 30, 2023, five engines previously classified as held for sale and an aircraft were sold to a third party for aggregate proceeds of $16.0 million and $11.7 million, respectively. During the nine months ended September 30, 2022, 4 aircraft previously classified as held for sale on lease to a lessee in India were sold to a third party for aggregate proceeds of $285.3 million.

Net cash flows used in financing activities totaled $179.8 million and $804.6 million for the nine months ended September 30, 2023 and 2022, respectively. Cash used in financing activities totaled $304.1 million and $823.4 million for the nine months ended September 30, 2023 and 2022, respectively. During the nine months ended September 30, 2023 and 2022, the Company made repayments on its unsecured and secured borrowings totaling $302.4 million and $810.5 million, respectively. During the nine months ended September 30, 2023, Fly obtained additional borrowings of $76.4 million under a loan from the Parent, the terms of which are set out in the Promissory Note. During the nine months ended September 30, 2023, Fly made $2.3 million in principal repayments and $1.7 million of related interest payments under the Promissory Note. The Promissory Note was fully repaid after period end.

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 nine months ended September 30, 2023, we received $18.5 million and $34.3 million of maintenance payments from lessees and made maintenance payment disbursements of $Nil and $1.0 million, respectively.

Debt securities and credit agreements

For a discussion of the Company’s debt securities and credit agreements, see Note 9. Unsecured Borrowings and, Note 10. Secured Borrowings and Note 19. Subsequent Events in the consolidated financial statements included elsewhere in this report.

Capital Expenditures

We expect to make capital expenditures from time to time in connection with improvements to our aircraft. These expenditures include the cost of major overhauls and modifications. In general, the costs of operating an aircraft, including capital expenditures, increase with the age of the aircraft. As of September 30, 2023, the weighted average age of our portfolio (excluding aircraft held for sale) was 10.6 years.

We currently have no fleet acquisitions planned for 2023.

Inflation

Over the past eighteen months, the global economy has experienced the effects of increasing inflation and related actions by central banks to stymie inflation. We continue to assess the risk of inflation and decrease in purchasing power in relation to direct expenses in the current and foreseeable economic environment. As of September 30, 2023, inflation has not had a material impact on the Company, however our interest expense has increased as a result of the related interest rate environment.