Interim Financial Statements

And

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

As of and for the

Three Months Ended

March 31, 2022

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

EXPLANATORY NOTE

On August 2, 2021, an affiliate of Carlyle Aviation Partners Ltd. ("Carlyle Aviation") completed its previously announced acquisition (the "Merger") of Fly 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 primary manager and servicer for Fly and certain of its subsidiaries and the sub-servicer for certain other subsidiaries. The report has been prepared in accordance with the requirements of the indentures governing the New Notes and 2024 Notes (each as defined herein) and not for any other purpose.

PRELIMINARY NOTE AND FORWARD LOOKING STATEMENTS

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

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and are presented in U.S. Dollars. All percentages and weighted average characteristics of the aircraft in our portfolio have been calculated using net book values as of March 31, 2022.

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, objectives, expectations and intentions and other statements that are not historical facts, as well as statements identified by words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," or words of similar meaning. Such statements address future events and conditions concerning matters such as, but not limited to, our earnings, cash flow, liquidity and capital resources, compliance with debt and other restrictive financial and operating covenants, interest rates, dividends, the integration of Fly into the Carlyle Aviation platform and its ability to realize the expected benefits of the Merger and acquisitions and dispositions of aircraft and other aviation assets. These statements are based on current beliefs or expectations and are inherently subject to significant uncertainties and changes in circumstances, many of which are beyond our control. Additional or unforeseen effects from the Ukraine/Russia conflict, the COVID-19 pandemic 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 at the end of the "Management's Discussion & Analysis of Financial Condition and Results of Operations section" and elsewhere in our Annual Report, for the year ended December 31, 2021.

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

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Fly Leasing Limited
Consolidated Balance Sheets

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

	Note	March 31, 2022	December 31, 2021
Assets			
Cash and cash equivalents		$ 129,687	$ 66,252
Restricted cash and cash equivalents		522,441	570,838
Rent receivables, net	*6(c)*	42,963	35,051
Investment in finance lease, net	*4*	8,752	9,089
Flight equipment held for sale, net	*5*	—	277,990
Flight equipment held for operating lease, net	*6(a)*	1,981,064	2,118,509
Maintenance rights	*7*	255,837	247,237
Deferred tax asset, net	*12*	25,481	24,729
Fair value of derivative assets	*11*	4,134	4,177
Amount due from related parties	*16*	84,664	82,047
Other assets, net	*8*	63,888	59,422
Total assets		**$ 3,118,911**	**$ 3,495,341**
Liabilities			
Accounts payable and accrued liabilities		$ 25,786	$ 20,833
Rentals received in advance		7,580	6,852
Security deposits		33,694	40,409
Maintenance payment liability, net		206,757	205,869
Unsecured borrowings, net	*9*	395,097	394,636
Secured borrowings, net	*10*	1,917,256	2,162,474
Deferred tax liability, net	*12*	69,388	69,434
Fair value of derivative liabilities	*11*	6,355	22,826
Other liabilities	*13*	21,996	37,610
Total liabilities		**$ 2,683,909**	**$ 2,960,943**
Shareholders' equity			
Common shares, $0.001 par value; 499,999,900 shares authorized; 100 shares issued and outstanding at March 31, 2022 and December 31, 2021	*14*	—	—
Manager shares, $0.001 par value; nil shares and 100 shares authorized, issued and outstanding at March 31, 2022 and December 31, 2021	*14*	—	—
Additional paid-in capital		509,769	509,769
(Accumulated deficit) / Retained earnings		(71,096)	40,589
Accumulated other comprehensive loss, net		(3,671)	(15,960)
Total shareholders' equity		**435,002**	**534,398**
Total liabilities and shareholders' equity		**$ 3,118,911**	**$ 3,495,341**

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

Fly Leasing Limited
Consolidated Statements of Income (Loss)

FOR THE THREE MONTH ENDED MARCH 31, 2022 AND 2021 (UNAUDITED)
(Dollars in thousands)

	Note	Three months ended March 31, 2022	Three months ended March 31, 2021
Revenues			
Operating lease revenue	*6(b)*	$ 68,344	$ 79,844
Finance lease revenue	*4*	113	129
Gain on sale of aircraft	*5*	9,545	—
Gain on derivatives	*11*	4,488	2,724
Interest and other income		2,242	884
Total revenues		**84,732**	**83,581**
Expenses			
Depreciation	*6(a)*	27,684	29,967
Provision for flight equipment impairment	*6(a)*	—	22,546
Interest expense		31,530	22,066
Selling, general and administrative		6,517	12,500
Provision for uncollectible operating lease receivables	*6(c)*	—	1,000
Fair value loss (gain) on marketable securities		1,357	(1,839)
Loss on modification and extinguishment of debt		451	—
Loss on derecognition of flight equipment	*6(a)*	126,732	—
Maintenance and other costs		4,862	1,104
Total expenses		**199,133**	**(87,344)**
Net loss before (provision) benefit for income taxes		**(114,401)**	**(3,763)**
Benefit for income taxes	*12*	2,716	370
Net income (loss)		**$ (111,685)**	**$ (3,393)**

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

Fly Leasing Limited
Consolidated Statements of Comprehensive Income (Loss)

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021 (UNAUDITED)
(Dollars in thousands)

	Three months ended March 31, 2022	Three months ended March 31, 2021
Net loss	**$ (111,685)**	**$ (3,393)**
Other components of comprehensive income (loss), net of deferred tax:		
Change in fair value of derivatives, net of deferred tax(1)	12,687	7,577
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax(2)	(398)	241
Comprehensive income (loss)	**$ (99,396)**	**$ 4,425**

(1) The associated deferred tax was $2,044 and $1,116 for the three months ended March 31, 2022 and three months ended March 31, 2021, respectively.

(2) The associated deferred tax was $(122) and $121 for the three months ended March 31, 2022 and three months ended March 31, 2021, respectively.

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

Fly Leasing Limited
Consolidated Statement of Shareholders' Equity

FOR THE THREE MONTHS ENDED MARCH 31, 2022 (UNAUDITED)
(Dollars in thousands)

	Manager Shares		Common Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance December 31, 2021	—	**$ —**	**100**	**$ —**	**$ 509,769**	**$ 40,589**	**$ (15,960)**	**$ 534,398**
Net loss	—	—	—	—	—	(111,685)	—	(111,685)
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**	**$ (71,096)**	**$ (3,671)**	**$ 435,002**

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

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

Fly Leasing Limited
Consolidated Statement of Shareholders' Equity

FOR THE THREE MONTHS ENDED MARCH 31, 2021 (UNAUDITED)
(Dollars in thousands)

	Manager Shares		Common Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance December 31, 2020	**100**	**$ —**	**30,481,069**	**$ 31**	**$ 509,738**	**$ 312,967**	**$ (33,740)**	**$ 788,996**
Net loss	—	—	—	—	—	(3,393)	—	(3,393)
Net change in the fair value of derivatives, net of deferred tax of $1,116 (1)	—	—	—	—	—	—	7,577	7,577
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of $121 (1)	—	—	—	—	—	—	241	241
Balance March 31, 2021	100	**$ —**	**30,481,069**	**$ 31**	**$ 509,738**	**$ 309,574**	**$ (25,922)**	**$ 793,421**

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

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

Fly Leasing Limited
Consolidated Statements of Cash Flows

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021 (UNAUDITED)
(Dollars in thousands)

	Note	Three months ended March 31, 2022	Three months ended March 31, 2021
Cash Flows from Operating Activities			
Net loss		**$ (111,685)**	**$ (3,393)**
Adjustments to reconcile net loss to net cash flows provided by operating activities:			
Gain on sale of aircraft	*5*	(9,545)	—
Depreciation	*6(a)*	27,684	29,967
Loss on derecognition of flight equipment	*6(a)*	126,732	—
Flight equipment impairment	*17*	—	22,546
Amortization of debt discounts and debt issuance costs	*10*	2,958	2,114
Amortization of lease incentives and other items		1,427	1,421
Provision for uncollectible operating lease receivables	*6(c)*	—	1,000
Bad debt expense		2,240	—
Fair value loss on marketable securities	*8*	1,357	(1,839)
Provision (benefit) for deferred income taxes	*12*	(2,720)	(370)
Other		57	(2,430)
Changes in operating assets and liabilities:			
Rent receivables		(13,139)	(14,981)
Other assets		(21,279)	(19,119)
Payable to related parties	*16*	13,646	304
Accounts payable, accrued liabilities and other liabilities		(11,661)	12,904
Net cash flows provided by operating activities		**6,072**	**28,124**
Cash Flows from Investing Activities			
Proceeds from sale of aircraft, net	*5*	284,535	—
Purchase of aircraft	*6(a)*	(15,498)	—
Payments for aircraft improvement	*6(a)*	(1,323)	(1,604)
Advances to ultimate parent	*16*	(16,260)	—
Purchase of marketable securities		—	(65)
Other		—	362
Net cash flows provided by (used in) investing activities		**251,454**	**(1,307)**
Cash Flows from Financing Activities			
Security deposits received		—	1,921
Maintenance payment liability receipts		5,845	4,281
Maintenance payment liability disbursements		(561)	(3,528)
Debt issuance costs		—	(186)
Repayment of secured borrowings	*10*	(247,715)	(39,510)
Net cash flows used in financing activities		**(242,431)**	**(37,002)**
Effect of exchange rate changes on unrestricted and restricted cash and cash equivalents		(57)	(93)
Net increase (decrease) in unrestricted and restricted cash and cash equivalents		15,038	(10,298)
Unrestricted and restricted cash and cash equivalents at beginning of period		637,090	161,529
Unrestricted and restricted cash and cash equivalents at end of period		**$ 652,128**	**$ 151,231**
Reconciliation to Consolidated Balance Sheets:			
Cash and cash equivalents		$ 129,687	$ 117,231
Restricted cash and cash equivalents		522,441	34,000
Unrestricted and restricted cash and cash equivalents		**$ 652,128**	**$ 151,231**

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: IE905729), under the provisions of Section 14 of the Companies Act 1981 of Bermuda. Fly was formed to acquire, finance, lease and sell commercial jet aircraft directly or indirectly through its subsidiaries (Fly and its subsidiaries collectively, the "Company").

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

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

USE OF ESTIMATES

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

RISKS AND UNCERTAINTIES

The Company encounters several types of risk during the course of its business, including credit, market, aviation industry and capital market risks. Credit risk addresses a lessee's or derivative counterparty's inability or unwillingness to make contractually required payments. Market risk reflects the change in the value of derivatives and credit facilities due to changes in interest rate spreads or other market factors, including the value of collateral underlying the Company's credit facilities. Aviation industry risk is the risk of a downturn in the commercial aviation industry, as a result of global, regional or industry-specific factors, which could adversely impact a lessee's ability to make payments, increase the risk of unscheduled lease terminations and depress lease rates and the value of the Company's aircraft and aircraft equipment. Capital market risk is the risk that the Company is unable to obtain capital at reasonable rates to fund the growth of its business or to refinance existing credit facilities. The ongoing conflict between Russia and Ukraine, and the related economic sanctions imposed on Russia by the United States (the "U.S."), the European Union (the "EU"), Japan and other countries throughout the world have led to, among other things, volatility in the capital markets, increases in inflation and supply chains issues, all of which have increased these and other risks faced by the Company.

COVID 19 PANDEMIC

The COVID-19 pandemic has had widespread and unprecedented impacts on regional, national and global economies. While many of the severe limitations imposed on travel by various governments have been lifted and travel has recovered from the lows experienced in 2020 and 2021, airlines continue to seek support from their respective governments, raise debt and equity, request concessions from lessors, and in certain cases, seek judicial protection. As a result, we anticipate that the decline in our cash rent collections and operating lease rental revenue will continue in 2022 compared to the pre-COVID 19 operating environment. Our estimates of the amount of rent ultimately collectible from our lessees, which impacts revenue recognition, have a higher degree of uncertainty due to the COVID-19 pandemic, and these estimates could change in the near term. Further, the impact of COVID-19 on the airline industry may result in changes to our assumptions used to evaluate impairment of flight equipment, including the level of future rents, the residual value of the flight equipment and estimated downtime between re-leasing events.

RUSSIAN INVASION OF UKRAINE

Following the Russian invasion of Ukraine which began on February 24, 2022, the United States, the European Union and other jurisdictions imposed sanctions and other restrictive measures against certain Russian individuals and entities, and certain activities involving Russia or Russian entities. Such measures include Regulation 2022/328 adopted by the EU on February 26, 2022 (“Regulation 2022/328”). Among other things, Regulation 2022/328 prohibits the supply of aircraft by EU entities to Russian entities or for use in Russia, subject to a 30-day wind-down period. This regulation required the cessation of leasing to Russian aircraft operators by March 28, 2022. In order to comply with the sanctions, the Company terminated all 6 of its leases with Russian airlines prior to March 28, 2022 and is in the process of repossessing the applicable aircraft. The Company anticipates the likelihood of successfully repossessing the aircraft to be remote.

For the three months ended March 31, 2022, the Company recorded a loss on derecognition of flight equipment totaling $126.7 million related to five narrow-body and one wide-body aircraft that were leased to Russian lessees. These aircraft were derecognized as the likelihood of successfully repossessing the aircraft including the related technical records and documentation was considered remote. During the year ended December 31, 2021, the Company recognized $7.6 million (2.9%) of lease revenue derived from lessees based in Russia. Contracted future rentals from these lessees was $67.8 million (4.7%). The Company held $3.0 million (7.4%) of security deposits and $26.6 million (12.9%) of maintenance reserves against these leases. These amounts were retained by the Company. As of December 31, 2021, there was accounts receivable of $1.7 million (3.4%) due from these lessees. These receivables were fully written off as of March 31, 2022.

The Company is also pursuing all available insurance claims in respect of the 6 aircraft on lease to Russian airlines, but it is likely that the administration of the claims will take some time and no assurance can be given as to the outcome of the claims. Our lessees are required to provide insurance coverage with respect to leased aircraft and we are named as “Contract Parties” (additional insureds) under those policies. We also purchase insurance which provides us with coverage when our flight equipment is not subject to a lease (or is in the course of repossession from a lessee) or where a lessee’s policy fails to indemnify us. We have submitted insurance claims with respect to all 6 of our aircraft and engines remaining in Russia and intend to pursue all of our claims under these policies with respect to our assets leased to Russian airlines. Our claims are subject to the terms of the applicable policies and, given the magnitude of potential claims, we anticipate that insurers and reinsurers may raise various objections and other defenses. Accordingly, we can give no assurance as to when or what amounts we may ultimately collect, if any. Insurance recoveries are generally recognized when they are realized or realizable, which typically occurs at the time cash proceeds are received or a claim agreement is executed, and also considers the counterparty’s ability to pay the claim amount. Since the collection, timing and amount of any recoveries under these insurance policies are uncertain, we have not recognized any claim receivables as of March 31, 2022.

As the invasion of Ukraine continues to unfold, airlines around the world will likely come under increased economic strain due to the conflict itself as well as the broader effect on the global economy, in general, and the aviation industry, in particular. Increased fuel prices, inflation, and airlines rerouting flights because of bans on the use of airspace have already and will likely continue to place additional financial pressure on already strained airlines. In addition, to the extent the conflict causes a significant adverse effect on the global economy it could lead to customers, especially leisure customers, foregoing flying and choosing cheaper alternatives. The specific impacts on the Company may include the inability of airlines customers to meet their lease obligations as a result of reduced cash flow, which in turn may lead to an increase in lease defaults and related repossessions. The conflict could also affect the residual values of airframes and engines, especially if leasing companies can repatriate the aircraft on lease to Russian airlines.
The invasion of Ukraine is a significant geopolitical and economic event for the global economy and, in particular, the aviation industry, and there is uncertainty over how the future development of this conflict will affect the Company. At the date of this report, the potential financial impact of these events on the Company cannot be fully determined.

NEW ACCOUNTING PRONOUNCEMENTS

In March 2022, the Financial Accounting Standards Board (the "FASB") issued ASU 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method,* which clarifies the guidance in ASC 815 on fair value hedge accounting of inherent rate risk for portfolios of financial assets. The ASU amends the guidance in ASU 2017-12 (released on August 28,2017) that, among other things, establishes the "last layer" method for making the fair value hedge accounting for these portfolios accessible. ASU 2022-01 renames that method the "portfolio layer" method and address 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 Board also issued a proposed ASU on November 12, 2019, that would clarify certain amendments made by ASU 2017-12; however, those are unrelated to portfolio fair value hedge accounting. The proposal has not yet been finalized. The Company does not expect the standard to have a material effect on the Company's consolidated financial statements.

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

3. SUPPLEMENTAL DISCLOSURE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended	
	March 31, 2022	**March 31, 2021**
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	$ 23,407	$ 16,363
Taxes	—	6
Noncash Activities:		
Security deposits applied to rent receivables, maintenance payment liability and other liabilities	2,835	2,824
Maintenance payment liability applied to rent receivables, maintenance rights, and other liabilities	—	2,694
Other liabilities applied to security deposits, maintenance payment liability and rent receivables	—	690
Noncash investing activities:		
Aircraft improvement	—	602

4. INVESTMENT IN FINANCE LEASE

At each of March 31, 2022 and December 31, 2021, the Company had one aircraft classified as an investment in finance lease, which had an implicit interest rate of 5%.

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

	March 31, 2022		December 31, 2021	
Total minimum lease payments receivable	$	5,550	$	6,000
Estimated unguaranteed residual value of leased asset		4,227		4,227
Unearned finance income		(1,025)		(1,138)
Net investment in finance lease	**$**	**8,752**	**$**	**9,089**

Presented below are the contracted future minimum rental payments due under the Company's only non-cancellable finance lease, as of March 31, 2022.

	(Dollars in thousands)	
April 1 through December 31, 2022	$	1,350
Year ending December 31,		
2023		1,800
2024		1,800
2025		600
2026		—
Future minimum rental payments under finance lease	**$**	**5,550**

5. FLIGHT EQUIPMENT HELD FOR SALE

At March 31, 2022, the Company had no aircraft classified as flight equipment held for sale.

At December 31, 2021, the Company had three wide-body aircraft classified as flight equipment held for sale amounting to $278.0 million. These aircraft were on lease to a lessee in India. In January 2022, these aircraft were sold to a third party for $284.5 million and the sale resulted in a gain of $9.5 million.

6. FLIGHT EQUIPMENT HELD FOR OPERATING LEASE, NET

(a) Flight equipment held for operating lease

As of March 31, 2022, the Company had 71 aircraft and 7 engines held for operating lease, of which 67 aircraft and 7 engines were on lease to 40 lessees in 24 countries and 4 aircraft were off-lease. As of December 31, 2021, the Company had 79 aircraft (including 6 aircraft on lease to airlines in Russia) and 7 engines held for operating lease, of which 77 aircraft and 7 engines were on lease to 41 lessees in 22 countries and 2 aircraft were off lease.

In March 2022, the Company derecognized five narrow-body and one wide-body aircraft which were leased to Russian lessees. These aircraft were derecognized as the likelihood of successfully repossessing the aircraft, including the related technical records and documentation, was considered remote. The net book value of these aircraft amounted to $126.7 million. These aircraft are no longer considered part of the Company's fleet.

The Company purchased one narrow-body aircraft for $15.5 million during the three months ended March 31, 2022. This acquisition was related to the AASET 2021-1 transaction.

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

	March 31, 2022	December 31, 2021
Cost	$ 2,745,144	$ 2,892,802
Accumulated depreciation and impairment	(764,080)	(774,293)
Flight equipment held for operating lease, net	**$ 1,981,064**	**$ 2,118,509**

The Company capitalized $1.3 million of major maintenance during the three months ended March 31, 2022. The Company capitalized $2.1 million of major maintenance for the three months ended March 31, 2021.

The Company recognized depreciation expense amounting to $27.7 million for the three months ended March 31, 2022. The Company recognized depreciation expense amounting to $30.0 million for the three months ended March 31, 2021.

The Company recognized provision for aircraft impairment amounting to $Nil for the three months ended March 31, 2022. The Company recognized provision for aircraft impairment amounting to $22.5 million for the three months ended March 31, 2021 related to two narrow-body aircraft.

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

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

	March 31, 2022		December 31, 2021	
Europe:				
Spain	$ 145,617	7%	$ 147,357	7%
France	126,353	6%	128,109	6%
Other	179,555	9%	167,484	8%
Europe — Total	**451,525**	**23%**	**442,950**	**21%**
Asia and South Pacific:				
India	106,281	5%	106,211	5%
Malaysia	378,457	19%	382,548	18%
Indonesia	194,004	10%	196,100	9%
China	134,052	7%	135,826	6%
Philippines	141,357	7%	142,742	7%
Other	153,989	8%	285,931	13%
Asia and South Pacific — Total	**1,108,140**	**56%**	**1,249,358**	**58%**
Mexico, South and Central America — Total	**61,979**	**3%**	**63,133**	**3%**
North America:				
United States	50,413	3%	51,118	2%
North America — Total	**50,413**	**3%**	**51,118**	**2%**
Middle East and Africa:				
Ethiopia	280,773	14%	283,219	13%
Middle East and Africa — Total	**280,773**	**14%**	**283,219**	**13%**
Off-Lease — Total	**28,234**	**1%**	**28,731**	**1%**
Total flight equipment held for operating lease, net	**$ 1,981,064**	**100%**	**$ 2,118,509**	**100%**

(b) Lease revenue from flight equipment under operating leases

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

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

The distribution of operating lease revenue by geographic region for the three months ended March 31, 2022 and 2021 is as follows (dollars in thousands):

	Three months ended			
	March 31, 2022		March 31, 2021	
Europe:				
Spain	$ 2,370	3%	$ 3,667	5%
France	5,262	8%	—	0%
Other	23,912	35%	6,158	8%
Europe — Total	**31,544**	**46%**	**9,825**	**13%**
Asia and South Pacific:				
India	4,215	6%	37,686	47%
Malaysia	11,932	18%	9,457	12%
Indonesia	1,486	2%	852	1%
China	3,102	5%	5,888	7%
Philippines	1,472	2%	1,568	2%
Other	2,549	4%	2,300	3%
Asia and South Pacific — Total	**24,756**	**37%**	**57,751**	**72%**
Mexico, South and Central America — Total	**1,441**	**2%**	**(38)**	0%
North America:				
United States	1,653	2%	3,355	4%
North America — Total	**1,653**	**2%**	**3,355**	**4%**
Middle East and Africa:				
Ethiopia	7,505	11%	7,505	9%
Other	1,445	2%	1,446	2%
Middle East and Africa — Total	**8,950**	**13%**	**8,951**	**11%**
Total Operating Lease Revenue	**$ 68,344**	**100%**	**$ 79,844**	**100%**

For the three months ended March 31, 2022, the Company had 2 customers (Ethiopian Airlines and JSC Air Company Yakutia), that accounted for 10% or more of total operating lease revenue at 12% and 16.1%, respectively. For the three months ended March 31, 2021, the Company had three customers (IndiGo, Air India and AirAsia Berhad) that accounted for 10% or more of total operating lease revenue at 34%, 11% and 10%, respectively.

For the three months ended March 31, 2022, and 2021, the Company recognized end of lease income, which is included in operating lease revenue, of $18.9 million and $25.8 million, respectively.

For the three months ended March 31, 2022, and 2021, amortization of lease incentives/premium recorded as a reduction of operating lease revenue totaled $1.6 million and $1.4 million, respectively. At March 31, 2022, lease incentive amortization for the next five years and thereafter is as follows (dollars in thousands):

	(Dollars in thousands)
April 1 through December 31, 2022	$ 1,077
Year ending December 31	
2023	2,131
2024	1,767
2025	1,413
2026	939
2027	671
Thereafter	308
Future amortization of lease incentives	**$ 8,306**

(c) Rent receivables and rent deferrals

As noted above, the COVID-19 pandemic has had an unprecedented impact on the airline industry, causing multiple lessees in the Company's fleet to fail to make rent and maintenance payments. This led the Company to place a number of lessees on non-accrual status in 2021 and 2022.

At March 31, 2022, the Company had 11 lessees, leasing a total of 17 aircraft and 1 engine, on non-accrual status, as the Company had determined that it was not probable that the Company would receive the economic benefits of the leases, principally due to (i) the lessees' failure to pay rent and maintenance payments on a timely basis and (ii) the Company's evaluation of the lessees' financial condition. As a result, the Company will only recognize revenues related to these lessees upon receipt of payment. During the three months ended March 31, 2022, the Company recognized $4.3 million of operating lease revenue from these lessees as a result of cash receipts from the lessees, and would have recognized $10.7 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At March 31, 2021, the Company had 10 lessees, leasing a total of 19 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 only recognized revenues related to the lessees upon receipt of payment. During the three months ended March 31, 2021, the Company recognized $8.0 million of operating lease revenue from these lessees as a result of cash receipts from the lessees, and would have recognized $14.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

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

Presented below are the rent deferrals granted and scheduled deferral repayments for deferral agreements in place as of March 31, 2022. There can be no assurance that the Company's lessees will make their payments in accordance with the deferral terms during the expected repayment periods or at all.

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

As of March 31, 2022 and December 31, 2021, the weighted average remaining lease term of the Company's aircraft held for operating lease was 5.7 years and 4.8 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 March 31, 2022, the Company recognized $51.0 million of operating lease rental revenue, $2.5 million of which was from leases with variable rates. For the three months ended March 31, 2021, the Company recognized $55.4 million of operating lease rental revenue, $10.3 million of which was from leases with variable rates.

Variable rates are rents that reset based on changes in LIBOR or usage of aircraft. Presented below are the contracted future minimum rental payments, inclusive of rents due from lessees on non-accrual status and rent deferrals, due under non-cancellable operating leases for flight equipment held for operating lease, as of March 31, 2022. For leases that have floating rental rates, the future minimum rental payments assume that LIBOR as of December 31, 2021, is constant for the duration of the lease.

		(Dollars in thousands)
April 1 through December 31, 2022	$	187,677
Year ending December 31		
2023		206,016
2024		191,034
2025		183,968
2026		166,606
2027		127,882
Thereafter		119,924
Future minimum rental payments under operating leases	**$**	**1,183,107**

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

	March 31, 2022	**December 31, 2021**
	(Dollars in thousands)	
Rent receivables, gross	49,963	42,051
Allowance for doubtful accounts	(7,000)	(7,000)
Rent receivables, net	**$ 42,963**	**$ 35,051**

The Company maintains a provision for uncollectible operating lease receivables for losses it estimates will arise from its lessees' inability to make their required lease payments. The Company evaluates the collectability of rent receivables and determines the appropriate provision for uncollectible operating lease receivables based on historical experience and a review of specific lessees. During the three months ended March 31, 2022 and 2021, the Company recorded a provision for uncollectible operating lease receivables of $Nil and $1.0 million, respectively. As of each of March 31, 2022 and December 31, 2021, the Company had an allowance for uncollectible operating lease receivables of $7.0 million.

7. MAINTENANCE RIGHTS

Changes in maintenance right assets, during the three months ended March 31, 2022 and 2021 were as follows (dollars in thousands):

	Three months ended	
	March 31, 2022	**March 31, 2021**
	(Dollars in thousands)	
Maintenance rights, beginning balance	$ 247,234	$ 279,124
Acquisitions	8,603	—
Maintenance rights, ending balance	**$ 255,837**	**$ 279,124**

8. OTHER ASSETS

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

	March 31, 2022	December 31, 2021
	(Dollars in thousands)	
Collateral placed	23,000	23,000
Equity certificates	1,656	3,013
Value added tax receivables	5,545	5,360
Inventories	5,345	6,037
Lease intangibles	6,038	6,309
Other assets	22,304	15,703
Total other assets	**$ 63,888**	**$ 59,422**

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

In 2018 and 2019, the Company purchased $5.7 million, or 4%, $7.4 million, or 6%, and $3.1 million, or 3%, of the equity certificates issued by Horizon I Limited, Horizon II Limited and Horizon III Limited, respectively, each of which were issued in connection with ABS transactions by entities affiliated with Fly. For the three months ended March 31, 2022, we recognized an unrealized fair value loss $1.4 million related to the write down of our equity certificates to estimated fair value. After the write-down, the carrying value of our investment in equity certificates was $1.7 million as of March 31, 2022. We expect the fair value of our investment in equity certificates to remain volatile while the COVID-19 pandemic continues to affect the market for such securities.

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

9. UNSECURED BORROWINGS

	Balance as of	
	March 31, 2022	December 31, 2021
	(Dollars in thousands)	
Outstanding principal balance:		
2024 Notes	9,553	9,553
New Notes	390,307	390,307
Total outstanding principal balance	399,860	399,860
Unamortized debt discounts and loan costs	(4,763)	(5,224)
Unsecured borrowings, net	**$ 395,097**	**$ 394,636**

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

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

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

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

As of March 31, 2022, $9.5 million of the 2024 Notes remained outstanding and $390.3 million of New Notes (including the Additional Notes) were outstanding. Each of the 2024 Notes and New Notes mature on October 15, 2024.

As of March 31, 2022, accrued interest on the New Notes was $12.6 million. As of March 31, 2022, accrued interest on the 2024 Notes was $0.2 million. As of December 31, 2021, accrued interest on the New Notes was $5.8 million. As of December 31, 2021, accrued interest on the 2024 Notes was $0.1 million.

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

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

As of March 31, 2022, the Company was not in default under either of the Indentures.

10. SECURED BORROWINGS

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

	Outstanding principal balance as of		Weighted average interest rate[1] as of		
	March 31, 2022[2]	December 31, 2021[2]	March 31, 2022	December 31, 2021	Maturity date
Nord LB Facility	54,304	58,774	3.96%	2.44%	August 2025
2012 Term Loan	331,899	337,282	3.04%	3.13%	August 2025
2020 Term Loan	158,714	160,295	7.00%	7.00%	October 2025
Magellan Acquisition Limited Facility	214,613	221,248	3.81%	3.90%	December 2025
Fly Aladdin Acquisition Facility	200,327	206,312	4.42%	4.79%	June 2023
Fly Aladdin Engine Funding Facility	3,627	8,535	4.95%	4.95%	April 2022
Other Aircraft - Secured Borrowings	254,884	454,779	3.34%	3.08%	February 2023 – June 2028
Class A Notes[3]	560,005	574,612	2.95%	2.95%	October 2028
Class B Notes[3]	111,898	114,969	3.80%	3.80%	October 2028
Class C Notes[3]	64,320	67,038	5.82%	5.82%	December 2027
Total outstanding principal balance	**1,954,591**	**2,203,844**			
Unamortized debt discounts and loan costs	(37,335)	(41,370)			
Total secured borrowings, net	**$ 1,917,256**	**$ 2,162,474**			

(1) Represents the contractual interest rates and effect of derivative instruments and excludes the amortization of debt discounts and debt issuance costs.
(2) As of March 31, 2022 and December 31, 2021, accrued interest on secured borrowings totaled $4.7 million and $6.6 million, respectively.
(3) Represents the Notes issued by AASET International in the AASET 2021-1 transaction.

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

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

As of March 31, 2022, the Company was not in default under any of its secured borrowings, with the exception of the Nord LB Facility. See below for additional details.

Nord LB Facility

As of March 31, 2022, the Company had $54.3 million principal amount outstanding under its non-recourse debt facility with Norddeutsche Landesbank Gironzentrale (the “Nord LB Facility”), which was secured by three aircraft. The Nord LB Facility is structured with three separate loans secured by each aircraft individually. The loans are cross-collateralized and contain cross-default provisions. The loans under the Nord LB Facility bear interest at one-month LIBOR plus a margin of 1.85% until maturity. During the second quarter of 2021, the Company amended the Nord LB Facility to extend the maturity date from May 14, 2021, to August 13, 2021. The facility has not been repaid. The lenders under the facility have notified the servicer under the facility that an event of default has occurred and is continuing. The facility is not recourse to Fly or any of its subsidiaries other than the borrowers under the facility and the fair market value of the aircraft collateralizing the facility is less than the amount of loans and accrued interest outstanding. Subsequent to the default, the loans bear interest at one-month LIBOR plus a margin of (i) 1.85% and (ii) 2.00% of default interest.

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

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

Subsequent to March 31, 2022, the lenders brought a petition to the High Court in Ireland to wind up the subsidiaries in question under Section 569 of the Companies Act 2014. The Company disputed the lender’s ability to petition for the winding up of the subsidiaries in question on an insolvent basis, relying on the non-recourse nature of the debt, and the alternative remedies available to the lender through enforcement of the security the lender holds over the financed aircraft in question. Noting the subsidiaries’ position on the petition, the High Court of Ireland adjourned the winding up petition to facilitate discussion between the subsidiaries and the lender. Those discussions are ongoing.

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

2012 Term Loan

As of March 31, 2022, the Company had $331.9 million principal amount outstanding under its senior secured term loan (the “2012 Term Loan”), secured by 20 aircraft. Fly has guaranteed all payments under the 2012 Term Loan. The maturity date of the 2012 Term Loan is August 9, 2025. The 2012 Term Loan can be prepaid in whole or in part at par.

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

The 2012 Term Loan requires that the Company maintain a maximum loan-to-value ratio (“LTV”) of 70.0% based on the lower of the mean or median of half-life adjusted base values of the financed aircraft as determined by three independent appraisers on a semi-annual basis. The 2012 Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings. The Company was in compliance with all such covenants and requirements as of March 31, 2022.

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

2020 Term Loan

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

As of March 31, 2022, the Company had $158.7 million principal amount outstanding under the 2020 Term Loan.

The 2020 Term Loan requires that the Company maintain a maximum LTV of 70.0% based on the lower of the mean or median of half-life adjusted base values of the financed aircraft as determined by three independent appraisers on a semi-annual basis. The 2020 Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings. The Company was in compliance with all such covenants and requirements as of March 31, 2022.

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

Magellan Acquisition Limited Facility

As of March 31, 2022, the Company had $214.6 million principal amount outstanding in loans and notes under one of its term loan facilities (the "Magellan Acquisition Limited Facility"), which was secured by nine aircraft. Fly has guaranteed all payments under this facility. The Magellan Acquisition Limited Facility has a maturity date of December 8, 2025.

The interest rate on the loans is based on one-month LIBOR plus an applicable margin of 1.65% per annum. The interest rate on the notes is a fixed rate of 3.93% per annum. In connection with the AASET 2021-1 transaction, the Company repaid a significant amount of the indebtedness outstanding under the facility and as of March 31,2022 the Company had $192.8 million principal outstanding in loans and $21.8 million principal outstanding in notes.

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

In July 2021, the Company made a prepayment in the amount of $4.4 million to cure the LTV deficiency. The Company was in compliance with all covenants and requirements under the Magellan Acquisition Limited Facility as of March 31, 2022.

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

Fly Aladdin Acquisition Facility

As of March 31, 2022, the Company had an aggregate of $200.3 million principal amount outstanding of Series B loans under one of its term loan facilities (the "Fly Aladdin Acquisition Facility"), which was secured by 14 aircraft. The Series B loans bear interest based on three-month LIBOR, plus an applicable margin of 1.80% per annum, and have a maturity date of June 15, 2023.

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

The facility contains operating covenants, including covenants that the borrowers maintain (i) a debt service coverage ratio of at least 1.15:1.00, (ii) that 85% of aircraft financed under the facility (a) are on lease, (b) have been subject to a lease in the previous six months or (c) are subject to a letter of intent for a re-lease or sale (the "utilization test") and (iii) an LTV of (a) 65% through June 14, 2021, (b) 63.5% from June 15, 2021 through December 14, 2021, (c) 62% from December 15, 2021 through June 14, 2022, (d) 60% from June 15, 2022 through December 14, 2022 and (e) 58% thereafter. The utilization test and LTV are based on the average of the half-life adjusted current market value of all financed aircraft as determined by three independent appraisers on a semi-annual basis.

Upon the occurrence of certain events, including a breach of the debt service coverage ratio continuing for two consecutive quarterly payment dates, Fly will be required to deposit, or cause the borrowers to deposit, all maintenance reserves and security deposits received under the associated leases into pledged accounts. Also, upon the occurrence of a breach, on any payment date, of the LTV and certain other events, all cash collected will be applied to repay the outstanding principal balance of Series B loans until such breach is cured. The LTV was initially breached in the third quarter of 2020 and remained in a breached position as of March 31, 2022. As a consequence of entering into deferral agreements with the Company's lessees, in the fourth quarter of 2020, the debt service coverage ratio was breached for four consecutive quarterly payment dates in 2021, requiring the Company to deposit approximately $29.1 million in cash maintenance reserves and security deposits received under the associated leases into pledged accounts.

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

Fly Aladdin Engine Funding Facility

As of March 31, 2022, the Company had $3.6 million principal amount outstanding under one of its term loan facilities (the "Fly Aladdin Engine Funding Facility"), which was secured by two engines, the loan for which has maturity of April 30, 2022, amounting to $3.6 million. Fly has guaranteed all payments under this facility. The Company has made repayment of $4.8 million due in January 2022.

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

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

Other Aircraft Secured Borrowings

The Company has entered into other aircraft secured borrowings to finance the acquisition of aircraft, one of which is denominated in Euros. As of March 31, 2022, the Company had $254.9 million principal amount outstanding of other aircraft secured borrowings, which were secured by 9 aircraft. The entire balance of other aircraft secured borrowings were recourse to Fly.

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

AASET 2021-1

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

AASET used the proceeds from the offering to acquire all of the Series A Fixed Rate Secured Notes (the "Series A AOE Notes"), Series B Fixed Rate Secured Notes (the "Series B AOE Notes") and Series C Fixed Rate Secured Notes (the "Series C AOE Notes" and, together with the Series A AOE Notes and the Series B AOE Notes, the "AOE Notes") issued by each of AASET 2021-1 US Ltd. ("AASET US") and AASET 2021-1 International Ltd. ("AASET International"). ASSET International is a subsidiary of Fly, while AASET US is owned by other affiliates of Carlyle Aviation and is not a subsidiary of Fly. The Series A AOE Notes, Series B AOE

Notes and Series C AOE Notes issued by AASET International have an initial aggregate principal amount of $584,879,636, $117,124,034 and $69,265,786, respectively. The AOE Notes bear interest at the same interest rates as the Notes and have the same expected final payment date and final legal maturity date as the Notes. Interest and principal payments on the AOE Notes are due and payable monthly with final expected payment dates to occur on (i) October 16, 2028, with respect to the Series A AOE Notes and Series B AOE Notes and (ii) December 16, 2027, with respect to the Series C AOE Notes. All three classes of Notes have a final legal maturity date of November 16, 2041.
As of March 31, 2022, $736.2 million in aggregate principal amount remained outstanding under the AOE Notes issued by AASET International, and there were no events of default during the three months ended March 31, 2022.

Future Minimum Principal Payments on Secured Borrowings

During the three months period ended March 31, 2022, the Company made scheduled principal payments of $228.6 million on its secured borrowings. The anticipated future minimum principal payments due for its secured borrowings are as follows (dollars in thousands):

		(Dollars in thousands)
April 1 through December 31, 2022	$	204,471
Year ending December 31		
2023		441,596
2024		173,265
2025		637,781
2026		93,153
Thereafter		404,325
Future minimum principal payments due	**$**	**1,954,591**

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 March 31, 2022, the Company had $611.3 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 March 31, 2022 and March 31, 2021, the Company had interest rate swap contracts with notional amounts aggregating $542.0 million and $575.5 million, respectively. The unrealized fair value loss on the interest rate swap contracts, reflected as derivative liabilities, was $6.3 million and $22.8 million as of March 31, 2022 and December 31, 2021, 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 $36.3 million in U.S. dollars. The unrealized fair value gain, reflected as a derivative asset, was $4.1 million and $4.2 million as of March 31, 2022 and December 31, 2021, respectively.

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

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

During the three months ended March 31, 2022, the Company recorded $3.1 million of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

During the three months ended March 31, 2021, the Company recorded $4.0 million of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

Designated Derivatives

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

As of March 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	Loss Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Interest rate swap contracts .	22	2/9/23-12/8/25	2.28%-3.13%	$ 479,724	$ (3,673)	$ (3,478)
Accrued interest	—			—	(1,062)	—
Total – designated derivative liabilities as of March 31, 2022	**22**			**$ 479,724**	**$ (4,735)**	**$ (3,478)**

Dedesignated Derivatives

As of March 31, 2022, the Company's cross currency swap no longer qualified for hedge accounting and was dedesignated due to missed rent payments associated with a variable rate lease. The Company had the following dedesignated derivative instrument classified as derivative assets on its balance sheet as of March 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	$ 36,300	$ 4,113	$ 2,806
Accrued rent	—			—	21	—
Total - dedesignated derivative asset as of March 31, 2022	**1**			**$ 36,300**	**$ 4,134**	**$ 2,806**

At March 31, 2022, the Company had an accumulated other comprehensive gain, net of deferred tax, of $2.8 million, which will be amortized over the remaining term of the cross currency swap contract. During the three months ended March 31, 2021, the Company reclassified $0.2 million from accumulated other comprehensive loss, net of deferred tax, to gain on derivatives.

Certain of the Company's interest rate swap contracts no longer qualify for hedge accounting and have been dedesignated due to debt repayments associated with aircraft sales. As of March 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 Loss, Net of Deferred Tax
Interest rate swap contracts	11	6/15/23	2.66%-3.12%	$ 95,780	$ (1,124)	(2,999)
Accrued interest	—			—	(496)	
Total – dedesignated derivative liabilities as of March 31, 2022	**11**			**$ 95,780**	**$ (1,620)**	**(2,999)**

At March 31, 2022, the Company had an accumulated other comprehensive loss, net of deferred tax, of $3.0 million attributable to both dedesignated interest rate swaps and terminated interest rate swaps that will be amortized over the remaining term of the designated interest rate swap contracts and the original term of the terminated interest rate swap contracts. During the three months ended March 31, 2021, the Company amortized $0.5 million from accumulated other comprehensive loss, net of deferred tax, to interest expense.

At March 31, 2021, the Company had an accumulated other comprehensive loss, net of deferred tax, of $4.9 million, attributable to both dedesignated interest rate swaps and terminated interest rate swaps that will be amortized over the remaining term of the interest rate swap contracts. During the three months ended March 31, 2021, the Company amortized $0.5 million from accumulated other comprehensive loss, net of deferred tax, to interest expense.

12. INCOME TAXES

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

The Company's effective tax rates were 2.4% and 9.8% for the three months ended March 31, 2022 and 2021, respectively. The difference between the statutory and effective tax rate in each period is primarily attributable to changes in valuation allowances and the amount of income earned by 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 March 31, 2022 and December 31, 2021. The recent planned increase of corporation tax rate from 12.5% to 15.0% is not expected to have material impact on the financial statements of Fly.

13. OTHER LIABILITIES

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

	March 31, 2022	December 31, 2021
	(Dollars in thousands)	
Current tax payable	$ 42	$ 42
Lease discount	1,716	1,900
Lease incentive obligation	7,466	9,650
Deferred rent	2,977	15,334
Refundable deposits	720	320
Other	9,075	10,364
Total other liabilities	**$ 21,996**	**$ 37,610**

14. SHAREHOLDERS' EQUITY

Share transactions

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

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

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

The Company did not issue nor repurchase any shares during the three months ended March 31, 2022 and 2021.

Dividends

No dividends were declared or paid during the three months ended March 31, 2022 and 2021.

15. COMMITMENTS AND CONTINGENCIES

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

In 2016, the Company entered into the RVGs with third-party lessors to guarantee the residual value of three aircraft subject to twelve-year leases and received residual value guarantee fees totaling $6.6 million, which are being amortized over a twelve-year period. The third-party lessors may exercise their rights under the RVGs by issuing a notice eleven months prior to the respective lease maturity requiring the Company to purchase the aircraft on such date. The RVGs will terminate if not exercised accordingly. During each of the three months period ended March 31, 2022 and 2021, the Company recognized income of $0.1 million and $0.1 million, respectively, related to the amortization of the residual guarantee fees. The RVGs contain covenants requiring the Company to post cash collateral in an aggregate amount of $23.0 million as security for the Company’s obligations upon the occurrence of certain corporate events, including a change in control, a downgrade in the Company’s corporate family rating beyond a specified threshold, or a sale of all or substantially all of the Company’s assets. The consummation of the Merger triggered the requirement to post cash collateral for the RVGs, which was posted during the year ended December 31, 2021. This cash collateral is included as other assets in the consolidated balance sheet as of March 31, 2022 and December 31, 2021.

16. RELATED PARTY TRANSACTIONS

Servicer and Manager

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

Upon completion of the Merger, the Carlyle Manager became the manager and sub-servicer of Fly and its subsidiaries. Concurrently with the execution of the Merger Agreement, Fly, the Fly Leasing Co. Limited (the “BBAM Manager”) and the Carlyle Manager entered into the sub-servicing agreement whereby the BBAM entities that acted as Fly’s servicers delegated to the Carlyle Manager certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly. BBAM is still entitled to receive minimal servicing fees as a result of continuing to be named servicer under the original contracts.

Servicer and Manager Fees paid to BBAM

For the three months ended March 31, 2022, BBAM received servicing and administrative fees totaling $1.57 million. For the three months ended March 31, 2021, BBAM received servicing and administrative fees totaling $2.4 million. As at March 31, 2022 and December 31, 2021, respectively, the Company has a total of $3.7 million and $2.6 million of servicing and administrative fees payable to BBAM. During the three months ended March 31, 2022 and 2021, the Company incurred disposition fees of $4.89 and $0.4 million, respectively, payable to BBAM.

In addition, Fly paid an annual management fee to the BBAM Manager as compensation for providing the services of the chief executive officer, the chief financial officer and other personnel, and for certain corporate overhead costs related to the Company. The management fee was adjusted each calendar year by (i) 0.3% of the change in the book value of the Company's aircraft portfolio during the preceding year, up to a $2.0 billion increase over $2.7 billion and (ii) 0.25% of the change in the book value of the Company's aircraft portfolio in excess of $2.0 billion, with a minimum management fee of $5.0 million. The management fee was also subject to an annual CPI adjustment applicable to the prior calendar year. For the three months ended March 31, 2022 and 2021, the Company incurred management fees of $Nil and $1.7 million, respectively. As a result of the consummation of the Merger, the Company is no longer required to pay annual management fees to BBAM.

Sub-Servicer and Manager Fees paid to the Carlyle Manager

After the consummation of the Merger in 2021, the Company incurred $2.2 million and $0.4 million, respectively, in sub-servicing and administrative fees payable to the Carlyle Manager. These amounts were included in the total servicing fees of $6.3 million for the year ended December 31, 2021. The total sub-servicing and administrative fees incurred for the three months period ended March 31, 2022 amounted to $0.54 million.

AASET 2021-1

In connection with the AASET 2021-1 transaction, Carlyle Aviation also acted as servicer for AASET International. During the three months ended March 31, 2022, the Company incurred $1.8 million of service fees payable to Carlyle Aviation.

In connection with the AASET 2021-1 transaction, AASET International acquired 9 narrowbody aircraft in 2021. It has acquired a further 2 aircraft as of March 31, 2022. Of these 11 aircraft, 4 were purchased from the Ultimate Parent, with the remaining 7 already being part of Fly's portfolio. In relation to the ABS and the resultant cash flows, cash payment of $116.4 million and $100.1 million were advanced to the Ultimate Parent as of March 31, 2022 and December 31, 2021, respectively. This balance is offset by amounts owed to Ultimate Parent of $28.0 million and $15.4 million, as of March 31, 2022 and December 31, 2021, respectively. The amounts owed to Ultimate Parent relate to general expenses paid on behalf of the Company. These amounts remain outstanding and are included as part of amounts due from related parties in the consolidated balance sheet as of March 31, 2022.

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 months ended March 31, 2022 and 2021, respectively, the Company recognized an unrealized fair value loss of $14.6 million and $11.4 million on its investment in equity certificates to write down the equity certificates to estimated fair value.

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

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

The Company also measures the fair value for certain assets and liabilities on a non-recurring basis, when GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include Portfolio B orderbook value and flight equipment held for operating lease, net (Level 3).

The Company records flight equipment at fair value when the carrying value may not be recoverable. Such fair value measurements are based on management's best estimates and judgment and use Level 3 inputs which include assumptions of future projected lease rates, re-leasing costs, estimated down time and estimated residual or scrap values of the aircraft on its eventual disposition. The Company will record an impairment charge if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset. The impairment charge is equal to the excess of the carrying amount of the impaired asset over its fair value. Fair value reflects the present value of the expected future cash flows, discounted at an appropriate rate. The Company recorded an impairment charge of $Nil and $22.5 million during the three months ended March 31, 2022 and 2021, respectively.

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

	As of March 31, 2022		As of December 31, 2021	
	Principal Amount Outstanding	Fair Value	Principal Amount Outstanding	Fair Value
2012 Term Loan	$ 331,899	$ 324,431	$ 337,282	$ 330,958
2020 Term Loan	158,714	159,309	160,295	155,085
Magellan Acquisition Limited Facility	214,613	208,443	221,248	215,717
Fly Aladdin Acquisition Facility	200,327	198,825	206,312	204,766
2021 Notes	390,307	351,963	390,307	386,096
2024 Notes	9,553	8,948	9,553	9,331
Class A Notes	560,005	463,085	574,612	563,126
Class B Notes	111,898	84,189	114,969	108,662
Class C Notes	64,320	45,056	67,038	62,055

The Company's principal amount outstanding on its remaining debt instruments approximates fair value at March 31, 2022 and December 31, 2021.

As of March 31, 2022, and December 31, 2021, the categorized assets and liabilities measured at fair value on a recurring basis, based upon the lowest level of significant inputs to the valuations are as follows (dollars in thousands):

March 31, 2022:	Level 1	Level 2	Level 3	Total
Derivative assets	—	$ 4,134	—	$ 4,134
Derivative liabilities	—	(6,355)	—	(6,355)
Investment in equity certificates	—	1,656	—	1,656
December 31, 2021:				
Derivative assets	—	$ 4,177	—	$ 4,177
Derivative liabilities	—	(22,826)	—	(22,825)
Investment in equity certificates	—	3,013	—	3,013

18. COMPARATIVE INFORMATION

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

19. SUBSEQUENT EVENTS

Subsequent to period end, in association with the aforementioned ABS transaction, a further 6 aircraft have transferred to AASET International. All of these aircraft were originally in the Fly portfolio.

Subsequent to period end, in association with the Nord LB Facility, the lenders have brought a petition to the High Court in Ireland to wind up the subsidiaries in question under Section 569 of the Companies Act 2014. The Company disputed the lender's ability to petition for the winding up of the subsidiaries in question on an insolvent basis, relying on the non-recourse nature of the debt, and the alternative remedies available to the lender through enforcement of the security the lender holds over the financed aircraft in question. Noting the subsidiaries' position on the petition, the High Court of Ireland adjourned the winding up petition to facilitate discussion between the subsidiaries and the lender. Those discussions are ongoing. The event of default under the Nord LB Facility and related actions taken by the lenders and agents under the facility do not trigger a cross-default or cross-acceleration under any of the Company's other debt instruments.

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

Item 2. Management's Discussion & Analysis of Financial Condition and Results of Operations

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

Overview

Fly Leasing Limited is a Bermuda exempted company that was incorporated on May 3, 2007, under the provisions of Section 14 of the Companies Act 1981 of Bermuda. We are principally engaged in purchasing commercial aircraft and aircraft equipment, which we lease under multi-year contracts to a diverse group of airlines throughout the world. As of March 31, 2022, the Company had 71 aircraft and 7 engines held for operating lease, of which 67 aircraft and 7 engines were on lease to 40 lessees in 24 countries and 4 aircraft were off-lease. As of March 31, 2022, the weighted average remaining lease term of the Company's aircraft held for operating lease was 5.7 years.

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

For the three months ended March 31, 2022, we had net losses of $111.7 million. Net cash flows provided by operating activities for the three months ended March 31, 2022 totaled $6.1 million and net cash flows provided by investing activities totaled $251.5 million for the three months ended March 31, 2022. Net cash flows used in financing activities totaled $242.4 million for the three months ended March 31, 2022. As of March 31, 2022, we had $129.7 million in cash and cash equivalents and $522.4 million in restricted cash and cash equivalents.

Recent Developments

Following the Russian invasion of Ukraine which began on February 24, 2022, the United States, the European Union and other jurisdictions imposed sanctions and other restrictive measures against certain Russian individuals and entities, and certain activities involving Russia or Russian entities. Such measures include Regulation 2022/328 adopted by the EU on February 26, 2022 ("Regulation 2022/328"). Among other things, Regulation 2022/328 prohibits the supply of aircraft by EU entities to Russian entities or for use in Russia, subject to a 30-day wind-down period. This regulation required the cessation of leasing to Russian aircraft operators by March 28, 2022. In order to comply with the sanctions, the Company terminated all 6 of its leases with Russian airlines prior to March 28, 2022 and is in the process of repossessing the applicable aircraft. The Company anticipates the likelihood of successfully repossessing the aircraft to be remote.

For the three months ended March 31, 2022, the Company recorded a loss on derecognition of flight equipment totaling $126.7 million related to five narrow-body and one wide-body aircraft that were leased to Russian lessees. These aircraft were derecognized as the likelihood of successfully repossessing the aircraft including the related technical records and documentation was considered remote. During the year ended December 31, 2021, the Company recognized $7.6 million (2.9%) of lease revenue derived from lessees based in Russia. Contracted future rentals from these lessees was $67.8 million (4.7%). The Company held $3.0 million (7.4%) of security deposits and $26.6 million (12.9%) of maintenance reserves against these leases. These amounts were retained by the Company. As of December 31, 2021, there was accounts receivable of $1.7 million (3.4%) due from these lessees. These receivables were fully written off as of March 31, 2022.

The Company is also pursuing all available insurance claims in respect of the 6 aircraft on lease to Russian airlines, but it is likely that the administration of the claims will take some time and no assurance can be given as to the outcome of the claims. Our lessees are required to provide insurance coverage with respect to leased aircraft and we are named as "Contract Parties" (additional insureds) under those policies. We also purchase insurance which provides us with coverage when our flight equipment is not subject to a lease (or is in the course of repossession from a lessee) or where a lessee's policy fails to indemnify us. We have submitted insurance claims with respect to all 6 of our aircraft and engines remaining in Russia and intend to pursue all of our claims under these policies with respect to our assets leased to Russian airlines. Our claims are subject to the terms of the applicable policies and given the magnitude of potential claims, we anticipate that insurers and reinsurers may raise various objections and other defenses. Accordingly, we can give no assurance as to when or what amounts we may ultimately collect, if any. Insurance recoveries are generally recognized when they are realized or realizable, which typically occurs at the time cash proceeds are received or a claim agreement is executed, and also considers the counterparty's ability to pay the claim amount. Since the collection, timing and amount of any recoveries under these insurance policies are uncertain, we have not recognized any claim receivables as of March 31, 2022.

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

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

Flight Equipment Held for Sale

At March 31, 2022, the Company had no aircraft classified as flight equipment held for sale.

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

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

Market Conditions

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

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

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

Critical Accounting Policies and Estimates

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

The COVID-19 pandemic has had widespread and unprecedented impacts on regional, national and global economies. While many of the severe limitations imposed on travel by various governments have been lifted and travel has recovered from the lows experienced in 2020 and 2021, airlines continue to seek support from their respective governments, raise debt and equity, request concessions from lessors, and in certain cases, seek judicial protection. As a result, we anticipate that the decline in our cash rent collections and operating lease rental revenue will continue in 2022 compared to the pre-COVID 19 operating environment. Our estimates of the amount of rent ultimately collectible from our lessees, which impacts revenue recognition, have a higher degree of uncertainty due to the COVID-19 pandemic, and these estimates could change in the near term. Further, the impact of COVID-19 on the airline industry may result in changes to our assumptions used to evaluate impairment of flight equipment, including the level of future rents, the residual value of the flight equipment and estimated downtime between re-leasing events.

We recorded no additional provision for uncollectible operating lease receivables during the months ended March 31, 2022. Future changes to our assumptions, which could be caused by airline bankruptcies or otherwise, could result in further provisions for uncollectible operating lease receivables or impairment charges, and these charges could be material.

Summary of Operating Results

As of March 31, 2022, the Company had 71 aircraft and 7 engines held for operating lease, of which 67 aircraft and 7 engines were on lease to 40 lessees in 24 countries and 4 aircraft were off-lease. As of December 31, 2021, we had 79 aircraft and 7 engines in our portfolio, of which 77 aircraft and 7 engines were held for operating lease, and 2 aircraft were off-lease.

The Company purchased one narrow-body aircraft from affiliates of the Carlyle Manager during the three months ended March 31, 2022. This acquisition was related to the AASET 2021-1 transaction.

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

In March 2022, the Company derecognized 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 $126.7 million. The Company is also pursuing all available insurance claims in respect of the 6 aircraft on lease to Russian airlines, but it is likely the administration of the claims will take some time and no assurance can be given as to the outcome the claims.

We classify flight equipment as held for sale when we commit to and commence a plan of sale that is reasonably expected to be completed within one year and satisfies other criteria. We recognize revenue from each aircraft until the date that such aircraft is delivered to the purchaser and cease to recognize depreciation as of the date the aircraft is classified as flight equipment held for sale. As of March 31, 2022, all equipment previously classified as flight equipment held for sale were either sold or reclassified as inventory held on consignment.

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 months period ended March 31, 2022, we recorded no additional provision for uncollectible operating lease receivables.

At March 31, 2022, the Company had 11 lessees, leasing a total of 17 aircraft and 1 engine, on non-accrual status, as the Company had determined that it was not probable that the Company would receive the economic benefits of the leases, principally due to (i) the lessees' failure to pay rent and maintenance payments on a timely basis and (ii) the Company's evaluation of the lessees' financial condition. For the three months period ended March 31, 2022, the Company recognized $4.3 million of operating lease revenue from these lessees as a result of cash receipts from the lessees and would have recognized $10.7 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At March 31, 2021, the Company had 10 lessees, leasing a total of 19 aircraft and one engine, on non-accrual status. During the three months ended March 31, 2021, the Company recognized $8.0 million of operating lease revenue from these lessees, and would have recognized $14.2 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

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

Presented below are the rent deferrals granted and scheduled deferral repayments for deferral agreements in place as of March 31, 2022. There can be no assurance that our lessees will make their payments in accordance with the deferral terms during the expected repayment periods or at all.

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

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

For the three months ended March 31, 2022, the Company recognized $51.0 million of operating lease rental revenue, $2.5 million of which was from leases with variable rates. For the three months ended March 31, 2021, the Company recognized $55.4 million of operating lease rental revenue, $10.3 million of which was from leases with variable rates.

Management's discussion and analysis of operating results presented below pertain to the consolidated statements of income (loss) of Fly for the three months ended March 31, 2022 and 2021.

Consolidated Statements of Income (Loss) for the three months ended March 31, 2022 and 2021

	Three months ended March 31, 2022	Three months ended March 31, 2021
	(Dollars in thousands)	
Revenues		
Operating lease revenue	$ 68,344	$ 79,844
Finance lease revenue	113	129
Gain on sale of aircraft	9,545	—
Gain on derivatives	4,488	2,724
Interest and other income	2,242	884
Total revenues	**84,732**	**83,581**
Expenses		
Depreciation	27,684	29,967
Provision for flight equipment impairment	—	22,546
Interest expense	31,530	22,066
Selling, general and administrative	6,517	12,500
Provision for uncollectible operating lease receivables	—	1,000
Fair value loss on marketable securities	1,357	(1,839)
Loss on modification and extinguishment of debt	451	—
Loss on derecognition of flight equipment	126,732	—
Maintenance and other costs	4,862	1,104
Total expenses	**199,133**	**(87,344)**
Net income (loss) before (provision) benefit for income taxes	**(114,401)**	**(3,763)**
Benefit for income taxes	2,716	370
Net income (loss)	**$ (111,685)**	**$ (3,393)**

	Three months ended March 31, 2021	Three months ended March 31, 2020	Increase/ (Decrease)
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	$ 51,031	$ 55,376	$ (4,345)
End of lease income	18,867	25,811	(6,944)
Amortization of lease incentives	(1,427)	(1,082)	(345)
Amortization of lease premium, discounts and others	(127)	(261)	134
Total operating lease revenue	**$ 68,344**	**$ 79,844**	**$ (11,500)**

For the three months ended March 31, 2022, operating lease revenue totaled $68.3 million, a decrease of $11.5 million compared to the three months ended March 31, 2021. The decrease was primarily due to (i) a decrease of $4.3 million as a result of a reduction in the portfolio size and lessees on non-accrual status primarily stemming from financial concerns at the airline due to the COVID-19 pandemic, (ii) a decrease of $6.9 million from end of lease income and (iii) a decrease of $0.3 million in amortization of lease incentives.

During the three months period ended March 31, 2022, three aircraft previously classified as held for sale were sold to a third party. These aircraft were on lease to a lessee in India at the time of sale for a gain of $9.5 million. In addition, the Company derecognized five narrow-body and one wide-body aircraft which were leased to Russian lessees. The net book value of these aircraft amounted to $126.7 million. During the three months period ended March 31, 2021, there was no aircraft or engine sold.

Gain on derivatives was $4.5 million for the three months ended March 31, 2022, an increase of $1.8 million compared to the three months ended March 31, 2021. The increase was attributed to an increase in LIBOR which has reduced the Company's derivative liabilities attributable to interest rate hedges.

Interest and other income was $2.2 million for the three months ended March 31, 2022, an increase of $1.4 million compared to the three months ended March 31, 2021. The increase relates to the income generated from third party sale of consigned aircraft parts in the first quarter of 2022 amounting to $1.4 million. No such similar income was generated in first quarter of 2021.

Depreciation expense was $27.7 million for the three months ended March 31, 2022, a decrease of $2.3 million compared to the three months ended March 31, 2022. The decrease was primarily due to aircraft sold in 2021 and 2022.

No provision for aircraft impairment was made for the three months ended March 31, 2022, a decrease of $22.5 million compared to three months ended March 31, 2021.

Interest expense totaled $31.5 million for the three months ended March 31, 2022, an increase of $9.4 million compared to the three months ended March 31, 2021. The increase was primarily due to new loan facilities entered into from the second quarter of 2021 through the end of first quarter of 2022, primarily consisting of the notes issued in connection with the Merger and the notes issued in the AASET 2021-1 transaction.

Selling, general and administrative expenses were $6.5 million for the three months ended March 31, 2022, a decrease of $6.0 million compared to the three months ended March 31, 2021. The decrease was primarily due to a $6.8 million of preliminary costs and expenses incurred in relation to the Merger. These costs primarily consisted of change in control and other fees paid to BBAM in connection with the Merger that was completed in third quarter of 2021. No such similar expenses were incurred in the current period.

In 2018 and 2019, the Company purchased $5.7 million, or 4%, $7.4 million, or 6%, and $3.1 million, or 3%, of the equity certificates issued by Horizon I Limited, Horizon II Limited and Horizon III Limited, respectively, each of which were issued in connection with ABS transactions by entities affiliated with Fly. For the three months ended March 31, 2022, we recognized an unrealized fair value loss $1.4 million related to the write down of our equity certificates to estimated fair value. After the write-down, the carrying value of our investment in equity certificates was $1.7 million as of March 31, 2022. We expect the fair value of our investment in equity certificates to remain volatile while the COVID-19 pandemic continues to affect the market for such securities. For additional information see, Other Assets of the Interim Consolidated Financial Statements included in Note 8 of report.

Benefit for income taxes was $2.7 million and $0.4 million for the three months ended March 31, 2022, and March 31, 2021 respectively. We are tax resident in Ireland and expect to pay the corporation tax rate of 12.5% on trading income and 25.0% on non-trading income. Our effective tax rates were 2.4% and 9.8% for the three months ended March 31, 2022 and March 31, 2021, respectively. The difference between the statutory and effective tax rate in each period is primarily attributable to changes in valuation allowances and the amount of income earned by us in different tax jurisdictions.

Liquidity and Capital Resources

Overview

Our business is very capital intensive, requiring significant investment to maintain and expand our fleet. We have pursued a strategy of disciplined fleet growth. We also have pursued opportunistic aircraft sales to rejuvenate our fleet. During the year ended December 31, 2021, we sold four aircraft and one engine that had been classified as flight equipment held for sale. A further three aircraft were sold during the three months ended March 31, 2022.

We finance our business with unrestricted cash, cash generated from flight equipment leases, aircraft sales and debt financings. At March 31, 2022, we had $129.7 million of unrestricted cash. We also owned seven unencumbered aircraft with an aggregate book value of $46.3 million.

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

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

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

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

Cash Flows for the three months ended March 31, 2022 and 2021

Cash provided by operating activities for the three months ended March 31, 2022, totaled $6.1 million, compared to cash provided by operating activities of $28.1 million for the three months ended March 31, 2021, a period-over-period decrease of $15.4 million. The decrease was primarily attributable to the decrease in operating lease revenues.

Net cash provided by investing activities was $251.5 million and net cash used in investing activities was $1.3 million for the three months ended March 31, 2022 and 2021, respectively. During the three months ended March 31, 2022, three aircraft previously classified as held for sale on lease to a lessee in India were sold to a third party for aggregate proceeds of $284.5 million. During the three months ended March 31, 2021, net cash used in investing activities primarily consisted of payments for aircraft improvement.

Cash used in financing activities totaled $242.4 million and $37.0 million for the three months ended March 31, 2022 and 2021, respectively. During the three months ended March 31, 2022, the Company made repayments on its secured borrowings totaling $247.7 million. During the three months ended March 31, 2021, the Company made repayments on its secured borrowings totaling $39.5 million.

Maintenance Cash Flows

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

We generally expect that the aggregate maintenance reserve and lease end adjustment payments we receive from lessees will meet the aggregate maintenance contributions and lease end adjustment payments that we are required to make. During the three months ended March 31, 2022, we received $5.8 million of maintenance payments from lessees and made maintenance payment disbursements of $6.8 million. During the three months ended March 31, 2021, we received $4.3 million of maintenance receipts from lessees and made maintenance payment disbursements of $3.5 million.

Debt securities and Credit Agreements

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

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 March 31, 2022, the weighted average age of our portfolio (excluding aircraft held for sale) was 5.7 years.

In connection with the AASET 2021-1 transaction we agreed to acquire 5 aircraft from affiliates of the Ultimate Parent. Three of these aircraft were delivered in 2021, one was delivered in the first quarter of 2022, and the remaining aircraft will be delivered later in 2022.

Inflation

Over the past few months, the global economy has experienced the effects of increasing inflation. We continue to assess the risk of inflation and decrease in purchasing power in relation to direct expenses in the current and foreseeable economic environment.