

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, solicitor, accountant, bank manager or other professional adviser immediately.

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Information relating to Herondell Disposal (as defined in this Circular) has been included in this Circular for information purposes only and does not require your approval at our forthcoming Extraordinary General Meeting (“**EGM**”). Bursa Securities has not perused information relating to Herondell Disposal in this Circular before its issuance as it is prescribed as an Exempt Circular.



AIRASIA GROUP BERHAD

(Company No.: 1244493-V)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

**PROPOSED DISPOSAL OF OUR AIRCRAFT LEASING OPERATIONS THAT INCLUDES THE
PROPOSED FUTURE DISPOSALS (AS DEFINED IN THIS CIRCULAR) AND
PROPOSED OPTION (AS DEFINED IN THIS CIRCULAR)**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser and Joint Financial Advisers



RHB INVESTMENT BANK BERHAD

(Company No.: 19663-P)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

Joint Financial Advisers



BNP PARIBAS

BNP PARIBAS

(Registration No.: S71FC2142G)

BNP PARIBAS Capital (Malaysia) Sdn Bhd

(Company No.: 247454-M)



Credit Suisse (Singapore) Limited

(Registration No.: 197702363D)

The notice of EGM together with the Proxy Form is enclosed in this Circular. Our forthcoming EGM will be held as follows:

Date and time : Monday, 14 May 2018 at 10.00 a.m., or any adjournment thereof
Venue : CAE Kuala Lumpur Sdn. Bhd. (*formerly known as Asian Aviation Centre of Excellence*), Lot PT25B, Jalan KLIA S5, Southern Support Zone, Kuala Lumpur International Airport, 64000 Sepang, Selangor Darul Ehsan, Malaysia

Details of lodging the Proxy Form:

Last date and time for lodgment : Saturday, 12 May 2018 at 10.00 a.m., or any adjournment thereof
To be deposited at our registered office : Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia

The lodging of the Proxy Form will not preclude you from attending and voting in person at our forthcoming EGM should you subsequently wish to do so.

This Circular is dated 27 April 2018

DEFINITIONS

For the purpose of this Circular, except when the context otherwise requires, the following definitions shall apply:

AAB	:	AirAsia Berhad, a wholly-owned subsidiary of our Company
AAB Internal Reorganisation	:	The internal reorganisation by way of a scheme of arrangement among our Company, AAB and AAB's then shareholders under Section 366 of the Act comprising the following: <ul style="list-style-type: none">(i) the exchange of the entire issued share capital of AAB with AAGB Shares on the basis of 1 AAGB Share for every 1 AAB share held by AAB's then shareholders on 6 April 2018; and(ii) the assumption of the listing status of AAB by our Company and the admission of our Company to and withdrawal of AAB from the Official List of Bursa Securities, with the listing of and quotation for all the issued shares of our Company on the Main Market of Bursa Securities
AACL	:	Asia Aviation Capital Limited, a wholly-owned indirect subsidiary of our Company and incorporated in Labuan, Malaysia under the Labuan Companies Act, 1990
AAGB Group or Group	:	For the purpose of this Circular, collectively, our Company, our subsidiaries and our consolidated Affiliate Airlines, namely PT. Indonesia AirAsia and Philippines AirAsia Inc.
AAGB or Company	:	AirAsia Group Berhad
AAGB Share or Share	:	Ordinary share of our Company
Act	:	Companies Act, 2016, as amended from time to time and any re-enactment thereof
Affiliate Airlines	:	Any airline in respect of which our Company: <ul style="list-style-type: none">(i) has direct or indirect ownership or control and "control" for this purpose means the power to direct the management and policies of such airline whether through the ownership of voting capital, by contract or otherwise; or(ii) owns directly more than 30% of the voting capital; or holds more than 30% of the directors' voting rights; or by contractual arrangement is entitled to exercise more than 30% of the voting capital or directors' voting rights, and such airline is engaged as its primary business as a scheduled airline primarily involved in the carriage of passengers. Without prejudice to the requirement that paragraph (i) or paragraph (ii) above must be satisfied at the relevant time, as of 28 February 2018, it is acknowledged that the following entities satisfy the above requirements: AirAsia X Berhad, Thai AirAsia X Co., Ltd., Thai AirAsia Co., Ltd., PT. Indonesia AirAsia, PT Indonesia AirAsia Extra, AirAsia (India) Limited, AirAsia Japan Co., Ltd., Philippines AirAsia Inc. and AirAsia, Inc.
Airbus	:	Airbus S.A.S
Aircraft Assets	:	Collectively, 84 aircraft and 14 aircraft engines which are part of the subject matter of the Proposed Disposals
Base Purchase Price	:	Collectively, the Herondell Base Purchase Price, Incline B Base Purchase Price and Fly Base Purchase Price

DEFINITIONS (CONT'D)

BBAM	:	BBAM Limited Partnership
BNP PARIBAS	:	BNP PARIBAS (acting through its Singapore Branch and BNP PARIBAS Capital (Malaysia) Sdn Bhd)
Board	:	Board of directors
Bursa Securities	:	Bursa Malaysia Securities Berhad
Capital Commitment To Incline Funds	:	Indicative committed investment of USD50.0 million (approximately RM196.1 million) into Incline Funds, of which: <ul style="list-style-type: none">(i) the initial committed investment of approximately USD15.0 million (approximately RM58.8 million) is to be invested by AACL or its nominee into the Incline B Parallel on or before the initial transfer of the Incline B Aircraft Assets. Such committed investment (being in-kind disposal consideration for the Proposed Disposal To Incline B) is to be net settled against the Incline B Disposal Consideration; and(ii) the remaining committed investment of approximately USD35.0 million (approximately RM137.3 million) remains as a capital commitment by AACL or its nominee which is to be progressively invested by it into the Incline Funds as and when such capital is called by either the managing member of Incline A LLC under Incline A or the general partner of Incline B Parallel in future, of which the breakdown of the quantum to be invested cannot be ascertained as yet
Circular	:	This Circular in relation to the Proposed Disposals dated 27 April 2018
Credit Suisse	:	Credit Suisse (Singapore) Limited
Disposal Consideration	:	The aggregate consideration amount of USD1,185.0 million (approximately RM4,647.0 million), being the summation amount of the Herondell Disposal Consideration, Incline B Disposal Consideration and Fly Disposal Consideration for the Proposed Disposals
Disposal SPAs	:	Collectively, the Herondell SPA, Incline B SPA and FLY SPA
Disposal Subsidiaries	:	Collectively, Red 1, Red 2, Red 3 and Red 4
EGM	:	Extraordinary general meeting
EPS	:	Earnings per AAGB Share
EV	:	Enterprise value
FLY	:	Fly Leasing Limited
Fly Aircraft Assets	:	33 aircraft and 7 aircraft engines to be transferred under the FLY SPA
Fly Aladdin	:	Fly Aladdin Holdings Limited
Fly Base Purchase Price	:	The aggregate consideration payable, equivalent to EV, by Fly Aladdin of USD1,069.6 million (approximately RM4,194.4 million) under the Proposed Disposal To FLY, subject to adjustments pursuant to the FLY SPA as set out in Appendix II(D) of this Circular

DEFINITIONS (CONT'D)

Fly Disposal Consideration	:	The amount of USD453.3 million (approximately RM1,777.6 million), computed based on Fly Base Purchase Price minus the applicable debt financings amount for the Fly Aircraft Assets, payable by Fly Aladdin to AACL under the Proposed Disposal To FLY
FLY Equity	:	Up to 3,333,333 FLY Depository Shares to be issued at an issue price of USD15.0 each (approximately RM58.8) to AACL, totaling approximately USD50.0 million (approximately RM196.1 million), being in-kind disposal consideration for the Proposed Disposal To FLY
FLY Equity Subscription Agreement	:	Proposed subscription agreement to be entered into among AAB, AACL and FLY on or before the initial transfer of Fly Aircraft Assets for the issuance and sale of FLY Equity at an issue price of USD15.0 (approximately RM58.8) each to AACL
FLY Option Agreement	:	Aircraft sale and purchase option agreement effective 28 February 2018 entered into among AAB, AACL and Fly Aladdin for the Proposed Option
FLY Depository Shares	:	FLY's American Depository Shares (which are quoted on the NYSE), each representing an ownership interest in 1 FLY's common share
FLY SPA	:	Share purchase agreement dated 28 February 2018 entered into among AAB, AACL, Fly Aladdin and FLY for the Proposed Disposal To FLY
FLY SPA For Future Aircraft	:	Aircraft sale and purchase agreement dated 28 February 2018 entered into among AAB, AACL and Fly Aladdin for the Proposed Future Disposal To FLY
FPE	:	Financial period ending or ended, as the case may be
Future Aircraft	:	Up to 98 aircraft to be delivered in the future to AACL pursuant to the Future Aircraft Agreements
Future Aircraft Agreements	:	Collectively, Incline B SPA For Future Aircraft, FLY SPA For Future Aircraft and Option Agreements
FYE	:	Financial year ending or ended, as the case may be
Herondell	:	Herondell Limited
Herondell Aircraft	:	13 aircraft transferred or to be transferred under the Herondell SPA
Herondell Base Purchase Price	:	The aggregate consideration payable, equivalent to EV, by Herondell of USD527.8 million (approximately RM2,069.8 million) under the Herondell Disposal, subject to adjustments pursuant to the Herondell SPA as set out in Appendix II(A) of this Circular
Herondell Disposal	:	Disposal by AACL of its entire equity interest in Red 1 and up to 4 aircraft to Herondell or its nominee for the Herondell Disposal Consideration which does not require your approval
Herondell Disposal Consideration	:	The amount of USD183.2 million (approximately RM718.4 million), computed based on Herondell Base Purchase Price minus the applicable debt financings amount for Herondell Aircraft, payable by Herondell to AACL under the Herondell Disposal
Herondell SPA	:	Share and aircraft purchase agreement dated 28 February 2018 entered into among AAB, AACL, Herondell and NBB for the Herondell Disposal
Incline A	:	Incline A Aviation Limited Partnership, a private investment fund

DEFINITIONS (CONT'D)

Incline A GP (Cayman)	:	Incline A GP (Cayman) Co., Ltd., being the managing member of Incline A LLC and general partner of Incline A
Incline A LLC	:	Incline A Aviation LLC, being one of the partners of Incline A, which invests substantially all of its assets in Incline A
Incline A Subscription Agreement	:	Proposed letter agreement to be entered into among AAB, AACL or its nominee as investor and Incline A GP (Cayman) on or before the initial transfer of Incline B Aircraft Assets for the purchase of membership interests in Incline A LLC by AACL or its nominee and the Capital Commitment To Incline Funds in respect of Incline A LLC, including such other ancillary document(s) (if any) to be executed in connection with our investment into Incline A LLC
Incline Aladdin	:	Incline Aladdin Holdings Limited
Incline B	:	Incline B Aviation Limited Partnership, a private investment fund
Incline B Aircraft Assets	:	38 aircraft and 7 aircraft engines to be transferred under the Incline B SPA
Incline B Base Purchase Price	:	The aggregate consideration payable, equivalent to EV, by Incline Aladdin of USD1,248.8 million (approximately RM4,897.2 million) under the Proposed Disposal To Incline B, subject to adjustments pursuant to Incline B SPA as set out in Appendix II(B) of this Circular
Incline B Disposal Consideration	:	The amount of USD548.5 million (approximately RM2,150.9 million), computed based on Incline B Base Purchase Price minus the applicable debt financings amount for Incline B Aircraft Assets, payable by Incline Aladdin to AACL under the Proposed Disposal To Incline B
Incline B GP (Cayman)	:	Incline B GP (Cayman) Co., Ltd., being the general partner of Incline B and the intended general partner of Incline B Parallel
Incline B Parallel	:	Incline B Aviation Parallel Limited Partnership, a parallel fund to be formed by Incline B GP (Cayman)
Incline B Parallel Subscription Agreement	:	Proposed letter agreement to be entered into among AAB, AACL or its nominee as investor and Incline B GP (Cayman) on or before the initial transfer of Incline B Aircraft Assets for the purchase of limited partnership interests in Incline B Parallel by AACL or its nominee and the Capital Commitment To Incline Funds in respect of Incline B Parallel, including such other ancillary document(s) (if any) to be executed in connection with our investment into Incline B Parallel
Incline B SPA	:	Share purchase agreement dated 28 February 2018 entered into among AAB, AACL, Incline Aladdin and Incline B for the Proposed Disposal To Incline B
Incline B SPA For Future Aircraft	:	Aircraft sale and purchase agreement dated 28 February 2018 entered into among AAB, AACL and Incline Aladdin for the Proposed Future Disposal To Incline B
Incline Funds	:	Collectively, Incline A LLC and Incline B Parallel
Incline Funds Investment Agreements	:	Collectively, Incline A Subscription Agreement and Incline B Parallel Subscription Agreement
Incline Option Agreement	:	Aircraft sale and purchase option agreement effective 28 February 2018 entered into among AAB, AACL and Incline Aladdin for the Proposed Option
Joint Financial Advisers	:	Collectively, RHB Investment Bank, BNP PARIBAS and Credit Suisse
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities

DEFINITIONS (CONT'D)

Lock-Up Period	:	The lock-up period from the date of the first issuance of FLY Equity to AACL until the Lock-Up Period End Date
Lock-Up Period End Date	:	The date of the delivery of the final aircraft under the Incline B SPA For Future Aircraft and the FLY SPA For Future Aircraft, whichever is later
LPD	:	2 April 2018, being the latest practicable date before the printing of this Circular
NA	:	Net assets
NBB	:	Nomura Babcock & Brown Co., Ltd.
NBV	:	Net book value
NYSE	:	New York Stock Exchange
Option Agreements	:	Collectively, FLY Option Agreement and Incline Option Agreement
Proposed Disposals	:	Collectively, the Proposed Disposal To Incline B, Proposed Disposal To FLY and the Herondell Disposal
Proposed Disposal To FLY	:	Proposed disposal by AACL of its entire equity interest in Red 3, Red 4, 1 aircraft and 7 aircraft engines to Fly Aladdin or its nominee for the Fly Disposal Consideration
Proposed Disposal To Incline B	:	Proposed disposal by AACL of its entire equity interest in Red 2, 3 aircraft and 7 aircraft engines to Incline Aladdin or its nominee for the Incline B Disposal Consideration
Proposed Future Disposals	:	Collectively, Proposed Future Disposal To Incline B and Proposed Future Disposals To FLY
Proposed Future Disposal To FLY	:	Proposed disposal by AACL of up to 27 aircraft to be delivered in the future to Fly Aladdin for a disposal consideration to be agreed later among AAB, AACL and Fly Aladdin
Proposed Future Disposal To Incline B	:	Proposed disposal by AACL of up to 21 aircraft to be delivered in the future to Incline Aladdin for a disposal consideration to be agreed later among AAB, AACL and Incline Aladdin
Proposed Option	:	Proposed option granted by AACL to Incline Aladdin and Fly Aladdin to collectively purchase up to 50 aircraft to be delivered in the future for a purchase consideration to be agreed among AAB, AACL, Incline Aladdin and Fly Aladdin
Red 1	:	Red Aircraft Holdings 1 Co., Ltd., a wholly-owned direct subsidiary of AACL
Red 2	:	Red Aircraft Holdings 2 Co., Ltd., a wholly-owned direct subsidiary of AACL
Red 3	:	Red Aircraft Holdings 3 Co., Ltd., a wholly-owned direct subsidiary of AACL
Red 4	:	Red Aircraft Holdings 4 Co., Ltd., a wholly-owned direct subsidiary of AACL
RHB Investment Bank	:	RHB Investment Bank Berhad
SEC	:	U.S. Securities and Exchange Commission
U.S.	:	United States of America
VWAP	:	Volume weighted average market price

DEFINITIONS (CONT'D)

CURRENCIES

AUD or A\$:	Australian Dollar
EUR or €	:	Euro
JPY or ¥	:	Japanese Yen
MYR or RM	:	Ringgit Malaysia
USD or \$:	United States Dollar

EXCHANGE RATES

Unless otherwise stated, the following exchange rate has been used in this Circular:

USD1.00	:	RM3.9215 (being the middle rate quoted by Bank Negara Malaysia as at 5.00 p.m. on 28 February 2018, which is the date of signing of the Disposal SPAs)
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PRESENTATION OF INFORMATION

References to “**our Company**”, “**we**”, “**us**”, “**our**” and “**ourselves**” in this Circular are to our Company. References to “**our Group**” are to our Company, our subsidiaries, PT. Indonesia AirAsia and Philippines AirAsia Inc.. All references to “**you**” and “**your**” in this Circular are to our shareholders.

Unless specifically referred to, words denoting the singular shall, if applicable, include the plural and vice versa and words denoting the masculine gender shall, if applicable, include the feminine and/or neuter genders and vice versa. References to persons shall include corporations, unless otherwise specified.

Any references in this Circular to the provisions of any enactment, statute, rules, regulation, rules of stock exchange or guideline shall (when the context admits) be construed as a reference to the provisions of such enactment, statute, rules, regulation, rules of stock exchange or guideline (as the case may be) as modified by any written law or (if applicable) amendments to the enactment, statute, rules, regulation, rules of stock exchange or guideline for the time being in force.

Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

Certain amounts and percentage figures included herein have been subject to rounding adjustments. Any discrepancies in the tables included in this Circular between the amounts listed, actual figures and the totals thereof, are due to rounding.

Certain statements in this Circular may be forward-looking in nature, which are subject to uncertainties and contingencies. Forward-looking statements may contain estimates and assumptions made by our Board after due inquiry, which are nevertheless subject to known or unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from anticipated results, performance or achievements expressed or implied in such forward-looking statements. Hence, the inclusion of a forward-looking statement in this Circular should not be regarded as a representation or warranty that our Company’s plans and objectives will be achieved.

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AIRASIA GROUP BERHAD

(Company No. 1244493-V)

(Incorporated in Malaysia)

Registered office:

Unit 30-01, Level 30
Tower A, Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Malaysia

27 April 2018

Board of Directors:

Datuk Kamarudin bin Meranun

Tan Sri (Dr.) Anthony Francis Fernandes

Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar

Dato' Fam Lee Ee

Dato' Mohamed Khadar bin Merican

Stuart L Dean

Noor Neelofa binti Mohd Noor

(Non-Independent Executive Chairman)

(Non-Independent Executive Director and Group Chief Executive Officer)

(Non-Independent Non-Executive Director)

(Senior Independent Non-Executive Director)

(Independent Non-Executive Director)

(Independent Non-Executive Director)

(Independent Non-Executive Director)

To: Our shareholders

Dear Sir/Madam,

PROPOSED DISPOSALS

1. INTRODUCTION

On 29 August 2016, RHB Investment Bank, on behalf of AAB, has announced that the Board of AAB has approved AAB to carry out a sale process for the purpose of divesting all or a substantial portion of its equity interest in AACL or its business or assets. In this regard, AAB has appointed RHB Investment Bank, Credit Suisse and BNP PARIBAS respectively as the Joint Financial Advisers for the potential divestment.

On 1 March 2018, RHB Investment Bank, had on behalf of AAB's Board, announced that AAB proposes to divest its aircraft leasing operations that are currently undertaken by AACL to entities managed by BBAM for the Disposal Consideration of USD1,185.0 million (approximately RM4,647.0 million) and AACL have accordingly entered into the following agreements on 28 February 2018:

<u>No.</u>	<u>Agreement</u>	<u>Brief description</u>	<u>No. of Aircraft Assets involved</u>
(i)	Herondell SPA	Disposal by AACL of its entire equity interest in Red 1 and up to 4 aircraft to Herondell for a disposal consideration of USD183.2 million (approximately RM718.4 million)	- 9 aircraft (via Red 1) - 4 aircraft to be delivered to AACL

No.	Agreement	Brief description	No. of Aircraft Assets involved
(ii)	Incline B SPA	Disposal by AACL of its entire equity interest in Red 2, 3 aircraft and 7 aircraft engines to Incline Aladdin for a disposal consideration of USD548.5 million (approximately RM2,150.9 million)	- 35 aircraft (via Red 2) - 3 aircraft and 7 aircraft engines
(iii)	FLY SPA	Disposal by AACL of its entire equity interest in Red 3, Red 4, 1 aircraft and 7 aircraft engines to Fly Aladdin for a disposal consideration of USD453.3 million (approximately RM1,777.6 million)	- 30 aircraft (via Red 3) - 2 aircraft (via Red 4) - 1 aircraft and 7 aircraft engines
Total			84 aircraft and 14 aircraft engines

Please refer to Appendix I of this Circular for the corporate structure of our Group before and after the Proposed Disposals and Appendix IV of this Circular for further information on the Aircraft Assets.

Further, under the Disposal SPAs, AAB, AACL and/or our Affiliate Airlines have entered or will enter into lease arrangements to lease 79 aircraft and 14 aircraft engines from the respective purchasers.

In conjunction with the Proposed Disposal To Incline B and Proposed Disposal To FLY, on 28 February 2018, AAB and AACL have also entered into Incline B SPA For Future Aircraft and FLY SPA For Future Aircraft with the respective purchasers for the disposal of the Future Aircraft. Further,

- (i) under the Incline B SPA For Future Aircraft, Incline Aladdin and/or its nominees will enter into lease agreements whereby up to 21 aircraft will be leased to AAB and/or our Affiliate Airlines; and
- (ii) under the FLY SPA For Future Aircraft, Fly Aladdin and/or its nominees will enter into lease agreements whereby up to 27 aircraft will be leased to AAB and/or our Affiliate Airlines.

Please refer to Appendix IV of this Circular for further details on the Future Aircraft.

On 16 April 2018, RHB Investment Bank had, on behalf of our Board announced that the AAB Internal Reorganisation had been completed, which resulted in our Company becoming the holding company of AAB and assuming its listing status.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE DETAILS OF THE PROPOSED DISPOSALS, PROPOSED FUTURE DISPOSALS AND PROPOSED OPTION AND TO SEEK YOUR APPROVAL FOR THE RESOLUTION AS SET OUT IN THE NOTICE OF EGM TO BE TABLED AT OUR FORTHCOMING EGM. THE NOTICE OF EGM TOGETHER WITH PROXY FORM ARE ENCLOSED WITH THIS CIRCULAR.

THE INFORMATION RELATING TO HERONDELL DISPOSAL HAS BEEN INCLUDED IN THIS CIRCULAR FOR INFORMATION PURPOSES ONLY AND THE HERONDELL DISPOSAL DOES NOT REQUIRE YOUR APPROVAL AT OUR FORTHCOMING EGM.

YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION AS SET OUT IN THE NOTICE OF EGM TO BE TABLED AT OUR FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED DISPOSALS

The Proposed Disposals involve the proposed disposal by AACL of its entire equity interest in the Disposal Subsidiaries and the relevant Aircraft Assets to the respective purchasers for the Disposal Consideration of USD1,185.0 million. The Disposal Consideration is computed and to be satisfied in cash and in-kind in the following manner:

	Herondell Disposal	Proposed Disposal To Incline B	Proposed Disposal To FLY	Total
	(USD'million)	(USD'million)	(USD'million)	(USD'million)
Base Purchase Price ⁽¹⁾	527.8 (approximately RM2,069.8)	1,248.8 (approximately RM4,897.2)	1,069.6 (approximately RM4,194.4)	2,846.2 (approximately RM11,161.4)
Less: Debt financings of the Aircraft Assets	(344.5) (approximately RM1,351.0)	(700.4) (approximately RM2,746.6)	(616.3) (approximately RM2,416.8)	(1,661.2) (approximately RM6,514.4)
Disposal Consideration *	183.2 ^ (approximately RM718.4)	548.5 ^ (approximately RM2,150.9)	453.3 (approximately RM1,777.6)	1,185.0 (approximately RM4,647.0 ^)
<u>To be satisfied by:</u>				
(i) Cash *	183.2	533.5	403.3	1,120.0
(ii) In-kind				
- Capital Commitment To Incline Funds	-	15.0 ⁽²⁾	-	15.0
- Subscription of FLY Equity	-	-	50.0 ⁽³⁾	50.0
Total	183.2	548.5	453.3	1,185.0

Notes:

* Subject to change due to the relevant adjustments to the Base Purchase Price under the respective Disposal SPAs.

^ Does not add up due to rounding.

(1) Please refer to Section 2.4 of this Circular for further details on the basis of arriving at the Base Purchase Price.

(2) Being the initial amount of Capital Commitment To Incline Funds to be invested by AACL or its nominee into Incline B Parallel on or before the initial transfer of the Incline B Aircraft Assets. Such committed investment is to be net settled against the Incline B Disposal Consideration. The remaining amount of Capital Commitment To Incline Funds of USD35.0 million remains as a capital commitment by AACL or its nominee. Please refer to Section 2.2 of this Circular for further information.

(3) Being the approximate subscription amount of FLY Equity which shall be made on a net basis and offset against the Fly Disposal Consideration. Please refer to Section 2.3 of this Circular for further information.

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2.1 Herondell Disposal

The Herondell Disposal involves the disposal by AACL of its entire equity interest in Red 1¹, and up to 4 aircraft to Herondell or its nominees for the Herondell Disposal Consideration of USD183.2 million (subject to change pursuant to adjustments to the Herondell Base Purchase Price under the Herondell SPA as set out in Appendix II(A) of this Circular) to be satisfied wholly in cash.

As at the date of Herondell SPA, the 4 aircraft have yet to be delivered to AACL. Subsequent thereto, the sale of 2 aircraft have been completed and the sale of entire equity interest of Red 1 and the remaining 2 aircraft are still pending completion as at the date of this Circular. Further, pursuant to the Herondell SPA, AAB and/or our Affiliate Airlines have entered or will enter into lease arrangements to lease 13 aircraft from Herondell, Herondell's nominees, Red 1 and/or Red 1's subsidiaries. Please refer to Section 2.1.7 of this Circular for further information on indicative terms of the lease arrangements.

2.1.1 Information on Red 1

Red 1 was incorporated as an exempted company under the laws of Bermuda on 22 February 2018 and its principal activity is owning, leasing and/or financing of aircraft. As at the LPD, AACL owns 100% equity interest in Red 1 consisting of 1 common share of USD0.01.

Please refer to Appendix VI of this Circular for further information.

2.1.2 Information on the purchaser and its guarantor

(i) Herondell (as a purchaser)

Herondell is a private company limited by shares that was incorporated on 14 March 2017 under the laws of Ireland. Herondell is principally engaged in aircraft acquisition and disposition and aircraft leasing activities. Further, as at the LPD:

- (a) Herondell has one ordinary share of €1.00 issued.
- (b) The directors of Herondell are as follows:
 - 1. Declan Cotter
 - 2. Gavin Mercer
 - 3. James Conroy
 - 4. Maurice Prendergast
 - 5. Gregory Azzara
 - 6. Robert S. Tomczak
- (c) The substantial shareholder of Herondell is BBAM Aviation Services Limited (“**BBAM ASL**”).

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¹ Red 1 and its subsidiaries will own 9 aircraft before the completion of the Herondell SPA.

(ii) NBB (as a guarantor)

NBB is a company that was incorporated on 3 March 1986 under the laws of Japan. NBB is principally engaged in investment banking with strengths in the international leasing of aircraft and other large equipment. Further, as at the LPD:

- (a) NBB has a total of 7,400 issued shares and paid-up capital of ¥1,000 million.
- (b) The directors of NBB are as follows:
 - 1. Toshiya Hasegawa
 - 2. Mitsuo Kubota
 - 3. Norisada Hasegawa
 - 4. Hajime Kikuchi
 - 5. Michio Okazaki
 - 6. Masanori Azuma
- (c) NBB is a wholly-owned subsidiary of Nomura Holdings, Inc.

Under the Herondell SPA, NBB provides warranties, a payment guarantee and a performance guarantee of Herondell's obligations to AACL.

2.1.3 Information on BBAM

BBAM is an exempted limited partnership organised on 3 March 2010 under the laws of the Cayman Islands. BBAM is principally engaged in the business of aircraft management and aircraft lease management, and in other aviation and other transportation related business activities.

Further, as at the LPD, BBAM has no shares issued and the directors of BBAM are as follows:

- (i) Steven Zissis
- (ii) Robert S. Tomczak
- (iii) Wesley Dick
- (iv) Tawfiq Popatia
- (v) Manning Lea Doherty

2.1.4 Information on BBAM ASL

BBAM ASL is a private company limited by shares that was incorporated on 29 October 2009 under the laws of Ireland. BBAM ASL is principally engaged in the business of aircraft management and aircraft lease management, and in other aviation and other transportation related business activities. Further, as at the LPD:

- (i) BBAM ASL has one ordinary share of €1.00 issued.
- (ii) The directors of BBAM ASL are as follows:
 - (a) Declan Cotter
 - (b) Gavin Mercer
 - (c) James Conroy
 - (d) Maurice Prendergast
 - (e) Gregory Azzara
 - (f) Robert S. Tomczak
- (iii) The substantial shareholder of BBAM ASL is BBAM International Limited Partnership.

2.1.5 Information on Nomura Holdings, Inc.

Nomura Holdings, Inc. is a holding company that was incorporated on December 25, 1925 under the laws of Japan. Nomura Holdings, Inc. is principally engaged in investments, financing and securities activities. Further, as at the LPD:

- (i) Nomura Holdings, Inc. has a capital of ¥594,493 million and 3,643,562,601 shares issued.
- (ii) The sole director of Nomura Holdings, Inc. is Koji Nagai.
- (iii) The common shares of Nomura Holdings, Inc. are listed on the Nagoya Stock Exchange and the Singapore Exchange Limited. The shares are also listed and traded on the NYSE in the form of American Depositary Shares evidenced by American Depositary Receipts, since 17 December 2001. Each American Depositary Share represents one share of common stock.

2.1.6 Salient terms of Herondell SPA

Please refer to Appendix II(A) of this Circular.

2.1.7 Information on lease arrangements

<u>No.</u>	<u>Terms</u>	<u>Details</u>
1.	Lessor ²	: Herondell, Herondell's nominees, Red 1 and/or Red 1's subsidiaries
2.	Lessee	: AAB and/or our Affiliate Airlines
3.	Total aircraft to be leased	: 13 aircraft
4.	12-month period lease rental	: USD48.0 million (approximately RM188.2 million) *
5.	Commencement date of lease	: Commencement date of the lease of each relevant aircraft is the date of the delivery of such aircraft under the Herondell SPA
6.	Duration of lease	: Up to 12 years anniversary from the date of manufacture
7.	Security deposits	: USD4.0 million (approximately RM15.7 million) *
8.	Renewal terms	: There is no renewal term under the lease arrangement
9.	Review/ adjustment to lease rental	: There is no review/adjustment to lease rental throughout the duration of lease
10.	Termination events and consequential arrangement	: Terminable upon illegality, total loss and event of default (which includes non-payment, breach of insurance requirements, unremedied breach, misrepresentation, disposal of substantial assets, cross-default, insolvency, creditor's process, failure to obtain or maintain approvals, material litigation, suspension of payments, failure to maintain possession of aircraft, aircraft becoming subject to encumbrances that are not permitted, unenforceability of lease documents, cessation or unenforceability of security deposit letter of credit and failure to redeliver aircraft at expiry date)

Note:

- * Including the estimated lease rental and security deposits for the 4 aircraft that have yet to be delivered to AACL as at the date of Herondell SPA

²The aircraft are leased from the lessor to the lessee either directly or through intermediate entities.

2.2 Proposed Disposal To Incline B

The Proposed Disposal To Incline B involves the proposed disposal by AACL of its entire equity interest in Red 2³, and 3 aircraft and 7 aircraft engines to Incline Aladdin or its nominee for the Incline B Disposal Consideration of USD548.5 million (subject to change pursuant to adjustments to the Incline B Base Purchase Price under the Incline B SPA as set out in Appendix II(B) of this Circular) to be satisfied in cash and in-kind consideration as set out in Section 2 of this Circular.

Further, under the Incline B SPA, AAB and/or our Affiliate Airlines will enter into lease arrangements to lease 34 aircraft and 7 aircraft engines from Incline Aladdin, Incline Aladdin's nominees, Red 2 and/or Red 2's subsidiaries. Please refer to Section 2.2.6 of this Circular for further information on the indicative terms of the lease arrangements.

Pursuant to the Incline B SPA, the Incline Funds Investment Agreements are proposed to be entered into whereby:

- (i) AACL or its nominee is to invest a capital of USD15.0 million, being the initial Capital Commitment To Incline Funds, into the Incline B Parallel, of which such capital is to be net settled against the Incline B Disposal Consideration; and
- (ii) AACL or its nominee is to commit a capital of USD35.0 million, being the remaining amount of Capital Commitment To Incline Funds, for future investment into the Incline Funds. Such investment is to be made progressively as and when capital is called by either Incline A GP (Cayman) or Incline B GP (Cayman), of which the breakdown of the quantum to be invested cannot be ascertained as yet.

Please refer to Section 2.2.7 of this Circular for further information on the Capital Commitment To Incline Funds.

2.2.1 Information on Red 2

Red 2 was incorporated as an exempted company under the laws of Bermuda on 22 February 2018 and its principal activity is owning, leasing and/or financing of aircraft. As at LPD, AACL owns 100% equity interest in Red 2 consisting of 1 common share of USD0.01.

Please refer to Appendix VI of this Circular for further information.

2.2.2 Information on the purchaser and its guarantor

(i) Incline Aladdin (as a purchaser)

Incline Aladdin is a private limited company that was incorporated on 20 February 2018 under the laws of Ireland. Incline Aladdin is principally engaged in the acquisition, leasing and disposition of commercial jet aircraft and engines. Further, as at LPD:

- (a) Incline Aladdin has one ordinary share of €1.00 issued.
- (b) The directors of Incline Aladdin are as follows:
 - 1. Declan Cotter
 - 2. Gavin Mercer
 - 3. James Conroy
 - 4. Maurice Prendergast
- (c) Incline Aladdin is a wholly-owned subsidiary of Incline B IrishCo One Limited ("Incline B IrishCo 1").

³ Red 2 and its subsidiaries will own 35 aircraft before the completion of the Incline B SPA.

(ii) Incline B (as a guarantor)

Incline B is an exempt limited partnership that was organised on 6 November 2015 under the laws of Cayman Islands. Incline B is principally engaged in the acquisition, leasing and disposition of commercial jet aircraft and engines. Further, as at the LPD:

- (a) Incline B has no shares issued.
- (b) Incline B has no director. The directors of Incline B's general partner, Incline B GP (Cayman), are as follows:
 - 1. Michael Blumenthal
 - 2. Takeshi Saeki
 - 3. Damon Connery (alternate director to Michael Blumenthal)

Under the Incline B SPA, Incline B provides warranties, a payment guarantee and a performance guarantee of Incline Aladdin's obligations to AACL.

2.2.3 Information on Incline B IrishCo 1

Incline B IrishCo 1 is a private limited company that was incorporated on 29 January 2016 under the laws of Ireland. Incline B IrishCo 1 is principally engaged in the acquisition, leasing and disposition of commercial jet aircraft and engines. Further, as at the LPD:

- (i) Incline B IrishCo 1 has one ordinary share of €1.00 issued.
- (ii) The directors of Incline B IrishCo 1 are as follows:
 - (a) James Conroy
 - (b) Declan Cotter
 - (c) Gavin Mercer
 - (d) Maurice Prendergast
- (iii) The substantial shareholder of Incline B IrishCo 1 is Incline B LuxCo S.à r.l.

2.2.4 Information on Incline B GP (Cayman)

Incline B GP Cayman is an exempted company that was incorporated on 19 September 2014 under the laws of the Cayman Islands. Incline B GP Cayman is principally engaged in the acquisition, leasing and disposition of commercial jet aircraft and engines. Further, as at the LPD:

- (i) Incline B GP Cayman has one ordinary share of USD1.00 issued.
- (ii) The directors of Incline B IrishCo 1 are as follows:
 - (a) Michael Blumenthal
 - (b) Takeshi Saeki
 - (c) Damon Connery (as alternate director to Michael Blumenthal)
- (iii) The substantial shareholder of Incline B GP (Cayman) is BBAM.

2.2.5 Salient terms of Incline B SPA

Please refer to Appendix II(B) of this Circular.

2.2.6 Information on lease arrangements

No.	Terms	Details
1.	Lessor ⁴	: Incline Aladdin, Incline Aladdin's nominees, Red 2 and/or Red 2's subsidiaries
2.	Lessee	: AAB and/or our Affiliate Airlines
3.	Total aircraft assets to be leased	: 34 aircraft and 7 aircraft engines
4.	12-month period lease rental	: USD110.8 million (approximately RM434.5 million)
5.	Commencement date of lease	: Commencement date of the lease of each relevant aircraft or aircraft engine is the date of the delivery of such aircraft or aircraft engine under the Incline B SPA
6.	Duration of lease	: <ul style="list-style-type: none">• Up to 12 years anniversary from the date of manufacture for aircraft• Up to 5 years anniversary from the lease acceptance date for aircraft engine
7.	Security deposits	: USD14.4 million (approximately RM56.5 million)
8.	Renewal terms	: There is no renewal terms under the lease arrangement
9.	Review/ adjustment to lease rental	: There is no review/adjustment to lease rental throughout the duration of lease
10.	Termination events and consequential arrangement	: Terminable upon illegality, total loss and event of default (which includes non-payment, breach of insurance requirements, unremedied breach, misrepresentation, disposal of substantial assets, cross-default, insolvency, creditor's process, failure to obtain or maintain approvals, material litigation, suspension of payments, failure to maintain possession of aircraft, aircraft becoming subject to encumbrances that are not permitted, unenforceability of lease documents, cessation or unenforceability of security deposit letter of credit and failure to redeliver aircraft at expiry date)

2.2.7 Information relating to Capital Commitment To Incline Funds

Our investment into the Incline A will be via Incline A LLC, of which AACL or its nominee will become a member of Incline A LLC pursuant to the Incline A Subscription Agreement. For our investment into the Incline B Parallel, AACL or its nominee will become a limited partner of Incline B Parallel pursuant to the Incline B Parallel Subscription Agreement.

Please refer to Appendix III of this Circular for the salient features of investments in the Incline Funds.

(i) Information on Incline A LLC and Incline B Parallel

Please refer to Section 1, Appendix V(A) of this Circular for information on Incline A LLC and Section 2, Appendix V(A) of this Circular for information on Incline B Parallel.

⁴ The aircraft are leased from the lessor to the lessee either directly or through intermediate entities.

(ii) Information on Incline A

Incline A is an exempt limited partnership that was organised on 6 November 2015, under the provisions of the laws of the Cayman Islands. Incline A is principally engaged in the acquisition, leasing and disposition of commercial jet aircraft and engines to U.S. based clients. Further, as at the LPD:

- (a) Incline A has no shares issued.
- (b) Incline A has no director. The directors of Incline A's general partner, Incline A GP (Cayman), are as follows:
 - 1. Michael Blumenthal
 - 2. Takeshi Saeki
- (c) Incline A does not have any substantial shareholders as Incline A is an exempted limited partnership, and no shares are issued.

(iii) Information on Incline A GP (Cayman)

Incline A GP (Cayman) is an exempted company that was incorporated on 19 September 2014 under the laws of the Cayman Islands. Incline A GP (Cayman) is principally engaged in the acquisition, leasing and disposition of commercial jet aircraft and engines. Further, as at the LPD:

- (a) Incline A GP (Cayman) has one ordinary share of USD1.00 issued.
- (b) The directors of Incline A GP (Cayman) are as follows:
 - 1. Michael Blumenthal
 - 2. Takeshi Saeki
 - 3. Damon Connery (as alternate director to Michael Blumenthal)
- (c) The substantial shareholder of Incline A GP (Cayman) is BBAM.

(iv) Proposed salient terms of the Incline Funds Investment Agreements

Please refer to Appendix II(C) of this Circular.

(v) Basis and justification for investing in Incline Funds

The Capital Commitment To Incline Funds has been made to facilitate the Proposed Disposal To Incline B as well as to provide opportunity to our Group in establishing a long term partnership with an aircraft leasing institutional fund managed by BBAM.

In this regard, the Capital Commitment To Incline Funds has been considered after taking into consideration the above and overall rationale and benefits of the Proposed Disposals to our Group. Please refer to Section 3 of this Circular for further details of the rationale and benefits of the Proposed Disposals.

(vi) Others

Please refer to Appendix III of this Circular for further details on the commitment period of our investments into the Incline Funds.

2.3 Proposed Disposal To FLY

The Proposed Disposal To FLY involves the disposal by AACL of its entire equity interests in Red 3⁵ and Red 4⁶, and 1 aircraft and 7 aircraft engines to Fly Aladdin or its nominee for the Fly Disposal Consideration of USD453.3 million (subject to change pursuant to adjustments to the Fly Based Purchase Price under the FLY SPA as set out in Appendix II(D) of this Circular) to be satisfied in cash and in-kind as set out in Section 2 of this Circular.

Further, under the FLY SPA, AAB and/or our Affiliate Airlines will enter into lease arrangements to lease 32 aircraft and 7 aircraft engines from Fly Aladdin, Fly Aladdin's nominees, Red 3, Red 3's subsidiary, Red 4 and/or Red 4's subsidiary. Please refer to Section 2.3.4 of this Circular for further information on the lease arrangements.

Pursuant to the Proposed Disposal To FLY, AAB, AACL and FLY will enter into a subscription agreement on or before the initial transfer of Fly Aircraft Assets for the subscription of FLY Equity at an issue price of USD15.0 each by AACL totaling to approximately USD50.0 million. Such subscription amount shall be made on a net basis and offset against the Fly Disposal Consideration. Please refer to Section 2.3.5 of this Circular for further information on the subscription of FLY Equity.

2.3.1 Information on Red 3 and Red 4

(i) Red 3

Red 3 was incorporated as an exempted company under the laws of Bermuda on 22 February 2018. Its principal activity is owning, leasing and/or financing of aircraft. As at the LPD, AACL owns 100% equity interest in Red 3 consisting of 1 common share of USD0.01.

Please refer to Appendix VI of this Circular for further information.

(ii) Red 4

Red 4 was incorporated as an exempted company under the laws of Bermuda on 22 February 2018. Its principal activity is owning, leasing and/or financing of aircraft. As at the LPD, AACL owns 100% equity interest in Red 4 consisting of 1 common share of USD0.01.

Please refer to Appendix VI of this Circular for further information.

2.3.2 Information on the purchaser and its guarantor

(i) Fly Aladdin (as a purchaser)

Fly Aladdin is a company that was incorporated on 21 February 2018 under the laws of Ireland. Fly Aladdin is principally engaged in aircraft leasing. Further, as at the LPD:

- (a) Fly Aladdin has one ordinary share of €1.00 issued.
- (b) The directors of Fly Aladdin are as follows:
 - 1. Colm Barrington
 - 2. Declan Cotter
 - 3. Gavin Mercer
- (c) Fly Aladdin is a wholly-owned subsidiary of FLY.

⁵ Red 3 and its subsidiary will own 30 aircraft before the completion of the FLY SPA.

⁶ Red 4 and its subsidiary will own 2 aircraft before the completion of the FLY SPA.

(ii) FLY (as a guarantor)

- (a) Please refer to Appendix V(B) of this Circular for information on FLY.
- (b) Under the FLY SPA, FLY provides warranties, a payment guarantee and a performance guarantee of Fly Aladdin's obligations to AACL.

2.3.3 Salient terms of FLY SPA

Please refer to Appendix II(D) of this Circular.

2.3.4 Information on lease arrangements

No.	Terms	Details
1.	Lessor ⁷	: Fly Aladdin, FLY Aladdin's nominees, Red 3, Red 3's subsidiary, Red 4 and/or Red 4's subsidiary
2.	Lessee	: AAB and/or our Affiliate Airlines
3.	Total aircraft assets to be leased	: 32 aircraft and 7 aircraft engines
4.	12-month period lease rental	: USD106.6 million (approximately RM418.0 million)
5.	Commencement date of lease	: Commencement date of the lease of each relevant aircraft or aircraft engine is the date of the delivery of such aircraft or aircraft engine under the FLY SPA
6.	Duration of lease	: <ul style="list-style-type: none">• Up to 12 years anniversary from the date of manufacture for aircraft• Up to 5 years anniversary from the lease acceptance date for aircraft engine
7.	Security deposits	: USD15.4 million (approximately RM60.4 million)
8.	Renewal terms	: There is no renewal terms under the lease arrangement
9.	Review/ adjustment to lease rental	: There is no review/adjustment to lease rental throughout the duration of lease
10.	Termination events and consequential arrangement	: Terminable upon illegality, total loss and event of default (which includes non-payment, breach of insurance requirements, unremedied breach, misrepresentation, disposal of substantial assets, cross-default, insolvency, creditor's process, failure to obtain or maintain approvals, material litigation, suspension of payments, failure to maintain possession of aircraft, aircraft becoming subject to encumbrances that are not permitted, unenforceability of lease documents, cessation or unenforceability of security deposit letter of credit and failure to redeliver aircraft at expiry date)

⁷ The aircraft are leased from the lessor to the lessee either directly or through intermediate entities.

2.3.5 Information relating to the subscription of FLY Equity

(a) Proposed salient terms for the subscription of FLY Equity

Please refer to Appendix II(E) of this Circular.

(b) Number and type of securities to be issued and issue price

AACL is to subscribe for up to 3,333,333 FLY Depositary Shares at an issue price of USD15.0 each (assuming no dividends or other distribution are undertaken by FLY following the date of the FLY SPA).

Following thereto, AACL is expected to hold approximately 10.2%⁽¹⁾ of FLY Depositary Shares which is based on the enlarged number of FLY Depositary Shares of 32,650,019 (computed based on the outstanding number of FLY Depositary Shares as at 31 December 2017 of 27,983,352, together with the new 3,333,333 FLY Depositary Shares to be subscribed by AACL, the new 666,667 FLY Depositary Shares to be subscribed by Onex Corporation's affiliate, and the new 666,667 FLY Depositary Shares to be subscribed by the investment vehicle owned by members of BBAM's management team).

Note:

- (1) *Subject to change, the actual percentage of holdings in FLY Depositary Shares will be based on the outstanding number of FLY Depositary Shares at the date of subscription of FLY Equity by AACL.*

Further, we set out below the salient features relating to FLY Depositary Shares:

- (i) all of FLY's issued and outstanding common shares are held by the depositary, namely Deutsche Bank Trust Company Americas (the "**Depositary**"), in the form of American Depositary Shares. The Depositary is a state chartered New York banking corporation and a member of the United States Federal Reserve System;
- (ii) each FLY Depositary Share represents an ownership interest in one common share of FLY which is deposited with the custodian under the deposit agreement among FLY, the Depositary, and FLY Depositary Share holders. The FLY Depositary Shares are evidenced by what are known as American Depositary Receipts, in the same way a share is evidenced by a share certificate. Rights of FLY Depositary Shares are governed by the deposit agreement and FLY's by-laws. New York law governs the deposit agreement and the FLY Depositary Shares; and
- (iii) an American Depositary Receipt's holder is not treated as one of the shareholders of FLY and do not have shareholder rights. Bermuda law governs shareholder rights. The Depositary is the holder of the common shares underlying the FLY Depositary Shares, which are registered in its name with Conyers Corporate Services (Bermuda) Limited, the registrar and transfer agent for common shares of FLY. For further details, please refer to Section 2, Appendix V(B) of this Circular.

Please refer to the "Description of American Depositary Shares" in FLY's Registration Statement on Form F-1, filed with the SEC on 24 September 2007, for a complete description of the FLY Depositary Shares.

The differences between FLY Depositary Shares and common shares, and the rights of the holders of FLY Depositary Shares (“**Holders**”) and common shareholders include the following:

	FLY Depositary Shares	Common Shares
Dividends and Other Distributions	<p>If common shares receive an option to receive dividends in either cash or common shares, the Depositary will, after consultation with FLY and to the extent permissible by law and reasonably practicable, offer holders of FLY Depositary Shares the option to receive dividends in either cash or FLY Depositary Shares to the extent permissible under applicable law and in accordance with the deposit agreement.</p> <p>If the Depositary has agreed to pay cash dividends or other distributions that Depositary or the custodian receives on common shares or other deposited securities (less any applicable fees), the Holders will receive these distributions in proportion to the number of common shares the FLY Depositary Shares represent as of the record date set by the Depositary with respect to the FLY Depositary Shares.</p>	<p>Pursuant to Bermuda law, FLY is restricted from declaring or paying a dividend if there are reasonable grounds for believing that:</p> <ul style="list-style-type: none"> (i) FLY is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than its liabilities.
Voting rights	<p>As soon as practicable upon receipt of timely notice of any meeting at which the shareholders are entitled to vote, or of solicitation of consents or proxies from holders of FLY’s common shares, the Depositary will fix a record date in respect of such meeting or solicitation of consent or proxy.</p> <p>The Depositary will, if requested by FLY in writing in a timely manner, send notice or otherwise distribute to Holders as of the record date:</p> <ul style="list-style-type: none"> (i) such information as is contained in such notice of meeting (or solicitation of consent or proxy) received by the Depositary from FLY, (ii) a statement that Holders to instruct the Depositary as to the exercise of the voting rights (or deemed exercise of voting rights), if any, pertaining to the amount of FLY’s common shares represented by their respective American Depositary Shares, and (iii) a statement as to the manner in which such instructions may be given or may be deemed to have been given. <p>Upon the written request of a Holder as of such record date, received on or before the FLY Depositary Shares voting cut-off date, the Depositary will endeavor, insofar as practicable, to vote or cause to be voted the amount of FLY’s common shares represented by the FLY Depositary Shares in accordance with the instructions set forth in such request.</p>	<p>Under Bermuda law, the voting rights of FLY’s shareholders are regulated by its bye-laws and, in certain circumstances, the Companies Act 1981 of Bermuda.</p>

(c) **Basis and justification of the issue price**

The subscription of FLY Equity by AACL is to facilitate the Proposed Disposal To FLY as well as to provide opportunity to our Group in establishing a long term partnership with a leading global aircraft lessor with a diversified lessee portfolio.

The issue price of USD15.0 per FLY Equity (“**Issue Price**”) was arrived at on a willing-buyer willing-seller basis after taking into consideration the above and the following:

- (i) NA per FLY Depositary Share of USD18.39⁸ as at 31 December 2016, which implies a price-to-book ratio of approximately 0.82x;
- (ii) the 5-day VWAP of FLY Depositary Shares up to and including 27 February 2018, being 1 trading day before the date of the FLY SPA is USD12.37 per FLY Depositary Share; and
- (iii) the historical trading prices of FLY Depositary Shares

The Issue Price represents a premium based on the following historical trading prices of FLY Depositary Shares:

	<u>Market price</u>	<u>Premium</u>	
	USD	USD ⁽¹⁾	% ⁽²⁾
Closing price of FLY Depositary shares as at 25 April 2018, being the latest practicable date prior to the printing of this Circular	12.61	2.39	19.0
Closing price of FLY Depositary Shares as at the LPD	13.05	1.95	14.9
5-day VWAP of FLY Depositary Shares up to and including the LPD	13.31	1.69	12.7
1-month VWAP of FLY Depositary Shares up to and including the LPD	13.46	1.54	11.4
3-month VWAP of FLY Depositary Shares up to and including the LPD	13.09	1.91	14.6
6-month VWAP of FLY Depositary Shares up to and including the LPD	13.30	1.70	12.8
1-year VWAP of FLY Depositary Shares up to and including the LPD	13.34	1.66	12.4

Notes:

- (1) Computed based on the Issue Price of USD15.0 per FLY Depositary Share less the respective market prices (“**Premium in USD**”).
- (2) Computed based on the Premium in USD divided by the respective market prices.

(Source: Bloomberg)

⁸ The implied price-to-book ratio of the Issue Price compared to the NA per FLY Depositary Share as at 31 December 2017 of USD19.43 is approximately 0.77x

Although the Issue Price represents a premium over the historical prices of FLY Depository Shares as shown above, our Board believes that it is justifiable given that:

- (i) our investment in FLY Equity is expected to be long term in nature with our Aircraft Assets and Future Aircraft forming a part of the aircraft portfolio of Fly Aladdin and/or its nominees;
- (ii) terms of the FLY SPA have been highly negotiated to ensure that we are able to enjoy the overall benefits of the Proposed Disposals, Proposed Future Disposals and Proposed Option that include enabling our Group to invest in FLY, a leading global aircraft lessor with a diversified lessee portfolio, and providing our Group a stable platform to expand our route network without the financial commitment of owning aircraft which are capital incentive in nature. Please refer to Section 3 of this Circular for further details on the rationale and benefits of the transactions; and
- (iii) the ability to own a sizeable interest in FLY as illustrated in Section 2.3.5(b) of this Circular.

(d) Ranking and listing of FLY Equity

The new FLY Equity shall, upon allotment and issuance, rank equally in all respects with the existing FLY Depository Shares, except that the new FLY Equity will not be entitled to any dividends, rights, allotments and/or other distributions, in respect of which the entitlement date is before the date of the allotment of the new FLY Equity. In addition, the new FLY Equity to be held by AACL is subject to certain restrictions which are more fully described in Section 4, Appendix II(E) of this Circular.

At the time of issuance, the new FLY Equity to be issued pursuant to our Group's subscription will have been approved for listing on the NYSE. FLY will use its best efforts to effect and maintain the listing of the FLY Depository Shares (including the FLY Equity issued to AACL) on the NYSE.

(e) Others

The FLY Equity to be subscribed by AACL will be subject to the Lock-Up Period beginning from the date of the first issuance of FLY Equity to AACL and ending on the Lock-Up Period End Date.

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2.4 Basis and Justification of the Base Purchase Price and Disposal Consideration

Following the appointment of the Joint Financial Advisers for the potential divestment, AAB had since then conducted a sale process for the disposal of our Group's aircraft leasing operations which was led by the Joint Financial Advisers. Such sale process includes discussion on the following key terms and conditions with prospective purchasers:

- (i) the price offered by prospective purchasers for the aircraft leasing business;
- (ii) the number of aircraft and aircraft engines to be acquired by the prospective purchasers;
- (iii) the potential partnership with prospective purchasers to grow the aircraft leasing business and as lessors;
- (iv) certainty of completion of the potential divestment, including the financial strength and credit standing of each of the prospective purchasers and approvals required for signing and duration of due diligence required from the prospective purchasers;
- (v) timing of the execution of agreements and expected cash flows to be received from the potential divestment; and
- (vi) other key commercial terms negotiated with each of the prospective purchasers.

As part of the sale process, AAB and the Joint Financial Advisers, had discussions and negotiations with BBAM, being one of the prospective purchasers in respect of the relevant definitive agreements for the Proposed Disposals. After due deliberation, the Board of AAB is of the opinion that the offer by BBAM is the most attractive option and is in the best interest of AAB.

The Base Purchase Price for the Proposed Disposals was agreed on a willing-buyer willing-seller basis after taking into consideration the following:

- (i) the implied EV of the Aircraft Assets of USD2,648 million, which was arrived at using, amongst other, the following:
 - (a) the expected cash flow generated from the aircraft during the respective lease period and residual value of the aircraft upon expiry of respective lease period discounted at unlevered return rate range of 8.0 – 9.0% which was based on the return in the aircraft leasing market for a large, mono type and credit concentrated portfolio;
 - (b) the purchase cost for the aircraft (forming part of the Aircraft Assets) that have been and will be delivered to AACL in 2018; and
 - (c) the NBV of the 14 engines as at 31 December 2017.
- (ii) the audited NBV as at 31 December 2016 of 74 aircraft and 14 aircraft engines to be disposed of RM7,411.1 million based on the audited consolidated financial statements of AAB for FYE 31 December 2016⁹;
- (iii) the value of the remaining 10 aircraft acquired after 31 December 2016 and to be delivered up to 3rd quarter 2018;
- (iv) the ability for Incline Aladdin and Fly Aladdin to acquire Future Aircraft;
- (v) the ability for our Group to leverage on BBAM's aircraft leasing and management expertise to better manage our Group's aircraft fleet in the future; and
- (vi) the rationale and benefits of the Proposed Disposals as set out in Section 3 of this Circular.

The Disposal Consideration of USD1,185.0 million was arrived at after excluding the debt financings of the Aircraft Assets as set out in Section 2 of this Circular.

⁹ Based on the audited consolidated financial statements of AAB for FYE 31 December 2017, the audited NBV of the 74 aircraft and 14 aircraft engines to be disposed of amount to RM6,819.6 million as at 31 December 2017.

2.5 Utilisation of Proceeds

The gross cash proceeds expected to be raised from the Proposed Disposals amounting to USD1,120.0 million (approximately RM4,392.1 million) are expected to be utilised in the following manner:

Utilisation	Timeframe for utilisation	Amount	
		RM'million	%
Prepayment of bank borrowings ⁽¹⁾⁽²⁾	Within 12 months	792.7	18.0
Repayment of unsecured term loan facility ⁽³⁾	Within 6 months	231.0	5.3
Funding for aircraft and associated pre-delivery payments ⁽⁴⁾	Within 6 months	769.4	17.5
Defray estimated expenses for the Proposed Disposals ⁽⁵⁾	Within 6 months	112.6	2.6
Remaining proceeds ⁽⁶⁾	To be determined	2,486.3	56.5
Total		4,392.0	100.0

Notes:

- (1) As at 31 December 2017, being the latest practicable date of which such amounts could be calculated before the printing of this Circular, the consolidated total borrowings of AAB is RM9,308.6 million. The prepayment of bank borrowings is expected to result in interest savings of approximately RM22.2 million per annum.
- (2) Including breakage costs.
- (3) As at 31 December 2017, being the latest practicable date of which such amounts could be calculated before the printing of this Circular, the principal amount of unsecured term loan facility granted by financial institutions to our Group is approximately RM231.0 million. The proposed repayment of the said unsecured term loan facilities is as set out below:

Facility	Amount outstanding as at 31 December 2017 (RM'000)	Proposed repayment (RM'000)	Interest rate (% per annum) /Maturity	Purpose
Unsecured term loan	231,000	231,000	4.90% / 2018	Working capital
Total	231,000	231,000		

- (4) Funding for aircraft and pre-delivery payments due to Airbus in 2018.
- (5) The estimated expenses comprise, amongst others, professional fees, regulatory fees, printing and advertising costs, employees related costs, and costs to convene an EGM. Any variation between the amount stated herein and the eventual amount of expenses will be adjusted to/from the remaining proceeds, the utilisation of which is yet to be determined.
- (6) Our management is currently evaluating options for the optimal utilisation of the remaining proceeds to strengthen our Group's financial performance as well as maximising our shareholders' return. Until such time that our Group has identified the optimal use of the remaining proceeds (which may include consideration to utilise part of the proceeds as special dividends, to meet general working capital requirements, for any potential investment opportunities and/or new businesses), the remaining proceeds shall be kept in short term interest bearing instruments such as bank deposit. Further, our Company will make immediate announcement on the intended usage of the remaining proceeds as and when it has been decided by our Board. If the nature of the transaction requires our shareholders' approval(s) under the Listing Requirements, we will seek the necessary approval(s) from them at a general meeting to be convened.

Our Company will also report the status of the unutilised remaining proceeds, including, amongst others, the amount utilised and detailed explanation of its usage, the remaining balance and the interest income generated therefrom in our upcoming quarterly financial results and annual report(s) until full utilisation of such remaining proceeds.

If the actual amount allocated for the prepayment of bank borrowings and defray estimated expenses for the Proposed Disposals are higher than the proceeds allocated, the deficit will be funded from the remaining proceeds not allocated. However, if the actual amount utilised for the prepayment of bank borrowings and related expenses for the Proposed Disposals are lower than estimated, the excess will be allocated for other usage that has not been determined as indicated in note (6) above.

2.6 Original Cost, Date of Investment and NBV

The date and original cost of investment, and audited NBV of Disposal Subsidiaries and Aircraft Assets as at 31 December 2017 are as follows:

<u>Subject matter</u>	<u>Date of investment</u>	<u>Original cost of investment</u>	<u>Audited NBV ⁽¹⁾</u>
Red 1	26 February 2018	USD0.01	Not applicable ⁽²⁾
Red 2	26 February 2018	USD0.01	Not applicable ⁽²⁾
Red 3	26 February 2018	USD0.01	Not applicable ⁽²⁾
Red 4	26 February 2018	USD0.01	Not applicable ⁽²⁾
Aircraft Assets ⁽³⁾	December 2005 – 2017	RM9,228.7 million	RM7,161.6 million

Notes:

- (1) Based on the audited consolidated financial statements of AAB for FYE 31 December 2017.
- (2) There is no audited financial information as the company is newly incorporated.
- (3) Only applicable for 76 aircraft and 14 aircraft engines as these aircraft assets are held by our Group as at 31 December 2017. The remaining 8 aircraft are to be delivered to our Group post 31 December 2017.

2.7 Liabilities to be Assumed by the Purchasers

Save for the obligations and liabilities as set out in the Disposal SPAs, and Future Aircraft Agreements, and the proposed obligations and liabilities as set out in the Incline Funds Investment Agreements and FLY Equity Subscription Agreement, there are no contingent liabilities and/or guarantees to be assumed by the purchasers under the respective agreements in connection with the Proposed Disposals, Proposed Future Disposals and Proposed Option.

2.8 Disposal of Future Aircraft

In conjunction with the Proposed Disposal To Incline B and Proposed Disposal To FLY, on 28 February 2018, the following Future Aircraft Agreements have also been entered into for disposal of the Future Aircraft:

(i) Proposed Future Disposal To Incline B

Pursuant to the Incline B SPA For Future Aircraft, AACL will dispose up to 21 aircraft to be delivered in the future to Incline Aladdin and/or its nominees for a disposal consideration to be agreed among the parties later. Pursuant to this agreement, Incline Aladdin and/or its nominees are required to enter into lease agreements whereby the said aircraft will be leased to AAB and/or our Affiliate Airlines.

(ii) Proposed Future Disposal To FLY

Pursuant to the FLY SPA For Future Aircraft, AACL will dispose up to 27 aircraft to be delivered in the future to Fly Aladdin and/or its nominees for a disposal consideration to be agreed among the parties later. Pursuant to this agreement, Fly Aladdin and/or its nominees are required to enter into lease agreements whereby the said aircraft will be leased to AAB and/or our Affiliate Airlines.

(iii) Proposed Option

Pursuant to the Incline Option Agreement and FLY Option Agreement, AACL has granted an option to Incline Aladdin and Fly Aladdin and/or their nominees to collectively purchase up to 50 aircraft to be delivered in the future for a purchase consideration to be agreed among the parties later.

The disposal consideration of the Future Aircraft pursuant to the Proposed Future Disposal To Incline B, Proposed Future Disposal To FLY and Proposed Option (“**Disposal Price For Future Aircraft**”) shall be determined based on a base disposal price for each Future Aircraft, which will increase on a monthly basis using a fixed escalation factor up to the delivery month of each aircraft. If the relevant delivery month of an aircraft is after a pre-agreed period, the disposal consideration for such aircraft will be subject to a maximum price.

The lease rental for the aircraft pursuant to the Proposed Future Disposal To Incline B and Proposed Future Disposal To FLY shall be determined based on an agreed lease rate factor multiplied by the disposal price of the aircraft and subject to interest swap rate adjustment and other standard lease adjustments (“**Future Lease Rental**”).

The basis for the Disposal Price for Future Aircraft and Future Lease Rental were discussed and negotiated as part of a sale process. Please refer to Section 2.4 of this Circular for further details on the sale process conducted.

The basis for the methodology for determining the Disposal Price for Future Aircraft was arrived at on a willing-seller willing-buyer basis taking into consideration the prevailing market value of the aircraft.

The basis for the lease rental methodology was arrived at after taking into consideration the market lease rate, expected financing cost for the aircraft and credit profile of the lessee.

Please refer to Appendix II(F) of this Circular for the salient terms (including terms of payment) of the Future Aircraft Agreements.

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3. RATIONALE AND BENEFITS OF THE PROPOSED DISPOSALS, PROPOSED FUTURE DISPOSALS AND PROPOSED OPTION

Our Board believes that the Proposed Disposals (including the leasing arrangements entered or to be entered into by the relevant parties), Proposed Future Disposals (including the leasing arrangements to be entered into by the relevant parties) and Proposed Option are in line with our Group's strategy to focus on our core airline operations, while allocating resources within our Group in a more efficient manner. Further, our Group is able to enjoy the following benefits from the aforesaid transactions:

- (i) the estimated net gain on disposals to our Group arising from the Proposed Disposals is approximately RM1,398.2 million as set out in Section 6.3 of this Circular. With the Proposed Disposals, our Group will be able to preserve our existing funds for our future business plans and/or undertake new and appropriate investment opportunities and/or to maximise shareholders' returns;
- (ii) our Group will raise gross proceeds amounting to USD1,120.0 million from the Proposed Disposals as set out in Section 2.5 of this Circular;
- (iii) allow our Group to reduce our financial leverage as part of the proceeds from the Proposed Disposals is utilised to finance the prepayment of bank borrowings as set out in Section 2.5 of this Circular. Following the Proposed Disposals, our Group's gross gearing ratio is expected to fall from 1.4x to 0.4x. The Proposed Disposals will also improve our Group's financial position by strengthening our shareholders' funds. This will provide our Group with the opportunity for more tailored capital management initiatives. Please refer to Section 6.2 of this Circular for further information pertaining to the pro forma effects arising from the Proposed Disposals;
- (iv) allow our Group to establish a long term partnership with BBAM, one of the world's five largest manager of commercial aircraft which services over 200 airline customers worldwide. This is expected to enhance the profile of our Group within the global investing community;
- (v) investment in the Incline Funds will enable our Group to invest in an aircraft leasing institutional fund, managed by BBAM which has extensive experience in aircraft leasing and management globally, and provides our Group with greater access to future investment opportunities in the global aviation space;
- (vi) investment in FLY will enable our Group to invest in a leading global aircraft lessor with a diversified lessee portfolio and participate in the potential future growth of FLY arising from the Proposed Disposals To FLY which will increase the aircraft portfolio of FLY; and
- (vii) provide a stable platform for our Group to expand our route network without the financial commitment of owning aircraft which are capital intensive in nature.

Furthermore, the Proposed Future Disposals and Proposed Option will allow our Group to sell the Future Aircraft on an en-block basis in an efficient manner in the future given that most of the terms have been negotiated upfront with BBAM's related entities rather than to undergo another time-consuming sale process, at the expense of our Group's resources (including time and manpower) for operational matters.

The disadvantages of the Proposed Disposals (including the leasing arrangements entered or to be entered into by the relevant parties), Proposed Future Disposals (including the leasing arrangements to be entered into by the relevant parties) and Proposed Option include the following:

- (i) potential loss of revenue contribution from our Group' leasing business as our Group will not own the Disposal Subsidiaries, Aircraft Assets and Future Aircraft following the completion of the Proposed Disposals, Proposed Future Disposals and Proposed Option;
- (ii) the lease rental rates under the lease arrangements may not be more favorable than the rates offered by other aircraft leasing companies at any given point in time; and
- (iii) upon expiry of the term of the lease arrangements, our Group may not be able to conclude new lease arrangements with our respective lessors on mutually agreed terms and conditions.

Please refer to Section 4 of this Circular for further details on the risk associated with the transactions above.

4. RISK FACTORS

The Proposed Disposals, Proposed Future Disposals and Proposed Option will not materially change the risk profile of our Group as we are still able to continue our air transportation services due to the lease arrangements that have been entered or to be entered into pursuant to the Disposal SPAs and Future Aircraft Agreements. Following the Proposed Disposals, Proposed Future Disposals and Proposed Option, our Group will still be exposed to similar business, operational and financial risks inherent in the aviation industry which include, but not limited to, competition, political and economic conditions, volatility in the supply and price of oil, operational risks, fluctuations in interest rates and collections from customers.

In addition to the risks above, our Group may be subject to certain specific risks associated with the Proposed Disposals, Proposed Future Disposals and Proposed Option. The specific risks are as follows:

4.1 Risk relating to the non-completion of the Disposal SPAs and Future Aircraft Agreements

The Disposal SPAs and Future Aircraft Agreements are conditional upon the various conditions precedent as set out in Appendices II(A), II(B), II(D) and II(F) of this Circular and there can be no assurance that all such conditions precedent will be fulfilled or obtained in a timely manner or at all. Should a delay or non-completion occur in the Disposal SPAs, we will not be able to utilise the proceeds from the Proposed Disposals in the manner set out in Section 2.5 of this Circular.

Notwithstanding this, our Group will use our best endeavor to fulfil those conditions in a timely manner and mitigate the occurrence of any of the termination events as stipulated in the Disposal SPAs and Future Aircraft Agreements, insofar as the circumstances are within our control.

4.2 Loss of potential future contribution from our Group's leasing business

Upon completion of the Proposed Disposals, Proposed Future Disposals and Proposed Option, we will no longer own the Disposal Subsidiaries, Aircraft Assets and Future Aircraft. As such, there can be no assurance that, after completion of the Proposed Disposals, Proposed Future Disposals and Proposed Option, we will be able to achieve equivalent or better financial performance from our existing businesses given the loss of potential future contribution from our Group's leasing business.

Nonetheless, the Proposed Disposals will accord our Group with a reduction in depreciation expense, interest expense and debt service requirements due to a reduction in total gearing. Also, as highlighted in Section 2.5 of this Circular, our Group may utilise the proceeds raised from the Proposed Disposals for potential investment opportunities and new business purposes in the future which may enhance our Group's future income contribution.

4.3 Unfavorable rental rates

Under the lease arrangements, we shall pay rental to the respective lessors. There can be no assurance that the rental rates under the lease arrangements are more favourable than those offered by other aircraft leasing companies at any given point in time.

We believe the negotiated rental rates under the lease arrangements pursuant to the Proposed Disposals allow us to secure lease certainty for the Aircraft Assets which allow our Group to operate effectively in the foreseeable future.

4.4 Renewal of lease arrangements

Under the Disposal SPAs, Incline B SPA For Future Aircraft and FLY SPA For Future Aircraft, we agree to lease the relevant Aircraft Assets and certain Future Aircraft from the date of the delivery of such aircraft. However, upon expiry of the term of the lease arrangements, we may not be able to conclude new lease arrangements with our respective lessors on mutually agreed terms and conditions. In this event, our Group may seek out a suitable alternative source for aircraft from other aircraft leasing companies.

4.5 Adjustments to the Disposal Consideration

The Disposal Consideration is subject to change due to the relevant adjustments on the Base Purchase Price as set out in the Section 1 of the Appendices II(A), II(B) and II(D) of this Circular. The quantum of such adjustments will only be determined upon transfer of the relevant Aircraft Assets, which may result in a downward adjustment. As such, the final amount of adjustments and in turn the final Disposal Consideration may only be determined upon completion of the transfers of the relevant Aircraft Assets.

The downward adjustment will be partially offset by the lease income to be earned from such delay period as well as saving from lease rental expenses to be incurred pursuant to the lease arrangements by our Group up until the transfer date for the relevant Aircraft Assets.

4.6 Investment risk associated with the Capital Commitment To Incline Funds

In connection with our proposed Capital Commitment To Incline Funds, AACL or its nominee will become a member of Incline A LLC and a limited partner of Incline B Parallel. As a member and a limited partner, AACL or its nominee will take no part in the management of the Incline Funds because the managing member of Incline A LLC and general partner of Incline B Parallel are responsible for the overall management and administration of the operations of the Incline Funds. Further, the Incline Funds may in the future invest (as passive investors) in high risk investments which may not fit our Group's risk appetite even though the withdrawal from our investment in the Incline Funds is restricted under the commitment period.

As such, there can be no assurance that the anticipated benefits from the Incline Funds will be realised, and that the investment in the Incline Funds will enable us to improve our financial performance. Nonetheless, the Incline Funds are managed by BBAM who has extensive experience in aircraft leasing and management globally as set out in Section 3(v) of this Circular. Furthermore, our Group's risk exposure will be capped at our Capital Commitment To Incline Funds of USD50.0 million.

4.7 Investment risk associated with the Subscription in FLY Equity

The trading price and volume of FLY Depositary Shares may be volatile and could be affected by numerous factors, including, but not limited to, the financial and operating performance of FLY, perceived growth prospects of FLY, general operational and business risks, general market, economic and political conditions as well as changes in government policy, legislation or regulation. Accordingly, there can be no assurance that the FLY Depositary Shares will continue to trade at prices higher than the issue price for the subscription of FLY Equity. From an accounting perspective, as the FLY Depositary Shares are quoted at NYSE, gain or loss arising from the changes in the trading price as at our Group's reporting date will be recognised in our profit or loss accordingly.

Further, there is no shareholders agreement entered into between our Group and the other substantial shareholders of FLY that governs the collaboration between our Group and FLY. As a result, there may be instances where the business direction and/or decision of FLY may not be aligned to our Group's interest. In addition, our Group's rights as a holder of FLY Depositary Shares are subject to certain restrictions which are set out in Section 4, Appendix II(E) of this Circular.

Nonetheless, as set out in Section 3(vi) of this Circular, FLY is a leading global aircraft lessor with a diversified lessee portfolio. In addition, given that FLY is a publicly listed company, we believe we have the flexibility and ability to monetise our investment in FLY Equity at any point in time post Lock-Up Period End Date. Furthermore, our Group's risk exposure will be capped at a maximum amount of USD50.0 million.

4.8 Foreign currency risk

The Disposal Consideration will be settled in USD, and therefore, the Disposal Consideration if and when converted into RM may be impacted by the fluctuation of USD against RM. Hence, there can be no assurance that any future significant exchange rate fluctuations will not have an adverse impact on the Disposal Consideration to be received in RM terms.

Further, the returns from our investment in Incline Funds and FLY are denominated in USD which will be affected by fluctuations in the foreign currency exchange rates. Hence, there can be no assurance that any future significant exchange rate fluctuations will not have an adverse impact on our returns from such investments.

With regards to the above, to manage our Group's exposure against foreign currency fluctuations, our Group may adopt hedging policies via utilisation of hedging instruments to minimise the effects of foreign currency fluctuations.

4.9 Regulatory risk

The Proposed Disposals and Proposed Future Disposals may be affected by any change in the regulatory environment in the relevant jurisdictions. Such risks include, but are not limited to, changes in government policies including changes in the applicable legislation on taxation, foreign exchange regulations and legislation pertaining to the industry. There can be no assurance that any unfavourable development in the prevailing regulatory environment will not have any impact on the Proposed Disposals and Proposed Future Disposals.

Nevertheless, our Group endeavour to ensure compliance with the various changes in the regulatory environment in the relevant jurisdictions.

4.10 Failure from purchasers to take delivery of and/or exercise its option to acquire Future Aircraft

The respective purchasers may not be able to take delivery of and/or does not exercise its option to acquire Future Aircraft pursuant to the Proposed Future Disposals and Proposed Option due to various reasons such as failure to raise the relevant financing.

In this event, we may either enter into a sale and leaseback arrangement with other aircraft lessors or to take delivery of the relevant Future Aircraft. Furthermore, we will continuously engage with the respective purchasers to ensure any associated issues with taking delivery of and/or exercise its option to acquire Future Aircraft are dealt with in a timely manner.

4.11 Risk of unfavorable pricing for Future Aircraft

There is no certainty that the price for the Future Aircraft pursuant to the Proposed Future Disposals and Proposed Option is on par or above the relevant market price for such aircraft in the future. Nonetheless, the Proposed Future Disposals and Proposed Option provide us price certainty over a large pool of aircraft.

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5. INDUSTRY REVIEW AND FUTURE PROSPECTS

5.1 Overview and prospects of the global economy

The global economy is experiencing a cyclical recovery, reflecting a rebound in investment, manufacturing activity and trade. This improvement comes against the backdrop of benign global financing conditions, generally accommodative policies, rising confidence, and firming commodity prices. Global Gross Domestic Product (“GDP”) growth is estimated to have picked up from 2.4% in 2016 to 3.0% in 2017, above the June 2017 forecast of 2.7%. The upturn is broad-based, with growth increasing in more than half of the world’s economies. In particular, the rebound in global investment growth – which accounted for 3 quarters of the acceleration in global GDP growth from 2016 to 2017 – was supported by favorable financing costs, rising profits, and improved business sentiment across both advanced economies and emerging market and developing economies (“EMDE”).

In advanced economies, growth in 2017 is estimated to have rebounded to 2.3%, driven by a pickup in capital spending, a turnaround in inventories, and strengthening external demand. While growth accelerated in all major economies, the improvement was markedly stronger than expected in the Euro Area.

Growth among EMDEs is estimated to have accelerated to 4.3% in 2017, reflecting firming activity in commodity exporters and continued solid growth in commodity importers. Most EMDE regions benefited from a recovery in exports. The improvement in economic activity among commodity exporters took place as key economies – such as Brazil and the Russian Federation – emerged from recession, prices of most commodities rose, confidence improved, the drag from earlier policy tightening diminished, and investment growth bottomed out after a prolonged period of weakness.

Global growth is projected to edge up to 3.1% in 2018, as the cyclical momentum continues, and the slightly moderate to an average of 3.0% in 2019 to 2020.

Growth in advanced economies is projected to slow, as labor market slack diminishes and monetary policy accommodation is gradually unwound, moving closer to subdued potential growth rates, which remain constrained by aging populations and weak productivity trends.

Conversely, growth in EMDEs is expected to accelerate, reaching 4.5% in 2018 and an average of 4.7% in 2019 to 2020. This mainly reflects a further pickup of growth in commodity exporters, which is forecast to rise to 2.7% in 2018 and to an average 3.1% in 2019 to 2020, as oil and other commodity prices firm and the effects of the earlier commodity price collapse dissipate.

(Source: Global Economic Prospects – Broad-Based Upturn, but for How Long?, January 2018, published on World Bank’s website: <http://www.worldbank.org>)

5.2 Industry overview and outlook of airline industry

Consumers will see a substantial increase in the value they derive from air transport in 2018, including stability in what they pay airlines, after allowing for inflation. New destinations are forecast to rise in 2018, with frequencies up too; both boosting consumer benefits. The International Air Transport Association (“IATA”) expects 1.0% of world GDP to be spent on air transport in 2018, totaling USD861.0 billion.

The price of air transport for users continues to fall, after adjusting for inflation. Compared to 20 years ago, real transport costs have more than halved. Lower transport costs and improving connectivity have boosted trade flows; trade itself has resulted from globasing supply chain and associated investment. IATA forecast that the value of international trade shipped by air in 2018 will be USD6.2 trillion. Tourists travelling by air in 2018 are forecast to spend USD776.0 billion.

In 2017, commercial airlines are expected to take delivery of around 1,683 new aircraft, a substantial investment by the industry, though less than expected earlier. The trend improvement in average returns has given the industry the confidence to invest on this scale. Sustained high fuel costs had also made it economic to retire older aircraft at a higher rate, but that effect has weakened. Around half of 2017's deliveries will replace existing fleet, making a significant contribution to increasing fleet fuel efficiency.

The fleet is forecast to increase by over 1,000 aircraft to end 2018 at over 30,000 aircraft; expansion continues as markets have expanded strongly and the outlook remains positive. The average size of aircraft in the fleet is continuing to rise slowly. Passenger load factors are expected to rise from 2017 levels to 81.4% on average in 2018. The number of scheduled aircraft departures is forecast to exceed more than 38 million in 2018. That is an average of 73 aircraft departing each minute of 2017.

In 2018, IATA forecast the airlines fuel bill will rise to USD156.0 billion, which will represent 19.6% of average operating costs. The slow rise in prices is being driven by OPEC cutbacks, and the realisation that inventories need to remain higher than before now that OPEC's buffer role has gone.

The strongest financial performance is being delivered by airlines in North America. Net post-tax profits will be the highest at USD16.4 billion next year. That represents a net profit of USD16.67 per passenger, which is a marked improvement from just 5 years earlier. Net margins, forecast at 7.1%, are down from the previous 3 years, though not by much. The limited downside has been underpinned by consolidation, helping to sustain load factors (passenger and cargo) close to 65%, and ancillaries, which limits the impact of higher fuel costs, keeping breakeven load factors close to 57% next year.

Breakeven load factors are highest in Europe, caused by low yields due to the competitive open aviation area, and high regulatory costs. Growth in this region was damaged in 2016 by terrorist attacks, but a rebound has been seen in 2017. Net profits are forecast to rise to USD11.5 billion next year representing USD9.99 per passenger and a margin of 5.2%.

Airlines in Asia-Pacific have very diverse performances. Average profit per passenger for 2018 is forecast at USD5.5 as higher fuel costs are partly offset by improved cargo markets, particularly important in this manufacturing region, helping to boost net profits to USD9.0 billion and underpin net margins at 3.7%.

(Source: Economic Performance of the Airline Industry, December 2017, published on IATA's website: <http://www.iata.org>)

5.3 Prospects of FLY and Incline Funds

FLY is a leading global aircraft leasing company with a total fleet of 85 aircraft in its portfolio which are leased under multi-year operating lease contracts to 44 airlines across 28 countries as of 31 December 2017. As a minority shareholder, our Group has no control over FLY but through this investment we can ride on BBAM's expertise and track record in the aircraft leasing industry.

Incline Funds are aircraft leasing institutional funds dedicated to investing in leased commercial aircraft across a spectrum of asset types and vintages globally. While our Group has no management control over the funds as a limited partner, we believe that Incline Funds, which are being managed also by BBAM, will be able to leverage on the funds' strong investor base and BBAM's expertise to undertake future aircraft investments and generate returns to the investors participating in the Incline Funds.

In addition, the Proposed Disposals, Proposed Future Disposals and Proposed Option will allow both FLY and Incline Funds to scale up their asset base, which in turn will benefit our Group given our minority investment in both FLY and Incline Funds.

5.4 Future plans of FLY and Incline Funds

FLY and the Incline Funds intend to make investments in commercial aircraft across the spectrum of aircraft asset types and vintages, and related assets. Both FLY and Incline Funds are expected to grow their respective portfolios through their participation in the Proposed Future Disposals and Proposed Option. From time to time, FLY and/or the Incline Funds may invest in other assets that they believe offer attractive value. These statements are based on the current plans and expectations of FLY and the Incline Funds and are inherently subject to change, for reasons both within and outside of their control.

6. EFFECTS OF THE PROPOSED DISPOSALS

6.1 Share capital and substantial shareholders' shareholding

The Proposed Disposals will not have any effect on our share capital and substantial shareholders' shareholdings as the Proposed Disposals do not involve any issuance of new AAGB Shares.

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6.2 NA per share and gearing

You should read this section in conjunction with the Reporting Accountants' letter on our pro forma consolidated statement of financial position as at 31 December 2017 ("Reporting Accountants' Letter") as set out in Appendix VII of this Circular. Further, in this section, we have used the foreign exchange rate of USD1.00: RM4.0605, which is consistent with the rate used in preparing the financial statements of our Company and AAB as at 31 December 2017.

For illustrative purposes only, the pro forma effects of the Proposed Disposals on our consolidated NA and gearing, and NA per AAGB Share as at 31 December 2017 are set out below:

	AAGB				
	Audited as at 31 December 2017	Pro forma I	Pro forma II	Pro forma III	Pro forma IV
	AAGB	After completion of the Internal Reorganisation	After Pro forma I and subsequent material events ⁽¹⁾	After Pro forma II and Herondell Disposal	After Pro forma III, Proposed Disposal To Incline B and Proposed Disposal To FLY
	RM'000	RM'000	RM'000	RM'000	RM'000
Capital and reserve					
Share capital	- *	2,515,438	7,573,232	7,573,232	7,573,232
Merger deficit	-	-	(5,057,954)	(5,057,954)	(5,057,954)
Treasury shares	-	(160)	-	-	-
Foreign exchange reserve	-	196,050	196,050	196,050	196,050
Retained earnings	(6)	5,404,393	5,402,887	5,402,887	5,489,557 ⁽⁴⁾
Other reserves	-	(67,608)	(67,608)	(41,164)	(9,274)
Shareholders' fund	(6)	8,048,113	8,046,607	8,159,721	9,503,145
Non-controlling interests	-	(1,338,033)	(1,338,033)	(1,338,033)	(1,338,033)
Total equity	(6)	6,710,080	6,708,574	6,821,688	8,165,112
No. of ordinary shares ('000)	- **	3,341,974	3,341,974	3,341,974	3,341,974
NA per share (RM) ⁽²⁾	(3,000)	2.41	2.41	2.44	2.84
Total borrowings	-	9,308,634	9,906,823	8,843,852 ⁽⁵⁾	3,529,874 ⁽⁵⁾
Gross gearing ⁽³⁾ (times)	-	1.39	1.48	1.30	0.43

Notes:

- * *The issued share capital of our Company is RM2 as at 31 December 2017*
- ** *Based on the existing 2 AAGB Shares*
- (1) *Incorporate effects of the following material events from 1 January 2018 up to and including the LPD:*
 - (a) *Payment of RM1,091.7 million (via bank borrowings and cash) for the delivery of 6 new aircraft to AACL; and*
 - (b) *Receipt of lease deposits amounting to RM5.4 million by AACL pursuant to various lease agreements entered into with third parties for new aircraft.*
- (2) *NA per share is computed as shareholders' fund divided by the number of shares in issue*
- (3) *Gross gearing is computed as total borrowings divided by total equity*
- (4) *Incorporate the effects of the following:*
 - (a) *Herondell Disposal resulting in a pro forma gain to our Group amounting to approximately RM86.7 million under pro forma III. Please refer to Note 2(iii)(e) of the Reporting Accountants' Letter appended as Appendix VII of this Circular; and*
 - (b) *The Proposed Disposal To Incline B and Proposed Disposal To FLY resulting in a pro forma gain to our Group amounting to approximately RM1,311.5 million under pro forma IV. Please refer to Note 2(iv)(f) of the Reporting Accountants' Letter appended as Appendix VII of this Circular.*
- (5) *Incorporate the effects of the following:*
 - (a) *The disposal proceeds arising from the Herondell Disposal that will be used to early-settle our Group's borrowings, resulting in reduction of term loan by RM1,063.0 million and corresponding de-recognition of cash flow hedge assets of RM26.4 million under pro forma III. Please refer to Note 2(iii)(b) of the Reporting Accountants' Letter appended as Appendix VII of this Circular; and*
 - (b) *The disposal proceeds arising from the Proposed Disposal To Incline B and Proposed Disposal To FLY that will be used to early-settle our Group's borrowings, resulting in reduction of term loan by RM5,314.0 million and corresponding de-recognition of cash flow hedge assets of RM31.9 million under pro forma IV. Please refer to Note 2(iv)(b) of the Reporting Accountants' Letter appended as Appendix VII of this Circular.*
- (6) *After deducting the net estimated related expenses arising from the Proposed Disposals (including professional fees and loan breakage cost) of RM65.3 million.*

The pro forma effect of the Proposed Future Disposal To Incline B, Proposed Future Disposal To FLY and Proposed Option on our consolidated NA and gearing, and NA per AAGB Share cannot be ascertained at this juncture.

On 1 January 2019, Malaysian Financial Reporting Standards (“MFRS”) 16 will replace MFRS 117: Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any measurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

The application of MFRS 16 on the operating leases of the 53 aircraft and 13 aircraft engines (i.e. being the aircraft assets in which AAB and its subsidiaries have entered or will enter into lease arrangements with the respective purchasers under the Proposed Disposals) would result in our Group recognising right-of-use assets and a corresponding liability in respect of these leases of approximately RM3,550.4 million with no material impact to our Group’s NA upon initial adoption of MFRS 16. The exact financial effect on our Group’s statement of financial position on the adoption of MFRS 16 will be determined when our Group completes our assessment.

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6.3 Earnings and EPS

The estimated net gain on disposals to our Group arising from the Proposed Disposals is approximately RM1,398.2 million after taking into consideration the following:

- (i) the proceeds from the sale of 82 aircraft and 14 aircraft engines of RM11,183.9 million;
- (ii) the estimated asset cost of the 82 aircraft and 14 aircraft engines of RM10,401.1 million;
- (iii) the estimated deferred tax effect arising from the Proposed Disposals of RM680.7 million; and
- (iv) the net estimated related expenses arising from the Proposed Disposals (including professional fees and loan breakage cost) of RM65.3 million.

The estimated net gain on disposals will result in an improvement in the EPS by approximately RM0.42, computed based on the estimated net gain on disposals arising from the Proposed Disposals of approximately RM1,398.2 million divided by 3,341,974,082 AAGB Shares in issue as at 16 April 2018.

Following the Proposed Disposals, during the FYE 31 December 2018 (assuming the Proposed Disposals were completed on 1 January 2018), our Group is expected to incur rental expenses of approximately RM640.6 million per annum under the lease arrangements for the 53 aircraft and 13 aircraft engines that are to be entered into by our Group pursuant to the Disposal SPAs. However, the impact of the annual rental expenses is expected to be partially offset by the finance expense savings of RM249.2 million per annum arising from the repayment of existing borrowings for 82 aircraft from the proceeds of the Proposed Disposals as well as annual savings in depreciation expenses of RM537.8 million. In addition, upon completion of the Proposed Disposals, our Group will no longer be receiving lease rental and maintenance reserve funds from third party lessees of RM593.9 million per annum.

Further, we will be able to earn an additional interest income of RM79.6 million during the FYE 31 December 2018 on the assumption that the remaining cash proceeds to be received from the Proposed Disposals (net of prepayment of bank borrowings and payment of estimated expenses for the Proposed Disposals) of RM2,486.3 million are placed in an interest-bearing deposit account with a licensed financial institution at an interest rate of 3.2% per annum.

7. CASH COMPANY OR PN17 COMPANY

The Proposed Disposals will not result in our Company becoming a cash company or a PN17 company as defined under the Listing Requirements.

8. APPROVALS REQUIRED AND CONDITIONALITY

The Herondell Disposal does not require the approval from shareholders of our Company or any other regulatory authorities. The Proposed Disposal To Incline B and the Proposed Disposal To FLY are subject to the approval of our shareholders only. Further, we wish to inform you that our major shareholders, namely Tune Live Sdn. Bhd. (“**Tune Live**”) and Tune Air Sdn Bhd (“**Tune Air**”), have agreed with Incline B and FLY, respectively, to among others vote in favour of the Proposed Disposal To Incline B and the Proposed Disposal To FLY at our forthcoming EGM. As at the LPD, Tune Live and Tune Air collectively hold directly approximately 32.2% equity interest in AAB.

AACL’s obligations in respect of the Herondell Disposal under the Herondell SPA are subject to timely payment of the Incline Deposit (as defined in Appendix II(B)) and Fly Deposit (as defined in Appendix II(D)). AACL has the right to terminate its obligations under the Herondell SPA if either the Incline Deposit is not paid within 5 business days from the date of the Incline B SPA or the Fly Deposit is not paid within 5 business days from the date of the FLY SPA. As at the LPD, the Incline Deposit and Fly Deposit have been paid.

The effectiveness of the FLY SPA For Future Aircraft and the FLY Option Agreement is conditional upon the transfer of all of the Fly Initial Transfer Assets (as defined in Appendix II(D)) being completed by 5pm on the date falling 6 calendar months after the date of the FLY SPA or such other date as may be mutually agreed by AACL and Fly Aladdin.

The effectiveness of the Incline B SPA For Future Aircraft and the Incline Option Agreement is conditional upon the transfer of all of the Incline Initial Transfer Assets (as defined in Appendix II(B)) being completed by 5pm on the date falling 6 calendar months after the date of the Incline B SPA or such other date as may be mutually agreed by AACL and Incline Aladdin.

If the relevant conditions in the FLY SPA have been satisfied, Fly Aladdin may issue FLY Equity to AACL (or its nominee) on any transfer of Fly Aircraft Assets (as defined in Appendix II(D)) for the consideration stated in the FLY Equity Subscription Agreement. Both AACL and Fly Aladdin acknowledge that payments required to be made by AACL under the Fly Equity Subscription Agreement in consideration for FLY Equity will be made on a net basis and offset against payments required to be made by Fly Aladdin under the FLY SPA in consideration for one or more relevant Aircraft Assets with no cash payment being required.

If the relevant conditions in the Incline B SPA have been satisfied, Incline Aladdin may, by notice to AACL and AAB, issue interests in the Incline Funds. AACL, AAB and Incline Aladdin acknowledge that such capital call in respect of the Incline Funds is to be net settled against Incline Aladdin's obligation to pay an equivalent amount in respect of the transfer of one or more Incline B Aircraft Assets (as defined in Appendix II(B)) under the Incline B SPA.

9. TENTATIVE TIMELINE FOR THE PROPOSED DISPOSALS

Barring any unforeseen circumstances and subject to receipt of all approvals of the relevant parties and authorities, the Proposed Disposals are expected to be completed by 3rd quarter of 2018. The tentative timeline for the Proposed Disposals is as follows:

<u>Key Milestones</u>	<u>Tentative Timeline</u>
Our forthcoming EGM for the Proposed Disposal To Incline B and Proposed Disposal To FLY	14 May 2018
Completion of the Herondell Disposal	3rd quarter 2018
Completion of the Proposed Disposal To Incline B and Proposed Disposal To FLY	3rd quarter 2018

10. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED

None of our Directors and major shareholders, and persons connected with them have any interest, direct or indirect, in the Proposed Disposals, proposed subscription in FLY Equity, proposed investment in Incline Funds, Proposed Future Disposals and Proposed Option.

11. OUTSTANDING CORPORATE PROPOSALS ANNOUNCED BUT PENDING COMPLETION

Save as disclosed below and the Proposed Disposals which are the subject matter of this Circular, our Board confirms that there is no other corporate proposal that has been announced but pending completion before the printing of this Circular:

- (i) On 31 March 2017, AAB announced that AirAsia Investment Limited (“**AAIL**”), a wholly-owned subsidiary of our Company, had on 30 March 2017, executed a shareholders’ agreement and a share subscription agreement with Gumin Company Limited, Mr. Tran Trong Kien and Hai Au Aviation Joint Stock Company to establish a low-cost carrier in Vietnam (“**Joint Venture in Vietnam**”). As at the LPD, the Joint Venture in Vietnam is pending completion;

- (ii) On 1 June 2017, AAB announced that it proposes to rationalise its event ticketing business (“**RedTix Business**”) and entered into a business transfer agreement with RedTix Sdn Bhd (“**RTSB**”) for the transfer of the entire assets, liabilities, activities, business and undertakings of the event ticketing business to RTSB for RM1.00. In connection with this, AAB and Bakehouse Venture Builders Sdn Bhd (“**BVBSB**”) entered into (i) a share subscription agreement with RTSB for the issuance and allotment of 3,799,998 new RTSB ordinary shares at an issue price of RM1.00 per share whereby AAB and BVBSB will subscribe for 2,849,998 and 950,000 new RTSB ordinary shares respectively, and (ii) shareholders agreement to set out their relationship as shareholder of RTSB. As at the LPD, the share subscription agreement is pending completion; and
- (iii) On 14 May 2017, AAB entered into a Memorandum of Understanding (“**MOU**”) with China Everbright Group (“**Everbright**”) and Henan Government Working Group (“**Henan Government**”) for establishing a joint venture for a low cost airline to be known as AirAsia (China) in China (“**Joint Venture**”). On 25 September 2017, AAB also entered into a non-binding term sheet (“**Term Sheet**”) with Everbright, Plato Capital Limited and Oxley Capital Limited whereby the Term Sheet contains supplementary information to the MOU and is intended to confirm the parties’ interest in establishing the Joint Venture. As at the date the LPD, there is no material development on the status of this transaction.

(Collectively, the “**Pending Completion Documents**”)

The Proposed Disposal To Incline B and Proposed Disposal To FLY are not conditional upon any other corporate exercises.

12. **DIRECTORS’ RECOMMENDATION**

After having considered all aspects of the Proposed Disposal To Incline B, Proposed Disposal To FLY, proposed subscription in FLY Equity, proposed investment in Incline Funds, Proposed Future Disposals, Proposed Option, including but not limited to the rationale and benefits, and pro forma effects of the Proposed Disposals, our Board:

- (i) is of the opinion that the aforementioned proposals are in the best interests of our Company and our shareholders, and
- (ii) recommends that you vote in favour of the resolution as set out in the notice of EGM to be tabled at our forthcoming EGM.

13. **EGM**

Our forthcoming EGM will be held at CAE Kuala Lumpur Sdn. Bhd. (*formerly known as Asian Aviation Centre of Excellence*), Lot PT25B, Jalan KLIA S5, Southern Support Zone, Kuala Lumpur International Airport, 64000 Sepang, Selangor Darul Ehsan, Malaysia on Monday, 14 May 2018 at 10.00 a.m., or adjournment thereof, for the purpose of considering and if thought fit, passing with or without modifications, the resolution as set out in the notice of EGM which is enclosed in this Circular.

If you are unable to attend and vote in person at our forthcoming EGM, you are requested to complete and return the enclosed Proxy Form following the instructions therein as soon as possible so as to arrive at our registered office at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, not less than 48 hours before the time fixed for our forthcoming EGM or any adjournment thereof. The lodging of the Proxy Form will not preclude you from attending and voting in person at our forthcoming EGM should you subsequently wish to do so.

14. FURTHER INFORMATION

You are required to refer to the attached appendices in this Circular for additional information.

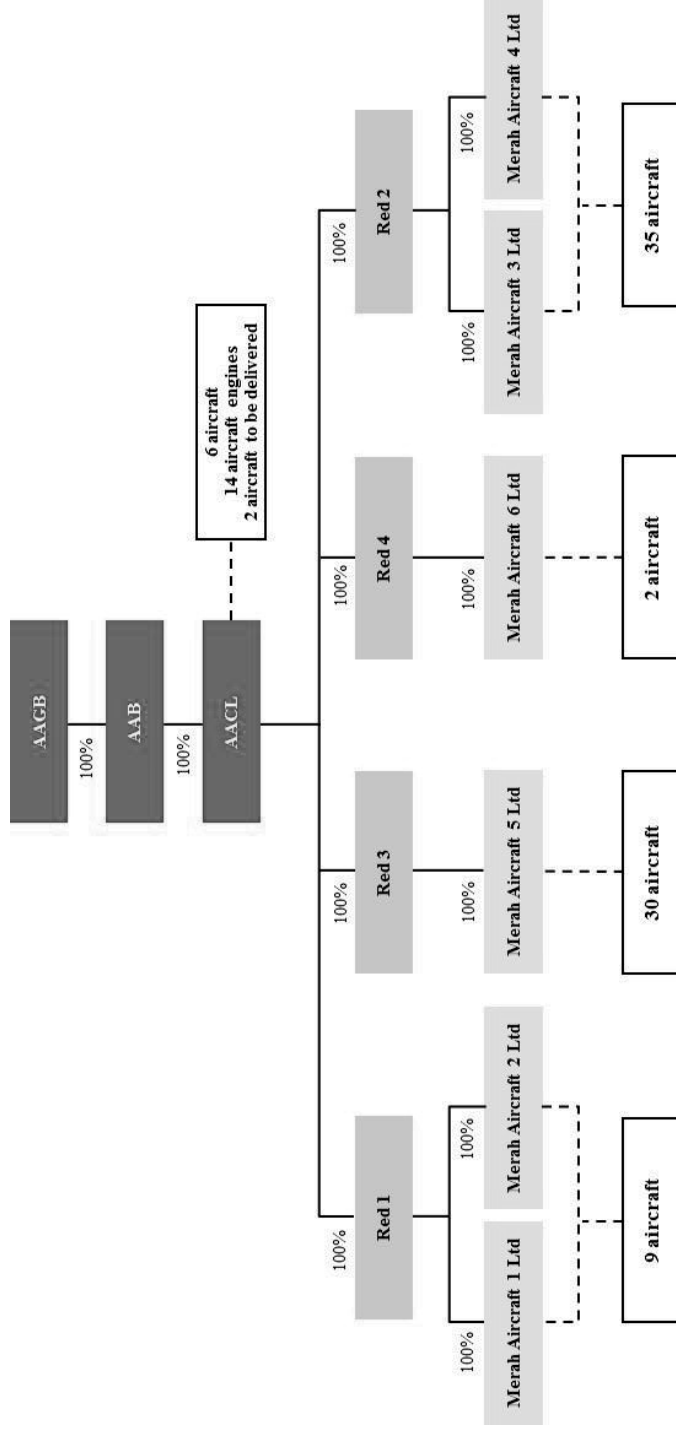
Yours faithfully,
For and on behalf of the Board of
AIRASIA GROUP BERHAD

DATUK KAMARUDIN BIN MERANUN
Executive Chairman

CORPORATE STRUCTURE OF OUR GROUP BEFORE AND AFTER THE PROPOSED DISPOSALS

Our Group's corporate structure before and after the Proposed Disposals are depicted in the following diagrams:

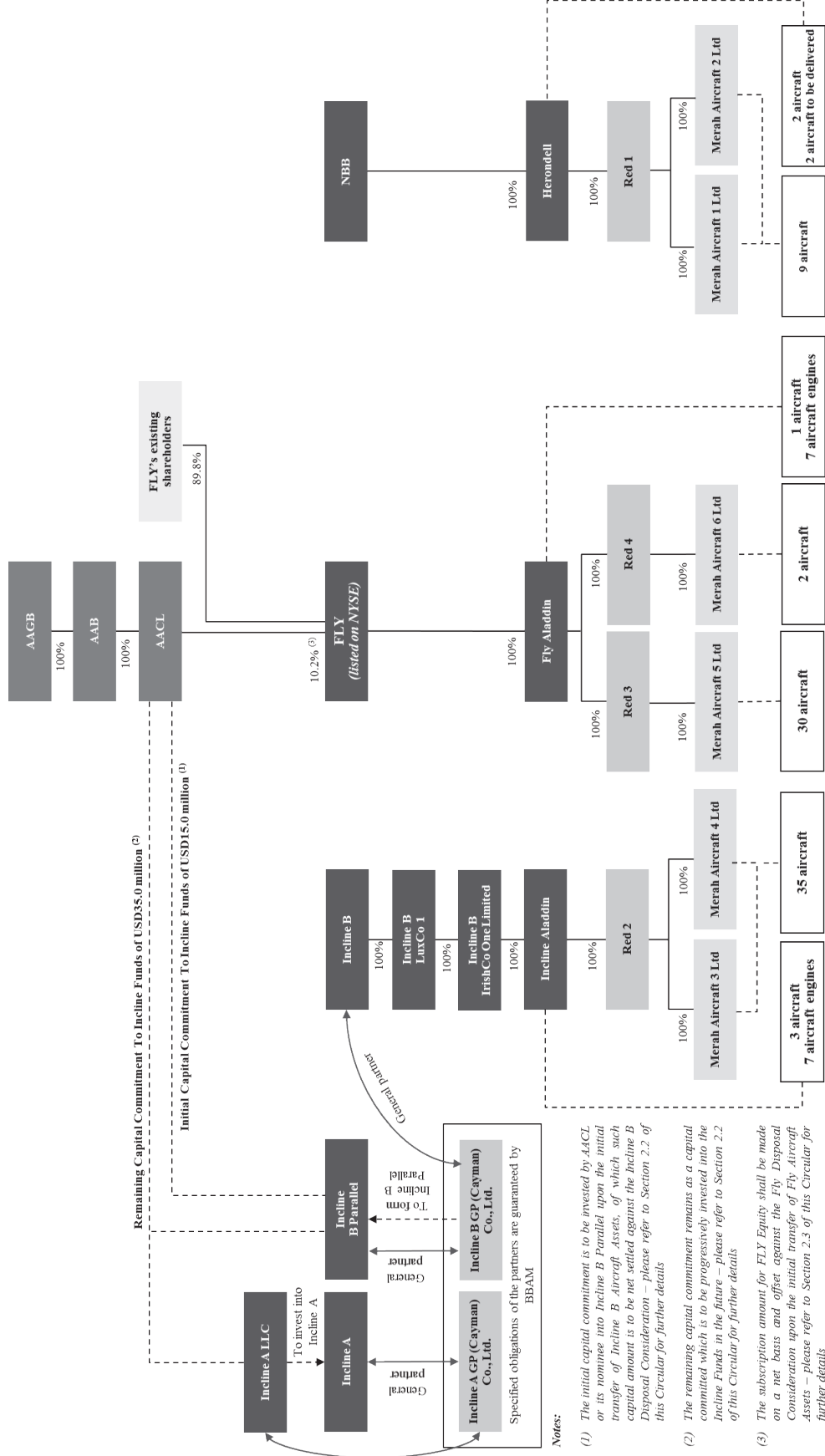
1. Before the Proposed Disposals *



* Only indicates entities and Aircraft Assets which are involved in the Proposed Disposals and does not represent the entire entities and aircraft assets of our Group.

CORPORATE STRUCTURE OF OUR GROUP BEFORE AND AFTER THE PROPOSED DISPOSALS (CONT'D)

2. After the Proposed Disposals *



* Only indicates entities and Aircraft Assets which are involved in the Proposed Disposals and does not represent the entire entities and aircraft assets of our Group and relevant parties mentioned above.

SALIENT TERMS OF THE HERONDELL SPA

Whilst steps have been taken to ensure that salient terms which are necessary for the shareholders' consideration are summarised here, there is no warranty that this summary is complete. Otherwise, the Herondell SPA is available for inspection as indicated in Section 7, Appendix IX of this Circular.

1. Herondell Disposal Consideration

Subject to adjustments, the Herondell Base Purchase Price for the purchase of the entire issued and paid-up share capital in Red 1 ("**Red 1 Sale Share**") (together with 9 aircraft to be owned by Red 1 ("**Non-SLB Aircraft**") and 4 aircraft to be delivered ("**SLB Aircraft**") shall be USD527.8 million.

An amount of the Herondell Base Purchase Price is allocated to each Non-SLB Aircraft in an amount to be agreed (each a "**Herondell Allocated Consideration Amount**"). The Herondell Allocated Consideration Amount for each Non-SLB Aircraft shall be adjusted by:

- (i) subtracting the aggregate of the daily rent amount for such Non-SLB Aircraft for the period from and including 1 January 2018 to the date of the transfer;
- (ii) adding an amount equal to 4.25% per annum of the Herondell Allocated Consideration Amount for the period from 1 January 2018 to the date of the transfer (the "**Herondell Adjustment Rate**"); and
- (iii) subtracting the maintenance reserves balance referable to such Non-SLB Aircraft.

(the aggregate Herondell Allocated Consideration Amount for each such Non-SLB Aircraft so adjusted, the "**Herondell Adjusted Transfer Amount**").

2. Mode of settlement

The manner of payment for the disposal consideration under the Herondell SPA is as follows:

- (i) at the time of transfer of a Non-SLB Aircraft, Herondell will pay or procure payment of the Herondell Adjusted Transfer Amount in respect of each Non-SLB Aircraft;
- (ii) any payment made by AACL or Herondell under the warranties or any other claim under the Herondell SPA shall (so far as possible) be treated as an adjustment to the consideration paid for the relevant Non-SLB Aircraft to the extent of the payment; and
- (iii) Herondell agrees to pay the purchase price for each SLB Aircraft ("**SLB Purchase Price**") to the manufacturer on or before the delivery date for such SLB Aircraft. AACL acknowledges and confirms for the benefit of Herondell that in respect of each SLB Aircraft:
 - (a) payment by Herondell of the SLB Purchase Price for such SLB Aircraft shall satisfy and discharge Herondell's obligation to pay the SLB Purchase Price for such SLB Aircraft under the Herondell SPA;
 - (b) at delivery of such SLB Aircraft, AACL will pay the aircraft manufacturer an amount equal to the excess of the owner amount for such SLB Aircraft over the SLB Purchase Price for such SLB Aircraft, if any (the "**Vendor Delivery Payment Amount**");
 - (c) upon receipt of:
 - (aa) the SLB Purchase Price for such SLB Aircraft from Herondell by the aircraft manufacturer and the Vendor Delivery Payment Amount for such SLB Aircraft, if any, from AACL by the aircraft manufacturer, (i) AACL shall procure that the aircraft manufacturer transfers good, legal and valid title to such SLB Aircraft to AACL free and clear of all encumbrances (other than permitted encumbrances), in accordance with the airbus bill of sale for such SLB Aircraft; and

SALIENT TERMS OF THE HERONDELL SPA (CONT'D)

- (bb) AACL shall transfer good, legal and valid title to such SLB Aircraft to Herondell (or Herondell's nominee) as was transferred to it pursuant to the Airbus bill of sale free and clear of encumbrances (other than permitted encumbrances).
- (iv) AACL's obligations pursuant to the Herondell SPA are in all respects subject to timely payment of the Incline Deposit (as defined in Appendix II(B)) and FLY Deposit (as defined in Appendix II(D));
- (v) on the delivery date of a SLB Aircraft, Herondell agrees that it will pay the SLB Purchase Price for such SLB Aircraft to the aircraft manufacturer and take title and accept delivery of such SLB Aircraft from AACL. The transfer of each SLB Aircraft is in all respects conditional upon the SLB Conditions (as defined below) relating to such SLB Aircraft either being satisfied or waived;
- (vi) unless notified in writing by AACL, all amounts payable to AACL under the Herondell SPA will be made for value on the due date by crediting the same in USD and in immediately available funds to the account of the aircraft manufacturer specified in a payment direction communication;
- (vii) all amounts payable to Herondell under the Herondell SPA will be made for value on the due date by crediting the same in USD and in immediately available funds to Herondell's accounts as notified to AACL; and
- (viii) The SLB Purchase Price in respect of any SLB Aircraft is exclusive of value added tax ("VAT") payable in any jurisdiction in which delivery for such SLB Aircraft takes place. Herondell shall pay to AACL, the aircraft manufacturer or relevant taxing authority, as the case may be, the amount of any such VAT and indemnify AACL and aircraft manufacturer (as applicable) against any claims for the same (where appropriate), Herondell shall increase the payments which would otherwise be required to be made under the Herondell SPA so that AACL and/or the aircraft manufacturer (as applicable) is left in the same position as AACL and/or aircraft manufacturer (as applicable) would have been in had no such VAT been payable) and Herondell shall provide evidence to AACL and aircraft manufacturer (as applicable), if available, in respect of payment of any such VAT.

3. Conditions Precedent

The transfer of the Red 1 Sale Share, SLB Aircraft and Non-SLB Aircraft shall be conditional on the satisfaction of, including but not limited to, the following conditions precedent ("**Herondell Transfer Conditions**"):

- (i) In relation to the Non-SLB Aircraft:
 - (a) no total loss or material damage shall have occurred in respect of the relevant Non-SLB Aircraft;
 - (b) the relevant Non-SLB Aircraft shall not have been repossessed from the applicable lessee;
 - (c) no material event of default shall have occurred which is continuing under the lease of the relevant Non-SLB Aircraft;
 - (d) the fundamental warranties related to the relevant Non-SLB Aircraft shall be true and accurate in all material respects;
 - (e) no change in law shall have occurred rendering it illegal for any party to perform its obligations under the Herondell SPA or for the applicable lessee to pay rent under the relevant lease;
 - (f) the applicable affiliate of AACL shall not have consented to the creation of any sub-lease other than as contemplated by the relevant lease agreement which would materially adversely affect the economic value of the Non-SLB Aircraft;
 - (g) receipt by Herondell of a payoff letter from the existing financiers in respect of each Non-SLB Aircraft;

SALIENT TERMS OF THE HERONDELL SPA (CONT'D)

- (h) with respect to the relevant aircraft asset:
 - (aa) each condition to the effectiveness of the asset transfer documents with respect to such Non-SLB Aircraft shall have been satisfied, waived or deferred;
 - (bb) subject to paragraph (h)(cc) below, each of the conditions to the effectiveness of the lease of such aircraft shall have been satisfied, waived or deferred by the party whose obligations are conditioned on satisfaction of such condition; and
 - (cc) in the event that more than 10 conditions precedent to the lease of such aircraft have been agreed to be deferred as conditions subsequent and have not been satisfied by the applicable lessees for more than 5 days or such longer periods as agreed, then, until all such conditions subsequent have been satisfied, all conditions precedent under leases of the assets which are being transferred while such conditions subsequent remain outstanding shall be considered a condition to the effectiveness of the relevant leases;
 - (i) copies of (aa) the lessor default agreement between Red 1 and GE On Wing Support (Malaysia) Sdn Bhd and each other lessor party thereto pursuant to an accession deed entered into from time to time in connection with a relevant engine and (bb) the tripartite agreement between GE On Wing Support (Malaysia) Sdn Bhd, AAB and Herondell executed by all parties other than Red 1 in each case in the agreed form; and
 - (j) copies of the corporate authorisations of each relevant entity entering into an asset transfer document.
- (ii) In relation to SLB Aircraft (“**SLB Conditions**”):
- (a) Herondell shall have received copies of the relevant transaction documents duly executed by the parties thereto other than Herondell in respect of such SLB Aircraft;
 - (b) Herondell shall have received a corporate certificate of AACL signed by an authorised officer of AACL attaching complete and up to date copies of the constitutional documents of AACL and the resolutions of the board of directors of AACL;
 - (c) Herondell shall have received a customary Malaysian law legal opinion covering enforceability against AACL of the Herondell SPA and any other relevant document to which AACL is a party in respect of such SLB Aircraft;
 - (d) Herondell shall have received a process agent letter from AACL’s process agent confirming acceptance of its appointment with respect to such SLB Aircraft;
 - (e) Herondell shall be satisfied that delivery of such SLB Aircraft will not give rise to any taxes for which it is or may be responsible unless it agrees to be responsible for the same and the Airbus bill of sale for such SLB Aircraft shall be governed by the laws of England and shall be executed by the manufacturer;
 - (f) such SLB Aircraft being at the agreed delivery location at a specified time on the delivery date;
 - (g) satisfaction or waiver of the conditions precedent in favour of the lessor set out in the lease agreement in respect of such SLB Aircraft;
 - (h) Herondell being satisfied that (i) manufacturer has consented to or will promptly consent following delivery to the registrations of the sale of the applicable airframe and engines at the international registry and (ii) if the applicable aircraft is or will be registered in a jurisdiction that has ratified the Cape Town Convention and the relevant lease agreement constitutes a registrable “international interest” under the Cape Town Convention, the lessee of such aircraft has appointed an “administrator” and a “professional user” and such lease agreement will be so registered at the international registry;

SALIENT TERMS OF THE HERONDELL SPA (CONT'D)

- (i) no illegality or force majeure event shall have occurred and be continuing;
 - (j) with respect to each SLB Aircraft, Herondell shall have completed its observation and participation of pre-delivery inspections being satisfied (i) that such SLB Aircraft conforms to the description set forth in the Airbus delivery condition specification and (ii) the proposed arrangements for rectification of any defects with respect to such Aircraft pursuant to the terms of the pre-delivery procedure;
 - (k) no total loss or material damage shall have occurred with respect to such SLB Aircraft on the delivery date;
 - (l) Herondell shall be satisfied that AACL will transfer to Herondell good and marketable title to the SLB Aircraft which AACL received from the manufacturer pursuant to the Airbus bill of sale free and clear of all encumbrances upon payment by Herondell of the SLB Purchase Price;
 - (m) AACL shall be satisfied that manufacturer has received the SLB Purchase Price;
 - (n) AACL shall have received copies of the relevant documents duly executed by the parties thereto other than AACL in respect of such SLB Aircraft;
 - (o) a customary legal opinion from counsel in the jurisdiction of incorporation of the relevant purchaser nominee in form and substance satisfactory covering enforceability against purchaser;
 - (p) AACL shall be satisfied that delivery of such SLB Aircraft will not give rise to any taxes for which it is or may be responsible;
 - (q) satisfaction or waiver of conditions precedent in favour of relevant lessee under the lease in respect of such SLB Aircraft;
 - (r) representations and warranties of Herondell in the Herondell SPA being true and accurate on and as of delivery; and
 - (s) with respect to each SLB Aircraft, AACL being satisfied (i) that such SLB Aircraft conforms to the description set forth in the Airbus delivery condition specification and (ii) the proposed arrangements for rectification of any defects with respect to such SLB Aircraft pursuant to the pre-delivery procedure and the manufacturer commitment letter.
- (iii) In relation to the Red 1 Sale Share, following completion of the Non-SLB Aircraft transfer.

4. Completion

The transfer of rights in relation to the Non-SLB Aircraft will take place under the relevant Non-SLB Aircraft transfer documents following satisfaction of the relevant Herondell Transfer Conditions.

Following completion of the Non-SLB Aircraft transfer, Red 1 Sale Share shall be transferred to Herondell.

The completion of the sale and delivery by the aircraft manufacturer of each SLB Aircraft to Herondell or Herondell's nominee shall occur on the scheduled delivery date for the relevant SLB Aircraft or such later date as AACL and Herondell may mutually agree provided that such later date shall not be a date occurring after the 90 days after the scheduled delivery date for such SLB Aircraft unless otherwise mutually agreed to by AACL and Herondell.

On transfer a member of Herondell's group or Herondell's nominee will enter into a lease agreement in respect of each Herondell Aircraft that is the subject of the transfer pursuant to which the relevant entity will lease the relevant aircraft to be operated by AAB or an Affiliate Airline.

SALIENT TERMS OF THE HERONDELL SPA (CONT'D)

5. Termination

The Herondell SPA will terminate under several circumstances as follows:

- (i) if the Incline Deposit (as defined in Section 2(i), Appendix II(B) of this Circular) or the FLY Deposit (as defined in Section 2(i), Appendix II(D) of this Circular) is not paid when due under either of the Incline B SPA or FLY SPA, AACL may, by written notice to Herondell, terminate its obligations pursuant to the Herondell SPA;
- (ii) if the Herondell Transfer Conditions applicable to the Non-SLB Aircraft are not satisfied by 5.00 pm on the date falling 6 weeks after the date of the Herondell SPA, or such other date as may be mutually agreed by AACL and Herondell (“**Non-SLB Aircraft End Date**”);
- (iii) if the Herondell Transfer Conditions applicable to the transfer of Red 1 Sale Share are not satisfied by 5.00 pm on the date falling 5 business days after (aa) the Non-SLB Aircraft End Date or (bb) 90 days after the schedule delivery date for SLB Aircraft (“**SLB Aircraft End Date**”);
- (iv) for SLB Aircraft, if delivery of SLB Aircraft does not occur on or before the SLB Aircraft End Date, each of AACL and Herondell (provided they are not in default of their obligations), may terminate its obligation to sell or purchase, as the case may be, such SLB Aircraft under the Herondell SPA;
- (v) if transfer of a Non-SLB Aircraft does not take place on the proposed transfer date or the extended transfer date for such Non-SLB Aircraft because either AACL or Herondell fails to comply with any of its obligations under the Herondell SPA or does not do all those things required of it by the steps plan for such Non-SLB Aircraft, the party not in default may by notice to the party in default terminate the Herondell SPA;
- (vi) if it becomes unlawful in any relevant jurisdiction on or prior to the delivery date for an SLB Aircraft for the relevant parties to fulfill their obligations under the Herondell SPA or any relevant documents to the Herondell SPA;
- (vii) if an event of force majeure occurs rendering AACL being unable to (i) procure that Airbus sell a SLB Aircraft to AACL in accordance with the relevant aircraft purchase agreement and purchase agreement assignment and/or (ii) sell a SLB Aircraft to Herondell in accordance with the terms of the Herondell SPA; and
- (viii) if the completion conditions under Part B Schedule 5 of the Herondell SPA is not satisfied or waived by the final date.

If the Herondell SPA is terminated for any of the reasons above, upon termination, AACL shall not have a claim against Herondell, and Herondell shall not have a claim against AACL under the Herondell SPA, except for any claim arising from any breaches by either of the parties of (i) the Herondell SPA on or prior to such termination and (ii) the surviving provisions after such termination.

If the Herondell SPA terminates with respect to an aircraft listed under Schedule 1 of the Herondell SPA, the asset transfer documents that have been entered into in respect of such aircraft(s) will also terminate.

SALIENT TERMS OF THE INCLINE B SPA

Whilst steps have been taken to ensure that salient terms which are necessary for the shareholders' consideration are summarised here, there is no warranty that this summary is complete. Otherwise, the Incline B SPA is available for inspection as indicated in Section 7, Appendix IX of this Circular.

1. Incline B Disposal Consideration

Subject to adjustments, the Incline B Base Purchase Price for the purchase of the entire issued and paid-up share capital in Red 2 ("**Red 2 Sale Share**"), and 3 aircraft and 7 aircraft engines from AACL shall be USD1,248.8 million.

An amount of the Incline B Base Purchase Price is allocated to each Incline B Aircraft Asset in an amount to be agreed (each an "**Incline Allocated Consideration Amount**").

The Incline B Aircraft Assets are divided into 2 categories:

- (i) specific aircraft and aircraft engines being designated as initial transfer assets listed under the initial transfer notice to be issued by AACL to Incline Aladdin at an agreed time before the initial transfer (such initial transfer to occur only after the Incline Transfer Conditions (as defined in paragraph 4 below) are satisfied or waived) ("**Incline Initial Transfer Assets**"); and
- (ii) each aircraft and aircraft engine that is not an Incline Initial Transfer Asset or that is designated as a deferred asset. Deferred asset is identified after initial transfer does not take place on the date of initial transfer in respect of any Incline Initial Transfer Assets because AACL or Incline Aladdin fails to comply with any of its obligations required in connection with the initial transfer. If such default relates to the failure by AACL or Incline Aladdin to complete the transfer of one or more Incline Initial Transfer Assets to AAB Group under the terms of the agreement (each such asset a "**Non-transferred Initial Transfer Asset**"), AACL and Incline Aladdin shall proceed with initial transfer to the extent possible excluding the Non-transferred Initial Transfer Assets and such Non-transferred Initial Transfer Assets shall be designated as a deferred asset (as notified by AACL by way of written notice to Incline Aladdin) ("**Incline Deferred Assets**").

The Incline Allocated Consideration Amount for each Incline Initial Transfer Asset shall be adjusted by:

- (i) subtracting the aggregate of the daily rent amount for such Incline Initial Transfer Asset for the period from and including 1 January 2018 to the date of the initial transfer;
- (ii) adding an amount equal to 4.25% per annum of the Incline Allocated Consideration Amount for the period from 1 January 2018 to the date of the initial transfer;
- (iii) subtracting the maintenance reserves balance referable to such Incline Initial Transfer Asset; and
- (iv) only in respect of an Incline B Aircraft Asset on lease to a third party airline, subtracting the security deposit in the relevant lease referable to such Incline Initial Transfer Asset.

(the aggregate Incline Allocated Consideration Amount for each such Incline Initial Transfer Asset so adjusted, the "**Incline Adjusted Initial Transfer Amount**").

The Incline Allocated Consideration Amount for each Incline Deferred Asset shall be adjusted by:

- (i) subtracting the aggregate of the daily rent amount for such Incline Deferred Asset for the period from and including 1 January 2018 to the date of the deferred transfer ("**Incline Deferred Transfer Adjustment Amount**");
- (ii) adding an amount equal to 4.25% per annum of the Incline Allocated Consideration Amount for the period from 1 January 2018 to the date of the deferred transfer (the "**Incline Deferred Transfer Adjustment Rate Amount**");
- (iii) subtracting the maintenance reserves balance referable to such Incline Deferred Asset, and

SALIENT TERMS OF THE INCLINE B SPA (CONT'D)

- (iv) only in respect of an Incline B Aircraft Asset on lease to a third party airline, subtracting the security deposit in the relevant lease referable to such Incline Deferred Asset.

(the aggregate Incline Allocated Consideration Amount for each such Incline Deferred Asset so adjusted, the “**Incline Adjusted Deferred Transfer Amount**”).

2. Mode of settlement

The manner of payment for the disposal consideration under the Incline B SPA is as follows:

- (i) within 5 business days from the date of the Incline B SPA, Incline Aladdin shall pay a deposit of USD30.0 million (“**Incline Deposit**”);
- (ii) at the time of initial transfer of an Incline Initial Transfer Asset, Incline Aladdin will pay or procure payment of the Incline Adjusted Initial Transfer Amount (less the Incline Deposit);
- (iii) On the date of the initial transfer, Incline Aladdin shall cause an amount equal to the Incline B Base Purchase Price:
- (a) minus the aggregate Incline Adjusted Initial Transfer Amount;
 - (b) minus the Incline Deferred Transfer Adjustment Amount calculated as of the date of such initial transfer for the Incline Deferred Assets;
 - (c) plus the Incline Deferred Transfer Adjustment Rate Amount calculated as of the date of such initial transfer for the Incline Deferred Assets;
 - (d) minus the initial Capital Commitment To the Incline Funds, if the initial Capital Commitment To the Incline Funds will not be contributed on the date of such initial transfer; and
 - (e) minus the applicable financing amount for the Incline Deferred Assets,

(less payment of the Incline Deposit) to be paid to an escrow account (the “**Incline Deferred Escrow Amount**”).

On the date of each deferred transfer, Incline Aladdin shall pay the Incline Adjusted Deferred Transfer Amount (less any Incline Deferred Escrow Amount applied in satisfaction of Incline Aladdin’s obligation to pay or procure payment of the Incline Adjusted Deferred Transfer Amount); and

- (iv) Incline Aladdin may call for capital to be paid and invested into the Incline Funds on one or more dates of deferred transfer pursuant to agreements relating to the Capital Commitment To Incline Funds, which will satisfy the Incline Adjusted Deferred Transfer Amount.

3. Break Fee

If solely due to a wilful breach by AACL of its material obligations in the Incline B SPA, initial transfer wholly fails to occur and the Incline B SPA has been terminated by Incline Aladdin as a result thereof, AACL, after written demand by Incline Aladdin and provided that the conditions for payment of such fee have been satisfied, shall pay to Incline Aladdin a fee of USD30.0 million in cash in full and is the final settlement of any claims or other remedies that Incline Aladdin may have and Incline Aladdin expressly waives any other such remedies that it may have.

SALIENT TERMS OF THE INCLINE B SPA (CONT'D)

4. Conditions Precedent

The transfer of the Incline Initial Transfer Assets and the Incline Deferred Assets shall be conditional on the satisfaction of, including but not limited to, the following conditions precedent (the “**Incline Transfer Conditions**”):

- (i) the passing at a shareholder’s general meeting of AAB of a resolution to approve the Proposed Disposal To Incline B;
- (ii) the number of Incline Initial Transfer Assets in respect of which the Incline Transfer Conditions have been satisfied shall meet the minimum initial asset requirement;
- (iii) no total loss or material damage shall have occurred in respect of the relevant Incline B Aircraft Assets;
- (iv) the relevant Incline B Aircraft Assets shall not have been repossessed from the applicable lessee;
- (v) no material event of default shall have occurred which is continuing under the lease of the relevant Incline B Aircraft Assets;
- (vi) the fundamental warranties related to the relevant Incline B Aircraft Assets shall be true and accurate in all material respects;
- (vii) no change in law shall have occurred rendering it illegal for any party to perform its obligations under the Incline B SPA or for the applicable lessee to pay rent under the relevant lease;
- (viii) the applicable affiliate of AACL shall not have consented to the creation of any sub-lease other than as contemplated by the relevant lease agreement which would materially adversely affect the economic value of the Incline B Aircraft Assets;
- (ix) receipt by Incline Aladdin of a payoff letter from the existing financiers in respect of each Incline B Aircraft Asset;
- (x) in respect of an Incline B Aircraft Asset on lease to a third party airline, a novation agreement in respect of the related lease;
- (xi) with respect to the relevant Incline B Aircraft Asset:
 - (a) each condition to the effectiveness of the asset transfer documents with respect to such Incline B Aircraft Asset shall have been satisfied or waived or deferred;
 - (b) subject to (c) below, each effectiveness lease conditions of the leases with respect to an Incline B Aircraft Asset shall have been satisfied, waived or deferred; and
 - (c) in the event that more than 10 conditions precedent in any such lease agreements other than the effectiveness lease conditions have been agreed by the applicable lessees and lessors to be conditions subsequent and have not been satisfied by the relevant lessees for more than 5 days or such longer periods as have been agreed by such lessees and lessors, then, until all such conditions subsequent have been satisfied, all conditions precedent under leases of assets being transferred while such condition subsequent remain outstanding shall be considered to be effectiveness lease conditions; and
- (xii) copies of (a) the lessor default agreement between Red 2 and GE On Wing Support (Malaysia) Sdn Bhd and each other lessor party thereto pursuant to an accession deed entered into from time to time in connection with a relevant engine and (b) the tripartite agreement between GE On Wing Support (Malaysia) Sdn Bhd, AAB and Red 2 executed by all parties other than Red 2 in each case in the agreed form; and
- (xiii) the necessary corporate approvals and authorisations of each relevant entity entering into an asset transfer document.

SALIENT TERMS OF THE INCLINE B SPA (CONT'D)

The transfer of the Red 2 Sale Share shall be conditional on the transfer in respect of each Incline B Aircraft Asset having occurred.

5. Completion

The transfer of rights in relation to the Incline Initial Transfer Assets will take place under the relevant Incline Initial Transfer Asset transfer documents following satisfaction of the relevant Incline Transfer Conditions.

The transfer of rights in relation to the Incline Deferred Assets will take place under the relevant Incline Deferred Asset transfer documents following satisfaction of the relevant Incline Transfer Conditions.

On initial transfer and each deferred transfer a member of Incline Aladdin's group or Incline Aladdin's nominee will either (i) enter into a lease agreement in respect of each Incline B Aircraft Asset that is the subject of the initial transfer or the deferred transfer pursuant to which the relevant entity will lease the relevant aircraft or aircraft engines to be operated by AAB, an Affiliate Airline, or a third party airline (either directly or indirectly) or (ii) enter into a novation agreement pursuant to which the lease agreement for the Incline B Aircraft Assets will be novated, amended and/or restated with a member of Incline Aladdin's group or Incline Aladdin's nominee in respect of the relevant assets becoming the new lessor in respect of the Incline B Aircraft Assets.

Following completion of the Incline B Aircraft Assets transfer, Red 2 Sale Share shall be transferred to Incline Aladdin.

6. Termination

The Incline B SPA will terminate under several circumstances as follows:

- (i) if the Incline Deposit is not paid, at the option of AACL;
- (ii) if the Incline Transfer Conditions to initial transfer are not satisfied by 5.00 p.m. on the date falling 6 months after the date of the Incline B SPA, or such other date as may be mutually agreed by AACL and Incline Aladdin;
- (iii) if the approval of AAB's shareholders is not received and if AACL decides to exercise its right to terminate the Incline B SPA;
- (iv) if the initial transfer does not take place following the satisfaction of all Incline Transfer Conditions thereto and if AACL is not in default in relation to its transfer obligations, at the option of AACL; or
- (v) if the initial transfer does not take place following the satisfaction of all Incline Transfer Conditions thereto and if Incline Aladdin is not in default in relation to its transfer obligations, at the option of Incline Aladdin following a transfer deferral period of 5 business days.

The Incline B SPA will terminate in respect of an Incline Deferred Asset:

- (i) if the Incline Transfer Conditions to deferred transfer are not satisfied by 5.00 p.m. on the date falling 3 months after the initial date of transfer, or such other date as may be mutually agreed by AACL and Incline Aladdin;
- (ii) if the deferred transfer does not take place following the satisfaction of all Incline Transfer Conditions thereto and if AACL is not in default in relation to its transfer obligations, at the option of AACL;
- (iii) if the deferred transfer does not take place following the satisfaction of all Incline Transfer Conditions thereto and if AACL is in default in relation to its transfer obligations which are in AACL's sole control, at the option of Incline Aladdin; or
- (iv) if the deferred transfer does not take place following the satisfaction of all Incline Transfer Conditions thereto and if Incline Aladdin is not in default in relation to its transfer obligations, at the option of Incline Aladdin following a transfer deferral period of 5 business days.

SALIENT TERMS OF THE INCLINE B SPA (CONT'D)

If the Incline B SPA terminates due to failure to comply with the Incline Transfer Conditions to initial transfer, each of the party's further rights and obligations to the Incline B SPA will cease immediately on termination save for the surviving provisions of the Incline B SPA.

If the Incline B SPA terminates in respect of an Incline Deferred Asset, each of the party's further rights and obligations to the Incline Deferred Asset will cease immediately on termination save for the surviving provisions of the Incline B SPA.

Upon termination of the Incline B SPA, AACL shall not have a claim against Incline Aladdin, and Incline Aladdin shall not have a claim against AACL under the Incline B SPA, except for any claim arising from any breaches by either of the parties of (i) the Incline B SPA on or prior to such termination and (ii) the surviving provisions after such termination.

If the Incline B SPA terminates with respect to an Incline B Aircraft Asset pursuant to the terms of the Incline B SPA, the asset transfer documents that have been entered into in respect of such Incline B Aircraft Asset (if any) will also terminate.

To the extent not previously applied, the Incline Deposit under the Incline B SPA shall be released from the escrow account (i) to Incline Aladdin if the transfer of Incline Initial Transfer Asset fails to occur for any reason other than due to a default by Incline Aladdin of its obligations and (ii) to AACL if AACL terminates the Incline B SPA due to a default by Incline Aladdin of its obligations. The Incline Deposit will otherwise be released from the escrow account to AACL.

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PROPOSED SALIENT TERMS OF THE INCLINE FUNDS INVESTMENT AGREEMENTS

We have not entered into the Incline Funds Investment Agreements. The summary of the proposed salient terms of the Incline Funds Investment Agreements as set out in this Appendix II(C) is based on the terms and conditions that are proposed to be agreed by the parties. Whilst steps have been taken to ensure that proposed salient terms which are necessary for the shareholders' consideration are summarised here, there is no warranty that this summary is complete.

For the purpose of Appendix II(C) and Appendix III of this Circular, the following definitions are applicable:

"Affiliates" has the meaning set forth in Rule 405 promulgated under the U.S. Securities Act of 1933 as amended; provided that "Affiliate" in respect of the Partnership, the General Partner, the Manager, the Principals or any other Incline Entity or any of their respective Affiliates shall be deemed not to include (i) any portfolio company of any investment fund sponsored directly or indirectly by Onex Corporation or any of its affiliates or (ii) Onex Corporation or any person that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, Onex Corporation, including, without limitation, any Onex LP.

"Board of Advisors" means a board of individuals who are appointed for the Partnership by the General Partner and with whom the General Partner is authorised to consult with and/or seek the approval of regarding potential conflicts of interest or other matters determined by the General Partner.

"Designated Principals" means certain designated principals of BBAM or its Affiliates.

"Final Closing Date" means June 30, 2017.

"General Partner" means Incline A GP (Cayman) in relation to Incline A and Incline B GP (Cayman) in relation to Incline B and Incline B Parallel.

"Incline Entities" means:

- (i) when used in the Incline A Subscription Agreement, collectively, the Partnership, any of Incline A Aviation LLC and any limited partnership, limited liability company, trusts or other entities established by the General Partner, the Manager or their respective Affiliates that invest all or a substantial portion of their investable assets directly or indirectly in the Partnership, all entities designated a parallel vehicle by the General Partner and Incline B, all "Parallel Vehicles" and all "Feeder Funds" of Incline B; and
- (ii) when used in the Incline B Parallel Subscription Agreement, collectively, the Partnership, the Master Fund, Incline B Aviation LLC, Incline B Aviation (Cayman) Limited Partnership and any "additional fund" relating to Incline B, all "parallel vehicles" relating to Incline B and all Incline A Entities.

"Incline A Entities" means Incline A Holdings GP (Cayman) Co., Ltd, Incline A Aviation Holdings LP, all entities designated a parallel vehicle by Incline A GP and any limited partnership, limited liability company, trusts or other entities established by Incline A GP (Cayman).

"Incline B Entities" means Incline B, all parallel vehicles and the Incline B Aviation LLC and Incline B Aviation (Cayman) Limited Partnership.

"Incline A Investor" means AACL or its nominee which has been chosen to invest in Incline A LLC and become a party to the Incline A Subscription Agreement.

"Incline B Investor" means AACL or its nominee which has been chosen to invest in Incline B Parallel and become a party to the Incline B Parallel Subscription Agreement.

"Limited Partners" means the persons listed on the register of partners in their capacity as limited partners of the Partnership, so long as each such person continues to be a limited partner of the Partnership

PROPOSED SALIENT TERMS OF THE INCLINE FUNDS INVESTMENT AGREEMENTS (CONT'D)

“**Manager**” means BBAM US LP, a Delaware limited partnership in relation to Incline A and BBAM Aviation Services Limited, a limited company incorporated under the laws of Ireland in relation to Incline B and Incline B Parallel.

“**Managing Member**” means Incline A GP (Cayman) in relation to Incline A LLC.

“**Onex LP**” means any Onex Corporation entity that makes a commitment.

“**Partnership**” when used in the Incline A Subscription Agreement means Incline A and when used in the Incline B Parallel Subscription Agreement means Incline B Parallel.

“**Principal LP**” means any Principal who makes a commitment or any Affiliate of a Principal or other entity that makes a commitment in lieu of such Principal.

“**Principals**” means (i) the Designated Principals, (ii) any other principals of BBAM or its Affiliates, as applicable, from time to time who are designated as such by the Manager and whose designation is approved by a majority of the members of the Board of Advisors or a majority in interest of the Limited Partners and (iii) any other principals of BBAM or its Affiliates, as applicable, from time to time who are designated by the Manager as replacements of any of the individuals referred to in clauses (i) and (ii) above and whose designation is approved by a majority of the members of the Board of Advisors or a majority in interest of the Limited Partners.

“**Special Limited Partner**” means Incline-BBAM A Investment Limited in relation to Incline A and Incline-BBAM B Investment Limited in relation to Incline B and Incline B Parallel.

1. Incline A Subscription Agreement

(i) Subscription

The parties to the Incline A Subscription Agreement will acknowledge and agree that (a) the Incline A Investor’s capital commitment is USD50.0 million and (b) capital contributions made by the Incline A Investor to any Incline B Entity shall reduce the Incline A Investor’s unfunded commitment to Incline A LLC and to the relevant Incline B Entity.

(ii) Most Favoured Nation

Incline A GP (Cayman) as managing member of Incline A LLC will undertake to provide to the Incline A Investor copies of or a summary (in lieu of providing a copy) of any side letters entered into with a limited partner or member of any Incline Entity, in each case having a commitment that is equal to or less than the Incline A Investor’s commitment (a “**Favorable Terms Side Letter**”), other than any such side letters entered into with a Principal LP or Onex LP. Incline A Investor will become entitled to receive the same rights as set forth in any Favourable Terms Side Letter and such rights shall apply to Incline A Investor with retroactive effect from the date on which side Favourable Terms Side Letter became effective provided that the Incline A Investor must identify such desired rights and notify Incline A GP (Cayman) as managing member in writing to that effect within 30 days of the Incline A Subscription Agreement or its receipt of such Favourable Terms Side Letter. The following rights are excluded from the right of Incline A Investor to have rights under any Favourable Terms Side Letter apply to it:

- (a) admission of a substitute member;
- (b) appointment of a member or observer to the Board of Advisors;
- (c) provision or disclosure or procedures relating to provision or disclosure to a limited partner or member of any Incline Entity or any agent thereof of confidential information or the use of such information;

PROPOSED SALIENT TERMS OF THE INCLINE FUNDS INVESTMENT AGREEMENTS (CONT'D)

- (d) regulatory or tax status of any limited partner or member of any Incline Entity or another legal, regulatory, internal policy or tax issue applicable to such person; and
- (e) most favored nation or similar rights to the extent exercise of such rights would entitle the Incline A Investor to any rights that are otherwise specifically excluded from this paragraph.

(iii) Non-compete

The parties to the Incline A Subscription Agreement will agree that during the period commencing on the date of the Incline A Subscription Agreement and ending on the Lock-Up Period End Date, the Incline A Investor, AAB and its affiliates are required not to:

- (a) engage in the business of leasing of commercial aircraft or aircraft engines to third parties which are not Affiliate Airlines, not including any leases entered into before the date of execution of the Incline B SPA, any wet leases or charters of aircraft, or any leasing which is for tax or other regulatory purposes (a “**Competing Business**”); or
- (b) make an investment that represents more than 5% of the outstanding shares of any class of a company (including owning more than 5% of the outstanding shares of any class of a company with shares that are listed on the NYSE, Nasdaq or other securities exchange) engaged in such Competing Business.

2. Incline B Parallel Subscription Agreement**(i) Subscription**

The parties to the Incline B Parallel Subscription Agreement will acknowledge and agree that (a) the Incline B Investor’s commitment is USD50.0 million and (b) capital contributions made by the Incline B Investor to any Incline A Entity shall reduce the Incline B Investor’s unfunded commitment to Incline B Parallel and to the relevant Incline B Entity.

(ii) Most Favoured Nation

Incline B GP (Cayman) as general partner of Incline B Parallel will undertake to provide to the Incline B Investor copies of or a summary (in lieu of providing a copy) of any side letters entered into with a limited partner or member of any Incline Entity, in each case having a commitment that is equal to or less than the Incline B Investor’s commitment (a “**Favorable Terms Side Letter**”), other than any such side letters entered into with a Principal LP or Onex LP. Incline B Investor will become entitled to receive the same rights as set forth in any Favourable Terms Side Letter and such rights shall apply to Incline B Investor with retroactive effect from the date on which side Favourable Terms Side Letter became effective provided that Incline B Investor must identify such desired rights and notify Incline B GP (Cayman) as general partner in writing to that effect within 30 days of the Incline B Parallel Subscription Agreement or its receipt of such Favourable Terms Side Letter. The following rights are excluded from the right of Incline B Investor to have rights under any Favourable Terms Side Letter apply to it:

- (a) transfer of interests in Incline B Parallel to specific parties;
- (b) admission of a substitute member;
- (c) appointment of a member or observer to the Board of Advisors;
- (d) provision or disclosure or procedures relating to provision or disclosure to a limited partner or member of any Incline Entity or any agent thereof of confidential information or the use of such information;
- (e) regulatory or tax status of any limited partner or member of any Incline Entity or another legal, regulatory, internal policy or tax issue applicable to such person; and

PROPOSED SALIENT TERMS OF THE INCLINE FUNDS INVESTMENT AGREEMENTS (CONT'D)

- (f) most favored nation or similar rights to the extent exercise of such rights would entitle the Incline B Investor to any rights that are otherwise specifically excluded from this paragraph.

(iii) Non-Compete

The parties to the Incline B Parallel Subscription Agreement will agree that during the period commencing on the date of the Incline B Parallel Subscription Agreement and ending on the Lock-Up Period End Date, Incline B Investor, AAB and its affiliates are required not to:

- (a) engage in the Competing Business; or
- (b) make an investment that represents more than 5% of the outstanding shares of any class of a company (including owning more than 5% of the outstanding shares of any class of a company with shares that are listed on the NYSE, Nasdaq or other securities exchange) engaged in such Competing Business.

The Incline Funds will terminate on the tenth anniversary of the Final Closing Date unless terminated earlier by the General Partner or the Limited Partners pursuant to the terms of the Incline Funds' governing agreements. Notwithstanding the foregoing, the term may be extended for one additional one-year period at the sole discretion of the General Partner, and for a second and third one-year period with the approval of the Limited Partners.

The Incline Funds' governing agreements provide that, upon commencement of the winding-up of an Incline Fund, its assets shall be liquidated in an orderly manner. The relevant General Partner (or, in its absence, the party selected by the limited partners), will be the liquidator to wind-up the affairs of an Incline Fund pursuant to the terms of its governing agreement. Upon the commencement of the winding-up of an Incline Fund (whether or not an early termination), the relevant General Partner will make a final allocation of all kinds of income, loss and expense in accordance with the relevant terms of the Incline Fund's governing agreement and the Incline Fund's liabilities and obligations to its creditors shall be paid or adequately provided for prior to any distributions to the partners. After payment or provision for payment of all debts, the Incline Fund's remaining assets, if any, will be distributed among the partners as provided in its governing agreement. Following the winding-up of the affairs and assets of an Incline Fund in accordance with its governing agreement, the relevant General Partner shall file a final notice of dissolution with the Registrar of Exempted Limited Partnerships in the Cayman Islands in accordance with the Exempted Limited Partnership Law (2018 revision) of the Cayman Islands.

The investment in the Incline Funds is not refundable or redeemable.

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SALIENT TERMS OF THE FLY SPA

Whilst steps have been taken to ensure that salient terms which are necessary for the shareholders' consideration are summarised here, there is no warranty that this summary is complete. Otherwise, the FLY SPA is available for inspection as indicated in Section 7, Appendix IX of this Circular.

1. Fly Disposal Consideration

Subject to adjustments, the Fly Base Purchase Price for the purchase of the entire issued and paid-up share capital in Red 3 ("**Red 3 Sale Shares**"), and 33 aircraft and 7 aircraft engines from AACL shall be USD1,069.6 million. The Red 3 Sale Shares and Fly Aircraft Assets are collectively referred to as the "**Fly Assets**").

An amount of the Fly Base Purchase Price is allocated to each Fly Aircraft Asset in an amount to be agreed (each an "**Fly Allocated Consideration Amount**").

The Fly Aircraft Assets are divided into 2 categories:

- (i) specific aircraft and aircraft engines being designated as initial transfer assets listed under the initial transfer notice to be issued by AACL to Fly Aladdin at an agreed time before the initial transfer (such initial transfer to occur only after the Fly Transfer Conditions) as defined in paragraph (4) below) are satisfied or waived ("**Fly Initial Transfer Assets**"); and
- (ii) each aircraft and aircraft engine that is not a Fly Initial Transfer Asset or that is designated as a deferred asset. Deferred asset is identified after initial transfer does not take place on the date of initial transfer in respect of any Fly Initial Transfer Assets because AACL or Fly Aladdin fails to comply with any of its obligations required in connection with the initial transfer. If such default relates to the failure by AACL or Fly Aladdin to complete the transfer of one or more Fly Initial Transfer Assets to AAB Group under the terms of the agreement (each such asset a "**Non-transferred Initial Transfer Asset**"), AACL and Fly Aladdin shall proceed with initial transfer to the extent possible excluding the Non-transferred Initial Transfer Assets and such Non-transferred Initial Assets shall be designated as a deferred asset (as notified by AACL by way of written notice to Fly Aladdin) (the "**Fly Deferred Assets**").

The Fly Allocated Consideration Amount for each Fly Initial Transfer Asset shall be adjusted by:

- (i) subtracting the aggregate of the daily rent amount for such Fly Initial Transfer Asset for the period from and including 1 January 2018 to the date of the initial transfer;
- (ii) adding an amount equal to 4.25% per annum of the Fly Allocated Consideration Amount for the period from 1 January 2018 to the date of the initial transfer;
- (iii) subtracting the maintenance reserves balance referable to such Fly Initial Transfer Asset; and
- (iv) only in respect of a Fly Aircraft Asset on lease to a third party airline, subtracting the security deposit in the relevant lease referable to such Fly Initial Transfer Asset,

(the aggregate Fly Allocated Consideration Amount for each such Fly Initial Transfer Asset so adjusted, the "**Fly Adjusted Initial Transfer Amount**").

The Fly Allocated Consideration Amount for each Fly Deferred Asset shall be adjusted by:

- (i) subtracting the daily rent amount for such Fly Deferred Asset for the period from and including 1 January 2018 to the date of the deferred transfer ("**Fly Deferred Transfer Adjustment Amount**");
- (ii) adding an amount equal to 4.25% per annum of the Fly Allocated Consideration Amount for the period from 1 January 2018 to the date of the deferred transfer (the "**Fly Deferred Transfer Adjustment Rate Amount**");

SALIENT TERMS OF THE FLY SPA (CONT'D)

- (iii) subtracting the maintenance reserves balance referable to such Fly Deferred Asset; and
- (iv) only in respect of a Fly Aircraft Asset on lease to a third party airline, subtracting the security deposit in the relevant lease referable to such Fly Deferred Asset,

(the aggregate Fly Allocated Consideration Amount for each such Fly Deferred Asset so adjusted, the “**Fly Adjusted Deferred Transfer Amount**”).

2. Mode of settlement

The manner of payment for the disposal consideration under the FLY SPA is as follows:

- (i) within 5 business days from the date of the FLY SPA, Fly Aladdin shall pay a deposit of USD30.0 million (“**Fly Deposit**”);
- (ii) at the time of initial transfer of a Fly Initial Transfer Asset, Fly Aladdin will pay or procure payment of the Fly Adjusted Initial Transfer Amount (less the Fly Deposit);
- (iii) on the date of the initial transfer, Fly Aladdin shall cause an amount equal to the Fly Base Purchase Price:
 - (a) minus the aggregate Fly Adjusted Initial Transfer Amount;
 - (b) minus the Fly Deferred Transfer Adjustment Amount calculated as of the date such initial transfer for the Fly Deferred Assets;
 - (c) plus the Fly Deferred Transfer Adjustment Rate Amount calculated as of the date of such initial transfer for the Fly Deferred Assets;
 - (d) minus the aggregate value of the Fly Equity (being USD50.0 million) if the Fly Equity will not be issued on the date of such initial transfer; and
 - (e) minus the applicable financing amount for the Fly Deferred Assets,
 (less payment of the Fly Deposit) to be paid to an escrow account (the “**Fly Deferred Escrow Amount**”);
- (iv) on the date of each deferred transfer, Fly Aladdin shall pay the Fly Adjusted Deferred Transfer Amount (less any Fly Deferred Escrow Amount applied in satisfaction of Fly Aladdin’s obligation to pay or procure payment of the Fly Adjusted Deferred Transfer Amount); and
- (v) Fly Aladdin may issue and sell the FLY Equity to AACL on the initial transfer date or any deferred transfer date for the consideration stated in the FLY Equity Subscription Agreement. Payments required to be made by AACL under the FLY Equity Subscription Agreement in consideration for the FLY Equity shall be made on a net basis and offset against the payments required to be made by Fly Aladdin under the FLY SPA in consideration for one or more Fly Assets that are transferred on the initial transfer date or a deferred transfer date.

Provided the following conditions have been satisfied:

- (a) an aggregate total of USD350.0 million of the Fly Adjusted Initial Transfer Amount and Fly Deferred Transfer Amount has been finally paid in cash by Fly Aladdin to or at the direction of AACL or (in the case of the Fly Adjusted Deferred Transfer amount) released from escrow to AACL;

SALIENT TERMS OF THE FLY SPA (CONT'D)

- (b) delivery or provision to AACL of a certified copy of the resolution, in agreed form, adopted by the board of directors of FLY: (i) authorising the issuance and sale of the Fly Equity to AACL and (ii) determining and resolving that neither AACL nor AAB nor any of their transferees permitted under the Fly Subscription Agreement will constitute a “competitor” as defined in the bye-laws of FLY;
- (c) delivery of a duly executed copy of the registration of rights agreement executed by FLY;
- (d) delivery of a duly executed copy of the Fly Equity Subscription Agreement executed by FLY; and
- (e) any other conditions set out in the Fly Equity Subscription Agreement,

Fly Aladdin may issue and sell the Fly Equity to AACL on the date of transfer of the Fly Initial Transfer Asset or Fly Deferred Transfer Asset for the consideration stated in the Fly Equity Subscription Agreement. Both AACL and Fly Aladdin acknowledge that the payments required to be made by AACL under the Fly Equity Subscription Agreement in consideration for the Fly Equity shall be made on a net basis and offset against the payments required to be made by Fly Aladdin under the FLY SPA in consideration for one or more Fly Aircraft Assets with no cash payment being required by either party.

3. Break Fee

If solely due to a wilful breach by AACL of its material obligations in the FLY SPA, initial transfer wholly fails to occur and the FLY SPA has been terminated by Fly Aladdin as a result thereof, AACL, after written demand by Fly Aladdin and provided that the conditions for payment of such fee have been satisfied, shall pay to Fly Aladdin a fee of USD30.0 million in cash in full and is the final settlement of any claims or other remedies that Fly Aladdin may have and Fly Aladdin expressly waives any other such remedies that it may have.

Fly Aladdin agrees that it will procure that Fly Aladdin and its affiliates will not make a claim after payment of the Fly Break Fee. Fly Aladdin will indemnify, and keep indemnified, and hold harmless AACL and AAB or AAGB (as the case may be) for themselves and a trustee and agent for each of their affiliates from and against any and all liabilities, losses, costs, charges, damages, expenses, fines, penalties, interest, taxes, awards, claims, actions, proceedings, and any judgments, decrees, directions or orders of any court or tribunal whatsoever which are suffered or incurred arising out of or in connection with any loss caused by claims made by any person following payment of the Fly Break Fee.

4. Conditions Precedent

The transfer of the Fly Initial Transfer Assets and the Fly Deferred Assets shall be conditional on the satisfaction of, including but not limited to, the following conditions precedent (the “**Fly Transfer Conditions**”):

- (i) the passing at a shareholder’s general meeting of AAB of a resolution to approve the Proposed Disposal To FLY;
- (ii) the number of Fly Initial Transfer Assets in respect of which the Fly Transfer Conditions have been satisfied shall meet the minimum initial asset requirement;
- (iii) no total loss or material damage shall have occurred in respect of the relevant Fly Aircraft Assets;
- (iv) the relevant Fly Aircraft Assets shall not have been repossessed from the applicable lease;
- (v) no material event of default shall have occurred which is continuing under the lease of the relevant Fly Aircraft Assets;

SALIENT TERMS OF THE FLY SPA (CONT'D)

- (vi) the fundamental warranties related to the relevant Fly Aircraft Assets shall be true and accurate in all material respects;
- (vii) no change in law shall have occurred rendering it illegal for any party to perform its obligations under the FLY SPA or for the applicable lessee to pay rent under the relevant lease;
- (viii) the applicable affiliate of AACL shall not have consented to the creation of any sub-lease other than as contemplated by the relevant lease agreement which would materially adversely affect the economic value of the Fly Aircraft Assets;
- (ix) receipt by Fly Aladdin of a payoff letter from the existing financiers in respect of each Fly Aircraft Asset;
- (x) in respect of a Fly Aircraft Asset on lease to a third party airline, a novation agreement in respect of the related lease;
- (xi) with respect to the relevant Fly Aircraft Asset:
 - (a) each condition to the effectiveness of the asset transfer documents with respect to such Fly Aircraft Asset shall have been satisfied or waived or deferred by;
 - (b) subject to (c) below, each effectiveness lease conditions of the leases with respect to a Fly Aircraft Asset shall have been satisfied, waived or deferred; and
 - (c) in the event that more than 10 conditions precedent in any such lease agreements other than the effectiveness lease conditions have been agreed by the applicable lessees and lessors to be conditions subsequent and have not been satisfied by the relevant lessees for more than 5 days or such longer periods as have been agreed by such lessees and lessors, then, until all such conditions subsequent have been satisfied, all conditions precedent under leases of assets being transferred while such condition subsequent remain outstanding shall be considered to be effectiveness lease conditions;
- (xii) copies of (a) the lessor default agreement between Red 3 and GE On Wing Support (Malaysia) Sdn Bhd and each other lessor party thereto pursuant to an accession deed entered into from time to time in connection with a relevant engine and (b) the tripartite agreement between GE On Wing Support (Malaysia) Sdn Bhd, AAB and Red 3 executed by all parties other than Red 3 in each case in the agreed form; and
- (xiii) the necessary corporate approvals and authorisations of each relevant entity entering into an asset transfer document.

The transfer of the Red 3 Sale Shares shall be conditional on the transfer in respect of each Fly Aircraft Asset having occurred.

5. Completion

The transfer of rights in relation to the Fly Initial Transfer Assets will take place under the relevant Fly Initial Transfer Asset transfer documents following satisfaction of the relevant Fly Transfer Conditions.

The transfer of rights in relation to the Fly Deferred Assets will take place under the relevant Fly Deferred Asset transfer documents following satisfaction of the relevant Fly Transfer Conditions.

On initial transfer and each deferred transfer a member of Fly Aladdin's group or Fly Aladdin's nominee will either:

- (i) enter into a lease agreement in respect of each Fly Aircraft Asset that is the subject of the initial transfer or the deferred transfer pursuant to which the relevant entity will lease the relevant aircraft or aircraft engines to be operated by AAB, an Affiliate Airline, or a third party airline (either directly or indirectly); or

SALIENT TERMS OF THE FLY SPA (CONT'D)

- (ii) enter into a novation agreement pursuant to which the lease agreement for the Fly Aircraft Assets will be novated, amended and/or restated with a member of Fly Aladdin's group or Fly Aladdin's nominee in respect of the relevant assets becoming the new lessor in respect of the Fly Aircraft Assets.

Following completion of the Fly Aircraft Assets, Red 3 Sale Shares shall be transferred to Fly Aladdin.

6. Termination

The FLY SPA will terminate under several circumstances as follows:

- (i) if the FLY Deposit is not paid, at the option of AACL;
- (ii) if the FLY Transfer Conditions to initial transfer are not satisfied by 5.00 p.m. on the date falling 6 months after the date of the FLY SPA, or such other date as may be mutually agreed by AACL and Fly Aladdin;
- (iii) if the approval of AAB's shareholders is not received and if AACL decides to exercise its right to terminate the FLY SPA;
- (iv) if the initial transfer does not take place following the satisfaction of all Fly Transfer Conditions thereto and if AACL is not in default in relation to its transfer obligations, at the option of AACL; or
- (v) if the initial transfer does not take place following the satisfaction of all Fly Transfer Conditions thereto and if Fly Aladdin is not in default in relation to its transfer obligations, at the option of Fly Aladdin following a transfer deferral period of 5 business days.

The FLY SPA will terminate in respect of a Fly Deferred Asset:

- (i) if the Fly Transfer Conditions to deferred transfer are not satisfied by 5.00 p.m. on the date falling 3 months after the initial date of transfer, or such other date as may be mutually agreed by AACL and Fly Aladdin;
- (ii) if the deferred transfer does not take place following the satisfaction of all Fly Transfer Conditions thereto and if AACL is not in default in relation to its transfer obligations, at the option of AACL;
- (iii) if the deferred transfer does not take place following the satisfaction of all Fly Transfer Conditions thereto and if AACL is in default in relation to its transfer obligations which are in AACL's sole control, at the option of Fly Aladdin; or
- (iv) if the deferred transfer does not take place following the satisfaction of all Fly Transfer Conditions thereto and if Fly Aladdin is not in default in relation to its transfer obligations, at the option of Fly Aladdin following a transfer deferral period of 5 business days.

If transfer of a Fly Initial Transfer Asset does not take place on any date to which such transfer is postponed because AACL or Fly Aladdin fails to comply with its transfer obligations, the other party not in default may by notice to the party in default:

- (i) proceed with the transfer of the Fly Initial Transfer Asset to the extent reasonably practicable;
- (ii) if the party not in default is AACL it may designate other Fly Aircraft Assets as Fly Initial Transfer Assets and proceed with transfer to the extent reasonably practicable; or
- (iii) terminate the FLY SPA.

SALIENT TERMS OF THE FLY SPA (CONT'D)

If transfer of a Fly Deferred Transfer Asset does not take place on any date to which such transfer is postponed because AACL or Fly Aladdin fails to comply with its transfer obligations, the other party not in default may by notice to the party in default:

- (i) proceed with the transfer of the Fly Initial Transfer Asset to the extent reasonably practicable; or
- (ii) terminate the FLY SPA with respect to such Fly Deferred Transfer Asset.

If the FLY SPA terminates due to failure to comply with the FLY Transfer Conditions to initial transfer, each of the party's further rights and obligations to the FLY SPA will cease immediately on termination save for the surviving provisions of the FLY SPA.

If the FLY SPA terminates in respect of a Fly Deferred Asset, each of the party's further rights and obligations to the Fly Deferred Asset will cease immediately on termination save for the surviving provisions of the FLY SPA.

Upon termination of the FLY SPA, AACL shall not have a claim against Fly Aladdin, and Fly Aladdin shall not have a claim against AACL under the FLY SPA, except for any claim arising from any breaches by either of the parties of (i) the FLY SPA on or prior to such termination and (ii) the surviving provisions after such termination.

If the FLY SPA terminates with respect to a Fly Aircraft Asset pursuant to the terms of the FLY SPA, the asset transfer documents that have been entered into in respect of such FLY Aircraft Asset (if any) will also terminate.

To the extent not previously applied, the Fly Deposit under the FLY SPA shall be released from the escrow account (i) to the Fly Aladdin if the transfer of Fly Initial Transfer Asset fails to occur for any reason other than due to a default by Fly Aladdin of its obligations and (ii) to AACL if AACL terminates the Fly SPA due to a default by Fly Aladdin of its obligations. The Fly Deposit will otherwise be released from the escrow account to AACL.

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PROPOSED SALIENT TERMS OF THE FLY EQUITY SUBSCRIPTION AGREEMENT

We have not entered into the FLY Equity Subscription Agreement. The summary of the proposed salient terms of the FLY Equity Subscription Agreement as set out in this Appendix II(E) is based on the terms and conditions that are proposed to be agreed by the parties. Whilst steps have been taken to ensure that proposed salient terms which are necessary for the shareholders' consideration are summarised here, there is no warranty that this summary is complete.

1. Subscription of American Depositary Shares

AACL will subscribe for FLY Equity at an issue price of USD15.0 per FLY Equity amounting to a total of USD50.0 million.

2. Settlement of subscription money

The subscription of FLY Equity shall be made on a net basis and offset against the Fly Disposal Consideration required to be paid to AACL under the FLY SPA.

3. Representations and Warranties

3.1 Representations and warranties of FLY

The representations and warranties provided by FLY to AACL and AAB in the FLY Equity Subscription Agreement include (but are not limited to) the following:

- (i) each of FLY and its subsidiaries is duly organised, validly existing and in good standing under the laws of its respective jurisdiction of organisation. Each of FLY and its subsidiaries is qualified to do business in each jurisdiction where its business requires such qualification, except where failure to be qualified would not have a any change, effect or occurrence that (a) has or results in a material adverse effect on the business, assets, liabilities, condition (financial or otherwise) or results of operations of FLY and its subsidiaries, taken as a whole or (b) materially impairs or delays the ability of FLY to promptly perform its obligations under the FLY Equity Subscription Agreement, provided that events affecting the market or economy generally as more particularly described in the FLY Equity Subscription Agreement shall not be considered events having a Material Adverse Effect (“**Material Adverse Effect**”);
- (ii) power and authority of FLY to enter into the FLY Equity Subscription Agreement ;
- (iii) authorisation by FLY and enforceability of the FLY Equity Subscription Agreement against FLY;
- (iv) the American Depositary Shares of FLY Equity to be issued by FLY to AACL pursuant to the FLY Equity Subscription Agreement, when issued, will be duly and validly authorized and issued, fully paid and nonassessable, not issued in violation of any preemptive or other similar rights, and free and clear of all encumbrances (other than restrictions under applicable state and federal securities laws and the FLY Equity Subscription Agreement);
- (v) a representation as to the authorised share capital of FLY, that all such shares have been duly authorised, validly issued, fully paid and nonassessable and that, other than pursuant to FLY’s 2010 Omnibus Incentive Plan, there are no outstanding rights for the purchase or acquisition of securities of FLY or any of its subsidiaries;
- (vi) FLY is not an investment company under the Investment Company Act;
- (vii) no default or violation of any organisational documents, indebtedness or material contracts of FLY;

PROPOSED SALIENT TERMS OF THE FLY EQUITY SUBSCRIPTION AGREEMENT (CONT'D)

- (viii) the financial statements of FLY and its subsidiaries fairly present in all material respects the financial condition, results of operations, cash flows and shareholders' equity of FLY and its subsidiaries for the periods indicated, and there are no liabilities other than those disclosed in the financial statements, except those that would not have a Material Adverse Effect;
- (ix) since 30 September 2017, there has been no event that has had, or would reasonably be expected to have, a Material Adverse Effect;
- (x) no broker has been retained by FLY or any of its subsidiaries who would be entitled to a commission in connection with the contemplated transactions;
- (xi) since 31 December 2016, FLY has timely filed all documents required to be filed by it with the SEC. All reports filed with the SEC have complied as to form in all material respects with applicable SEC rules and do not contain any untrue statements of material fact or omit a material fact required to make such statements not misleading. FLY has implemented and maintains disclosure controls and procedures and has disclosed any significant deficiencies and material weaknesses in its internal controls over financial reporting, and any fraud that involves employees who have a significant role in its internal controls over financial reporting; and
- (xii) listing of the FLY Equity on the NYSE.

3.2 Representations and warranties of AACL and AAB

- (i) each of AACL and AAB is an accredited investor and has made certain representations related thereto as are necessary for the sale of FLY Equity to qualify as a private placement under SEC rules;
- (ii) each of AACL and AAB has been duly organised and is validly existing under the laws of its jurisdiction of organisation;
- (iii) power and authority of each of AACL and AAB to enter into the FLY Equity Subscription Agreement ;
- (iv) authorisation by AACL and AAB and enforceability of the FLY Equity Subscription Agreement against AACL and AAB;
- (v) no default or violation of any organisational documents, indebtedness or material contracts of AACL or AAB;
- (vi) no ownership of FLY common shares by AACL or AAB; and
- (vii) except for BNP PARIBAS, Credit Suisse and RHB Bank Berhad, no broker has been retained by AACL or AAB who would be entitled to a commission in connection with the contemplated transactions.

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PROPOSED SALIENT TERMS OF THE FLY EQUITY SUBSCRIPTION AGREEMENT (CONT'D)

4. Covenants

The parties agreed to the following covenants:

- (i) FLY shall provide AACL with the information it needs to comply with tax obligations;
- (ii) the FLY Equity held by AACL will be subject to a lock-up beginning of the date of the first issuance of FLY Equity to AACL and ending on the Lock-Up Period End Date. During the Lock-Up Period, AACL may not transfer its FLY Equity except:
 - (a) to a controlled affiliate;
 - (b) pursuant to a tender offer, merger, consolidation or other similar transaction (provided that, in the case of such a transaction that is not approved by the Board of FLY, AACL may only transfer its FLY Equity after more than 50% of the outstanding common shares of FLY have been tendered; or
 - (c) in connection with any internal reorganisation.

Following the Lock-up Period, AACL may only transfer the FLY Equity:

- (a) in accordance with Rule 144 of the U.S. Securities Act of 1933 (provided that the transferee cannot be:
 - (aa) a competitor; or
 - (bb) to the knowledge of AACL, acquiring such shares with the purpose or effect of changing the control of FLY;
 - (b) to underwriters in connection with a public offering of FLY Equity to be sold in a manner that does not result in any shareholder of FLY owning more than 5% of the issued and outstanding common shares in FLY;
 - (c) to FLY or any of its subsidiaries;
 - (d) to any of its affiliates that is not a competitor;
 - (e) pursuant to a tender offer, merger, consolidation or other similar transaction (provided that, in the case of such a transaction that is not approved by the Board of FLY, AACL may only transfer its FLY Equity after more than 50% of the outstanding common shares of FLY have been tendered; or
 - (f) in connection with any internal reorganisation.
- (iii) until the later of the date on which AACL ceases to beneficially own FLY Equity representing at least 10% of the voting power of FLY and the expiration of the Lock-Up Period (such period, the “**Voting Period**”), without approval of the Board of FLY, AACL and its affiliates cannot, among other related things:
 - (a) acquire additional FLY Depositary Shares;
 - (b) enter into or propose a merger or similar transaction involving FLY;
 - (c) initiate or take part in a shareholder proposal;
 - (d) form a group for the purpose of taking action with respect to the FLY Equity;
 - (e) deposit any FLY Equity into a voting trust; or

PROPOSED SALIENT TERMS OF THE FLY EQUITY SUBSCRIPTION AGREEMENT (CONT'D)

- (f) seek representation on, of change of, the Board of FLY.
- (iv) during the Voting Period, AACL must cause the FLY Equity to be voted, including through the appointment of FLY as proxy, consistently with the recommendations of the Board of FLY;
- (v) AACL, AAB and their affiliates may not disparage FLY or any of its directors, officers or affiliates;
- (vi) during the Lock-up Period, AACL, AAB and their affiliates cannot engage in the business of the leasing of commercial aircraft or aircraft engines to third parties which are not Affiliate Airlines;
- (vii) AAB must guarantee the obligations of AACL;
- (viii) AAB and AACL must limit their communications with FLY to the notice provisions set forth in the FLY Equity Subscription Agreement ; and
- (ix) FLY must use its best efforts to maintain the listing of its American Depositary Shares on the NYSE.

5. Material Adverse Effect

A Material Adverse Effect under the FLY Equity Subscription Agreement means any change, effect, or occurrence that (a) has or results in a material adverse effect on the business, assets, liabilities, condition (financial or otherwise) or results of operations of FLY and its subsidiaries, taken as a whole, or (b) materially impairs or delays the ability of FLY to promptly perform its obligations under the FLY Equity Subscription Agreement.

6. Termination

There are no provisions for termination under the FLY Equity Subscription Agreement.

7. Refund of Investment

The investment in the FLY Equity is not refundable or redeemable.

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SALIENT TERMS OF THE FUTURE AIRCRAFT AGREEMENTS

Whilst steps have been taken to ensure that salient terms which are necessary for the shareholders' consideration are summarised here, there is no warranty that this summary is complete. Otherwise, the Future Aircraft Agreements is available for inspection as indicated in Section 7, Appendix IX of this Circular.

1. Incline B SPA For Future Aircraft

AACL will procure that Airbus will sell and deliver the aircraft listed in the Incline B SPA For Future Aircraft (the "**Future Incline Assets**") to it and sell the Future Incline Assets to Incline Aladdin and/or its nominees which shall be BBAM or its affiliate ("**Incline Purchasing Entity**") in "as is, where is" condition subject to and with the benefit of the leases and free and clear of any security interests.

No later than 60 days before the delivery of each aircraft which is a Future Incline Asset, AACL will notify Incline Purchasing Entity of the leasing structure in respect of such aircraft (if different to that contemplated in the Incline B SPA For Future Aircraft) and the identity of the lessee of such aircraft, such lessee to comply with the following requirements provided that the aircraft which are scheduled to be delivered during the 2018 calendar year (i.e. the A320 CEO aircraft) shall not be counted for the purpose of calculating any of the following requirements:

- (i) such lessee must be either AAB or Thai AirAsia Co., Ltd., Philippines AirAsia Inc., AirAsia (India) Limited and PT. Indonesia AirAsia (the "**Lessee Group**");
- (ii) at the time of delivery each such aircraft, taking into account the lessee of such aircraft, not less than 50% of the aggregate aircraft under the Incline B SPA For Future Aircraft and the FLY SPA For Future Aircraft (the "**Aggregate Aircraft**") that have been delivered shall be on lease to AAB as lessee;
- (iii) not more than 5 of the Aggregate Aircraft may be leased to PT. Indonesia AirAsia as lessee;
- (iv) no more than 7 of the Aggregate Aircraft may be leased to AirAsia (India) Limited and Philippines AirAsia Inc., collectively;
- (v) no more than 5 of the Aggregate Aircraft may be leased to either of AirAsia (India) Limited or Philippines AirAsia Inc., individually;
- (vi) each of the A320 Neo aircraft which is a Future Incline Asset scheduled to be delivered in calendar year 2018 shall be leased to AAB or Thai AirAsia Co., Ltd.; and
- (vii) if AACL nominates a lessee that is not a member of the Lessee Group, Incline Purchasing Entity will have the right, in its sole discretion, to accept such lessee or require that AACL designate another lessee that satisfies the requirements above.

AACL may, in its sole discretion, terminate its obligation to sell a Future Incline Asset aircraft by giving written notice of such termination to Incline Purchasing Entity if:

- (i) delivery of such Future Incline Asset does not occur on or before the final delivery date as a result of any breach by Incline Purchasing Entity of the Incline B SPA For Future Aircraft; or
- (ii) Incline Purchasing Entity fails to perform or breaches any of its obligations under the Incline B SPA For Future Aircraft or any other relevant document to which it is a party and such failure or breach continues for a period finishing 15 business days after Incline Aladdin's receipt of written notice of such failure or breach.

SALIENT TERMS OF THE FUTURE AIRCRAFT AGREEMENTS (CONT'D)

Incline Purchasing Entity may, in its sole discretion, terminate its obligation to purchase an aircraft which is a Future Incline Asset by giving prompt written notice of such termination to AACL if:

- (i) delivery of such aircraft does not occur on or before 90 days after the scheduled delivery date or such other date agreed to by AACL and Incline Purchasing Entity in writing (the “**Incline Final Delivery Date**”) (other than as a result of breach by Incline Purchasing Entity of the Incline B SPA For Future Aircraft, the relevant lease or any other relevant document as more particularly described in the Incline B SPA For Future Aircraft or failure by Incline Purchasing Entity or its nominee to deliver any delivery condition precedent within its reasonable control on or before the Incline Final Delivery Date);
- (ii) the aircraft (a) does not meet the Airbus delivery condition specification and, based on objective third party evidence, will not be capable of meeting the Airbus delivery condition specification without material modification before the Incline Final Delivery Date or (b) suffers material damage before delivery;
- (iii) AACL fails to perform or breaches any of its material under the Incline B SPA For Future Aircraft or delivery related documents to which it is a party and such failure or breach continues for a period finishing 15 business days after AACL’s receipt of written notice of such failure or breach (an “**Incline Seller Breach**”);
- (iv) before delivery, such aircraft suffers a total loss (a “**Incline Total Loss Event**”); or
- (v) before to delivery, the obligation of Incline Purchasing Entity (or its nominee), in its capacity as lessor, to lease the aircraft to the relevant lessee is terminated by Incline Purchasing Entity, in its capacity as lessor, in accordance with the terms of the relevant lease agreement or head lease agreement.

With respect to each aircraft which is a Future Incline Asset, if before delivery, an Incline Seller Breach or Incline Total Loss Event occurs (any such aircraft, an “**Incline Affected Aircraft**”), Incline Purchasing Entity has the option to request in writing for AACL to replace such Incline Affected Aircraft (the “**Incline Replacement Notice**”). Provided an Incline Replacement Notice is received within 10 business days (or such shorter period agreed between AACL and Incline Purchasing Entity) following such termination of the Affected Aircraft, upon receipt of the Replacement Notice it shall use reasonable commercial efforts to replace the Affected Aircraft with the next substitute alternative aircraft made available by Airbus that meets the Airbus delivery condition specification (the “**Incline Replacement Aircraft**”). AACL will use reasonable commercial efforts to procure that the delivery of the Incline Replacement Aircraft occurs within 60 days of receipt of any such request from Incline Purchasing Entity; provided that if Airbus does not make an Incline Replacement Aircraft available within 60 days AACL shall continue to use reasonable commercial efforts to procure delivery of the Incline Replacement Aircraft at the earliest available delivery slot up until termination of the Incline B for Future Aircraft SPA and the FLY SPA For Future Aircraft.

Incline Aladdin shall pay the purchase price in respect of any Future Incline Asset to the airframe manufacturer on or before the delivery date. Such payment by Incline Aladdin or Incline Purchasing Entity shall satisfy and discharge Incline Aladdin’s obligation to pay or procure payment of the purchase price under the Incline B SPA For Future Aircraft.

2. **FLY SPA for Future Aircraft**

AACL will procure that Airbus will sell and deliver the aircraft listed in the FLY SPA For Future Aircraft (the “**Future Fly Assets**”) to it and sell the Future Fly Assets to Fly Aladdin or its nominee which shall be BBAM or its affiliate (“**Fly Purchasing Entity**”) in “as is, where is” condition subject to and with the benefit of the leases and free and clear of any security interests.

SALIENT TERMS OF THE FUTURE AIRCRAFT AGREEMENTS (CONT'D)

No later than 60 days before the delivery of each aircraft which is a Future Fly Asset, AACL will notify Fly Purchasing Entity of the leasing structure in respect of such aircraft (if different to that contemplated in the FLY SPA For Future Aircraft) and the identity of the lessee of such aircraft, such lessee to comply with the following requirements provided that the aircraft which are scheduled to be delivered during the 2018 calendar year (i.e. the A320 CEO aircraft) shall not be counted for the purpose of calculating any of the following requirements:

- (i) such lessee must be a member of the Lessee Group;
- (ii) at the time of delivery each such aircraft, taking into account the lessee of such aircraft, not less than 50% of the Aggregate Aircraft that have been delivered shall be on lease to AAB as lessee;
- (iii) not more than 5 of the Aggregate Aircraft may be leased to PT. Indonesia AirAsia as lessee; and
- (iv) no more than 7 of the Aggregate Aircraft may be leased to AirAsia (India) Limited and Philippines AirAsia Inc., collectively;
- (v) no more than 5 of the Aggregate Aircraft may be leased to either of AirAsia (India) Limited and Philippines AirAsia Inc., collectively;
- (vi) each of the A320 Neo aircraft which is a Future Fly Asset scheduled to be delivered in calendar year 2018 shall be leased to AAB or Thai AirAsia Co., Ltd.; and
- (vii) if AACL nominates a lessee that is not a member of the Lessee Group, Fly Purchasing Entity will have the right, in its sole discretion, to accept such lessee or require that AACL designates another lessee that satisfies the requirements above.

AACL may, in its sole discretion, terminate its obligation to sell a Future Fly Asset aircraft by giving written notice of such termination to Fly Purchasing Entity if:

- (i) delivery of such Future Fly Asset does not occur on or before the final delivery date as a result of any breach by Fly Purchasing Entity of the FLY SPA For Future Aircraft; or
- (ii) Fly Purchasing Entity fails to perform or breaches any of its obligations under the FLY SPA For Future Aircraft or any other relevant document to which it is a party and such failure or breach continues for a period finishing 15 business days after Fly Aladdin's receipt of written notice of such failure or breach.

Fly Purchasing Entity may, in its sole discretion, terminate its obligation to purchase an aircraft which is a Future Fly Asset by giving prompt written notice of such termination to AACL if:

- (i) delivery of such aircraft does not occur on or before 90 days after the scheduled delivery date or such other date agreed to by AACL and Fly Purchasing Entity in writing (the "**Fly Final Delivery Date**") (other than as a result of breach by Fly Purchasing Entity of the FLY SPA For Future Aircraft, the relevant lease or any other relevant document as more particularly described in the FLY SPA For Future Aircraft or failure by Fly Purchasing Entity or its nominee to deliver any delivery conditions precedent within its reasonable control on or before the Fly Final Delivery Date);
- (ii) that aircraft:
 - (a) does not meet the Airbus delivery condition specification and, based on objective third party evidence, will not be capable of meeting the Airbus delivery condition specification without material modification before the Fly Final Delivery Date; or
 - (b) suffers material damage before delivery;

SALIENT TERMS OF THE FUTURE AIRCRAFT AGREEMENTS (CONT'D)

- (iii) AACL fails to perform or breaches any of its material under the FLY SPA For Future Aircraft or delivery related documents to which it is a party and such failure or breach continues for a period finishing 15 business days after AACL's receipt of written notice of such failure or breach (an "**Fly Seller Breach**");
- (iv) before delivery, such aircraft suffers a total loss (a "**Fly Total Loss Event**"); or
- (v) before delivery, the obligation of Fly Purchasing Entity (or its nominee), in its capacity as lessor, to lease the aircraft to the relevant lessee is terminated by Fly Purchasing Entity, in its capacity as lessor, in accordance with the terms of the relevant lease agreement or head lease agreement.

With respect to each aircraft which is a Future Fly Asset, if before delivery, a Fly Seller Breach or Fly Total Loss Event occurs (any such aircraft, an "**Fly Affected Aircraft**"), Fly Purchasing Entity has the option to request in writing for AACL to replace such Fly Affected Aircraft (the "**Fly Replacement Notice**"). Provided a Fly Replacement Notice is received within 10 business days (or such shorter period agreed between AACL and FLY Purchasing Entity) following such termination of the Fly Affected Aircraft, upon receipt of the Replacement Notice it shall use reasonable commercial efforts to replace the Fly Affected Aircraft with the next substitute alternative aircraft made available by Airbus that meets the Airbus delivery condition specification (the "**Fly Replacement Aircraft**"). AACL will use reasonable commercial efforts to procure that the delivery of the Fly Replacement Aircraft occurs within 60 days of receipt of any such request from Fly Purchasing Entity; provided that if Airbus does not make a Fly Replacement Aircraft available within 60 days AACL shall continue to use reasonable commercial efforts to procure delivery of the Fly Replacement Aircraft at the earliest available delivery slot up until termination of the Incline B SPA and the FLY SPA For Future Aircraft.

Fly Aladdin shall pay the purchase price in respect of any Future Fly Asset to the airframe manufacturer on or before the delivery date. Such payment by Fly Aladdin or Fly Purchasing Entity shall satisfy and discharge Fly Aladdin's obligation to pay or procure payment of the purchase price under the FLY SPA For Future Aircraft.

3. **Incline Option Agreement and FLY Option Agreement**

- (i) General description

AACL will grant to Incline Aladdin and Fly Aladdin an option (the "**Purchase Option**") to purchase each aircraft specified in the Incline Option Agreement and the FLY Option Agreement (the "**Aggregate Aircraft**").

- (ii) Subject matter

Incline Aladdin and Fly Aladdin, collectively, will have the right to exercise Incline Purchase Options for:

- (a) up to 8 Aggregate Aircraft to be delivered in the 2019 calendar year (the "**2019 Option Aircraft**");
 - (b) up to 11 aircraft to be delivered beginning in the 2020 calendar year; and
 - (c) up to 31 Aggregate Aircraft to be delivered during the calendar years from 2021 to 2025 (inclusive) (the "**Final Option Aircraft**") provided that a maximum number of 10 Final Option Aircraft can be subjected to a purchase option during each of the calendar years from 2021 to 2025.
- (iii) Purchase option procedure

The purchase option's notice must be delivered at least 12 months (or such shorter period as agreed by the parties) before the scheduled delivery month in which Incline Aladdin or Fly Aladdin desires to schedule an aircraft for delivery.

SALIENT TERMS OF THE FUTURE AIRCRAFT AGREEMENTS (CONT'D)

(iv) Effectiveness

The Incline Option Agreement and the FLY Option Agreement are conditional upon the initial transfer of aircraft under the Incline B SPA and the FLY SPA occurring. If such initial transfer does not occur by 5.00 pm on the date falling 6 calendar months from 28 February 2018, the Incline Option Agreement and the FLY Option Agreement shall not come into effect.

(v) Termination by AACL

AACL may terminate its obligation to sell an aircraft under the Purchase Option if: (A) delivery of aircraft does not occur by the expiry of 6 months after the scheduled delivery date as a result of (1) breach by Incline Aladdin or Fly Aladdin of any provision of the Incline Option Agreement and the FLY Option Agreement, or (2) or breach by the identified aircraft operator of any relevant aircraft document or its failure to take delivery of aircraft on delivery date, or (3) failure by Incline Aladdin or Fly Aladdin to deliver any condition precedent within its reasonable control, or failure by identified aircraft operator to deliver relevant aircraft document by the final delivery date, or (B) Incline Aladdin or Fly Aladdin breaches its material obligation under the Incline Option Agreement or the FLY Option Agreement, as the case may be, which breach continues for 15 business days.

Upon such termination event as aforesaid, the parties will have no liability in respect of an option aircraft except that Incline Aladdin or Fly Aladdin, as the case may be, will be liable for its breach; and AACL shall be deemed to have reduced its quota requirement to deliver an aircraft of that model for that calendar year pursuant to the delivery schedule.

(vi) Termination by Incline Aladdin or Fly Aladdin

Incline Aladdin or Fly Aladdin may terminate its obligation to purchase an aircraft under the Purchase Option if: (A) the aircraft suffers a total loss, or (B) AACL breaches its material obligation under the Incline Option Agreement or the FLY Option Agreement, as the case may be, which breach continues for 15 business days.

Upon such termination event as aforesaid, Incline Aladdin or FLY Aladdin, as the case may be, will give AACL a termination notice in respect of such aircraft pursuant to which AACL shall grant Incline Aladdin or FLY Aladdin, as the case may be, a new purchase option for an alternative aircraft to replace the affected aircraft.

(vii) Mutual termination

AACL, Incline Aladdin and FLY Aladdin may mutually terminate their obligations in respect of an aircraft if: (A) delivery does not occur by the final delivery date of such aircraft, and the airframe manufacturer has agreed that AACL is no longer required to purchase the aircraft due to the delay, or (B) a specification failure and/or a specification non-conformity is not rectified and airframe manufacturer has agreed that due to such defect that AACL is no longer required to purchase the aircraft.

Upon such termination event as aforesaid, the parties will have no further liability in respect of the aircraft and AACL shall be deemed to have reduced its quota requirement to deliver an aircraft of that model for that calendar year pursuant to the delivery schedule. However, AACL will have to pay certain termination fee if it terminates a purchase option at any time or if it willfully breaches its material obligations in respect of any option aircraft.

All obligations of AACL shall terminate on the earlier of (A) the date the last aircraft is delivered, and 31 December 2026, other than the obligations which are expressed to survive.

SALIENT TERMS OF THE FUTURE AIRCRAFT AGREEMENTS (CONT'D)

- (viii) Payment
- The purchase price in respect of each option aircraft will be paid to the airframe manufacturer by the delivery date.
- (ix) Incline Aladdin / Fly Aladdin's obligations under the Incline Option Agreement and Fly Option Agreement in respect of an aircraft are subject to the following conditions precedent being fulfilled:
- (a) copies of the relevant documents and each transaction document duly executed by the parties (other than Incline Aladdin/FLY Aladdin, as the case may be);
 - (b) a corporate certificate by AACL together with its constitutional documents, resolution of its board of directors approving the transactions;
 - (c) customary legal opinion from counsel;
 - (d) a process agent letter confirming its appointment;
 - (e) Incline Aladdin/FLY Aladdin being satisfied that the delivery of aircraft will not give rise to taxes unless it agrees to the same, the Airbus bill of sale being governed by the laws of England and executed by the airframe manufacturer;
 - (f) the aircraft being at the delivery location at the effective time on the delivery date;
 - (g) Incline Aladdin/FLY Aladdin being satisfied that that airframe manufacturer has/will consent(ed) following delivery to the registrations of the sale at international registry;
 - (h) representations and warranties of AACL being true and accurate on delivery;
 - (i) illegality or force majeure has not occurred;
 - (j) Incline Aladdin/FLY Aladdin having completed its observation and participation of the pre-delivery inspections being satisfied that the aircraft is (i) new ex-factory and (ii) conforms to the applicable specification;
 - (k) no total loss or material damage to the aircraft on delivery date; and
 - (l) Incline Aladdin/FLY Aladdin being satisfied that AACL will transfer good and marketable title to the aircraft.
- (x) AACL's obligations under the Incline Option Agreement and Fly Option Agreement in respect of an aircraft are subject to the following conditions precedent being fulfilled:
- (a) AACL being satisfied that airframe manufacturer has received the purchase price;
 - (b) copies of the relevant documents and each transaction document duly executed by the parties (other than AACL);
 - (c) a corporate certificate by Incline Aladdin or FLY Aladdin (as the case may be) or its nominee together with their constitutional documents, resolution of their board of directors approving the transactions;
 - (d) customary legal opinion from counsel;
 - (e) a process agent letter confirming its appointment;
 - (f) AACL being satisfied that the delivery of aircraft will not give rise to taxes to AACL;

SALIENT TERMS OF THE FUTURE AIRCRAFT AGREEMENTS (CONT'D)

- (g) the aircraft being at the delivery location at the effective time on the delivery date;
- (h) representations and warranties of Incline Aladdin and FLY Aladdin, as the case may be, being true and accurate on delivery;
- (i) no total loss or material damage to the aircraft on delivery date;
- (j) AACL being satisfied that the aircraft conform to the description; and
- (k) illegality or force majeure has not occurred.

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SALIENT FEATURES OF INVESTMENTS IN THE INCLINE FUNDS

Whilst steps have been taken to ensure that salient terms which are necessary for the shareholders' consideration are described here, there is no warranty that this summary is complete.

The defined terms as set out in Appendix II(C) of this Circular shall be applicable throughout this Appendix.

Salient features of investments in the Incline Funds and Incline A are as follows:

1. Incline A LLC

(i) Purpose

The purpose of Incline A LLC is to invest substantially all of its assets in Incline A as a limited partner.

(ii) Capital contribution and commitment

The commitment period shall expire on the expiration of Incline A's commitment period. Following the expiration or termination of the commitment period, each member will remain obligated to make contributions toward their remaining unfunded commitment to the extent necessary to make follow-on investments, make follow-up investments, and pay all expenses, debts, liabilities, and obligations of Incline A LLC, Incline A or any of its subsidiaries.

(iii) Distributions

When Incline A LLC receives any distribution from Incline A, the managing member shall cause Incline A LLC to distribute such amount to the members as soon as practicable.

(iv) Terms

Incline A LLC will terminate on the date Incline A is dissolved.

(v) Transfer Restrictions

Non-managing members may not transfer their interests in Incline A LLC without the managing member's consent, which in the case of transfers of affiliates may not be unreasonably withheld. No non-managing member may withdraw from Incline A LLC or be required to withdraw from Incline A LLC.

2. Incline A

(i) Purpose

Incline A is formed to make investments, whether direct or indirect, involving the acquisition, financing, and selling of commercial aircraft and aircraft equipment, or any interest therein, and managing and monitoring such investments. Incline A acquires and holds investments on lease to U.S. based airlines.

SALIENT FEATURES OF INVESTMENTS IN THE INCLINE FUNDS (CONT'D)

(ii) Capital contribution and commitment

During the commitment period, each limited partner of Incline A will be obligated to make contributions up to its committed amount. The commitment period lasts until the fourth anniversary of the Final Closing Date, or, in the reasonable discretion of the General Partner, the date when the fund is 80 percent committed. The commitment period will be suspended upon occurrence of certain triggering events. Following the expiration or termination of the commitment period, each member will remain obligated to make contributions toward their remaining unfunded commitment to the extent necessary to make follow-on investments, make follow-up investments, and pay all expenses, debts, liabilities, and obligations of Incline A or any of its subsidiaries.

(iii) Distributions, Fees and Expenses

The Special Limited Partner holds a limited partnership interest in Incline A pursuant to which receives carried interest distributions.

In exchange for the provision of administrative services, investment advice and day-to-day asset management services, to Incline A and its subsidiaries, the Manager receives a fee.

Incline A and its subsidiaries bear all organisational costs and all out-of-pocket costs and expenses relating to their activities.

(iv) Term

Incline A will terminate on the tenth anniversary of the Final Closing Date unless terminated earlier by the limited partners pursuant to the terms of Incline A's governing agreements. Notwithstanding the foregoing, the term may be extended for one additional one-year period at the sole discretion of the General Partner, and for a second and third one-year period with the approval of the limited partners.

Incline A's governing agreement provides that, upon commencement of its winding-up, its assets shall be liquidated in an orderly manner. Incline A GP (Cayman) (or, in its absence, the party selected by Incline A's limited partners), will be the liquidator to wind-up the affairs of Incline A pursuant to the terms of its governing agreement. Upon the commencement of the winding-up of Incline A (whether or not an early termination), Incline A GP (Cayman) will make a final allocation of all kinds of income, loss and expense in accordance with the relevant terms of Incline A's governing agreement and Incline A's liabilities and obligations to its creditors shall be paid or adequately provided for prior to any distributions to Incline A's partners. After payment or provision for payment of all debts, Incline A's remaining assets, if any, will be distributed among the partners as provided in its governing agreement. Following the winding-up of the affairs and assets of Incline A in accordance with its governing agreement, Incline A GP (Cayman) shall file a final notice of dissolution with the Registrar of Exempted Limited Partnerships in the Cayman Islands in accordance with the Exempted Limited Partnership Law (2018 revision) of the Cayman Islands.

(v) Transfer Restrictions

Limited partners may not transfer their interests in Incline A without the general partner's consent, which in the case of transfers of affiliates may not be unreasonably withheld. No limited partner may withdraw from Incline A, or be required to withdraw from Incline A.

3. Incline B Parallel**(i) Purpose**

Incline B Parallel will be formed to make investments, whether direct or indirect, involving the acquisition, financing, leasing, and selling of commercial aircraft and aircraft equipment, or any interest therein, alongside the Incline B, and managing and monitoring such investments. Incline B Parallel will acquire and hold investments on lease to airlines based outside the United States, alongside Incline B.

SALIENT FEATURES OF INVESTMENTS IN THE INCLINE FUNDS (CONT'D)

(ii) Capital contribution and commitment

During the commitment period, each limited partner of Incline B Parallel will be obligated to make contributions up to its committed amount. The commitment period lasts until the fourth anniversary of the Final Closing Date, or, in the reasonable discretion of the General Partner, the date when the fund is 80 percent committed. The commitment period will be suspended upon occurrence of certain triggering events. Following the expiration or termination of the commitment period, each limited partner will remain obligated to make contributions toward their remaining unfunded commitment to the extent necessary to make follow-on investments, make follow-up investments, and pay all expenses, debts, liabilities, and obligations of Incline B Parallel or any of its subsidiaries.

(iii) Distributions, Fees and Expenses

The Special Limited Partner will hold a limited partnership interest in Incline B Parallel pursuant to which it will receive carried interest distributions.

In exchange for the provision of administrative services, investment advice and day-to-day asset management services, to Incline B Parallel and its subsidiaries, the Manager will receive a fee.

Incline B Parallel and its subsidiaries bear all out-of-pocket costs and expenses relating to their activities.

(iv) Term

Incline B Parallel will terminate on the tenth anniversary of the Final Closing Date unless terminated earlier by the limited partners pursuant to the terms of Incline B Parallel's governing agreements. Notwithstanding the foregoing, the term may be extended for one additional one-year period at the sole discretion of the General Partner, and for a second and third one-year period with the approval of the limited partners.

(v) Transfer Restrictions

Limited partners will not be permitted to transfer their interests in Incline B Parallel without the general partner's consent, which in the case of transfers of affiliates may not be unreasonably withheld. No limited partner may withdraw from Incline B Parallel, or be required to withdraw from Incline B Parallel.

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INFORMATION ON THE AIRCRAFT ASSETS AND FUTURE AIRCRAFT

1. Aircraft Assets

As at the date of the Disposal SPAs, the Aircraft Assets (excluding the 4 aircraft to be delivered under Herondell SPA) are owned by AAB and AACL and they are either operated by AAB or Affiliate Airlines, and external parties as shown below (unless otherwise stated):

No.	SPA	Aircraft Assets	Operator
(i)	Herondell SPA	- 6 Airbus A320 CEO - 7 Airbus A320 NEO	<u>AAB and Affiliate Airlines</u> - AAB : 10 aircraft ⁽¹⁾ - Thai AirAsia Co., Ltd. : 3 aircraft ⁽¹⁾
(ii)	Incline B SPA	- 37 Airbus A320 CEO - 1 Boeing B737-800 - 7 aircraft engines	<u>AAB and Affiliate Airlines</u> - AAB : 17 aircraft - Thai AirAsia Co., Ltd. : 6 aircraft - PT. Indonesia AirAsia : 5 aircraft - Philippines AirAsia Inc. : 3 aircraft - AirAsia (India) Limited : 3 aircraft - AAB : 5 aircraft engines - Philippines AirAsia Inc. : 1 aircraft engine - Thai AirAsia Co., Ltd. : 1 aircraft engine <u>External parties</u> - Aeroenlaces Nacionales, S.A. de C.V. : 2 aircraft - Norwegian Air International Limited : 1 aircraft - Pakistan International Airlines Corporation : 1 aircraft
(iii)	FLY SPA	- 33 Airbus A320 CEO - 7 aircraft engines	<u>AAB and Affiliate Airlines</u> - AAB : 13 aircraft - Thai AirAsia Co., Ltd. : 7 aircraft - AirAsia (India) Limited : 4 aircraft - PT. Indonesia AirAsia : 4 aircraft - Philippines AirAsia Inc. : 3 aircraft - AAB : 6 aircraft engines - PT. Indonesia AirAsia : 1 aircraft engine <u>External parties</u> - Pakistan International Airlines Corporation : 1 aircraft - Longjiang Airlines Co., Ltd. : 1 aircraft

Note:

(1) Including 4 aircraft which have yet to be delivered as at the date of Herondell SPA.

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INFORMATION ON THE AIRCRAFT ASSETS AND FUTURE AIRCRAFT (CONT'D)

2. Future Aircraft**(i) Information on Incline B SPA For Future Aircraft and FLY SPA For Future Aircraft**

No. of aircraft	Aircraft type	Scheduled delivery date	Estimated original cost of investment (based on catalogue price) (million)
48	A320 NEO/ A321 NEO / A320 CEO	From the effective date of the respective agreements up to 31 December 2021	USD5,752.5 (Approximately RM22,558.4)

(ii) Information on Incline Option Agreement and FLY Option Agreement

No. of aircraft	Aircraft type	Scheduled delivery date	Estimated original cost of investment (based on catalogue price) (million)
50	A320 NEO/ A321 NEO	From the effective date of the respective agreements up to 31 December 2025	USD6,002.5 (Approximately RM23,538.8)

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INFORMATION ON THE INCLINE FUNDS

1. INFORMATION ON INCLINE A LLC**(i) BACKGROUND**

Incline A LLC is a limited liability company that was organised on 29 May 2015 under the laws of the state of Delaware, U.S.. Incline A LLC is principally engaged in the acquisition, leasing and disposition of commercial jet aircraft and engines to U.S.-based clients, indirectly through its ownership interest in Incline A. Further, Incline A LLC does not issue shares.

The non-managing members of Incline A LLC have no power to participate in the management of Incline A LLC. The non-managing members have appointed Incline A GP (Cayman) as the managing member to act on behalf of Incline A LLC. The managing member has the power to do any and all acts necessary, including all powers, statutory or otherwise, possessed by members of a limited liability company under the laws of the state of Delaware, U.S..

Incline A LLC is owned by its members, and managed by its managing member, Incline A GP (Cayman), which has full control over the business and affairs of Incline A LLC.

(ii) DIRECTORS

Incline A LLC has no directors. The directors of Incline A LLC's managing member, Incline A GP (Cayman), are as follows:

Name	Nationality	Designation
Michael Blumenthal	American	Director
Takeshi Saeki	Japanese	Director

(iii) SUBSIDIARIES AND ASSOCIATED COMPANIES

Incline A LLC was formed for the object and purpose of investing substantially all of its assets in Incline A. As at 31 December 2017, being the last practicable date of which such information could be ascertained before the printing of this Circular, Incline A LLC holds an approximately 61% interest in Incline A.

(iv) SUMMARY OF FINANCIAL INFORMATION

The financial information of Incline A LLC, which operates as a private investment fund, has not been publicly available as it is confidential and proprietary to the members of Incline A LLC.

INFORMATION ON THE INCLINE FUNDS (CONT'D)

2. INFORMATION ON INCLINE B PARALLEL**(i) BACKGROUND**

As at the LPD, Incline B Parallel has not been formed yet. Incline B Parallel is expected to be formed by Incline B GP (Cayman) on or before the initial transfer of the Incline B Aircraft Assets. The general partner of Incline B Parallel will be Incline B GP (Cayman).

Incline B Parallel is intended to be an exempt limited partnership organised under the laws of Cayman Islands, principally involved in the acquisition, leasing and disposition of commercial jet aircraft and engines to non-U.S. clients. Further, Incline B Parallel will have no shares issued, and the limited partner of Incline B Parallel have no power to participate in the management of Incline B Parallel and the sole limited partner of Incline B Parallel will be AACL or its nominees.

(ii) DIRECTORS

Incline B Parallel will have no directors. The directors of the intended general partner of Incline B Parallel, Incline B GP (Cayman), as at the LPD are as follows:

Name	Nationality	Designation
Michael Blumenthal	American	Director
Takeshi Saeki	Japanese	Director
Damon Connery	Irish	Director (alternate director to Michael Blumenthal)

(iii) SUBSIDIARIES AND ASSOCIATED COMPANIES

Not applicable as Incline B Parallel has not been formed yet as at the LPD.

(iv) SUMMARY OF FINANCIAL INFORMATION

Not applicable as Incline B Parallel has not been formed yet as at the LPD.

INFORMATION ON FLY

1. BACKGROUND

FLY is a Bermuda exempted company that was incorporated on 3 May 2007, under the provisions of Section 14 of the Companies Act 1981 of Bermuda. FLY is principally engaged in purchasing commercial aircraft, which FLY leases under multi-year contracts to a diverse group of airlines throughout the world. Although FLY is organised under the laws of Bermuda, FLY is a resident of Ireland for tax purposes and is subject to Irish corporation tax on our income in the same way, and to the same extent, as if FLY were organised under the laws of Ireland. FLY completed its initial public offering on 2 October 2007. FLY is listed on the NYSE under the ticker symbol “FLY”.

As of 31 December 2017, FLY had 85 aircraft in its portfolio, of which 84 were held for operating lease and one was recorded as an investment in finance lease. FLY’s portfolio was comprised of 73 narrow-body passenger aircraft (including one freighter) and 12 wide-body passenger aircraft (including two freighters).

FLY is externally managed by Fly Leasing Management Co. Limited (“**FLY Manager**”), a wholly-owned subsidiary of BBAM, and its aircraft portfolio is serviced by subsidiaries of BBAM. FLY originates aircraft through BBAM’s well-established relationships with airlines, financial investors and other aircraft leasing and finance companies. FLY primarily acquires aircraft by entering into purchase and leaseback transactions with airlines for new aircraft, purchasing portfolios consisting of aircraft of varying types and ages, and opportunistically acquiring individual aircraft that FLY believes are being sold at attractive prices. In addition, FLY actively considers opportunities to sell its aircraft, individually or in portfolio sales of various sizes, when FLY believes that selling will maximise its returns, or to manage the composition of its portfolio.

As of 31 December 2017, FLY had 56 Boeing aircraft and 29 Airbus aircraft in its portfolio. These aircraft were manufactured between 1990 and 2017 and had a weighted average age of 6.4 years as of 31 December 2017.

Please refer to Section 6 below for the financial performance of FLY for the past three FYEs 31 December 2015 to 31 December 2017.

Please refer to FLY’s Annual Report for the FYE 31 December 2017, filed with the SEC for a complete description of FLY’s business and assets, and its relationship with BBAM.

2. SHARE CAPITAL**Share Capital**

FLY’s authorised share capital consists of USD500,000 divided into 499,999,900 common shares and 100 manager shares, par value USD0.001 each. Pursuant to FLY’s amended and restated bye-laws, subject to any resolution of the shareholders to the contrary, FLY’s board of directors is authorised to issue any of FLY’s authorised but unissued shares.

As of 31 December 2017, being the latest practicable date of extraction of information that is publicly available, FLY had 499,999,900 common shares, \$0.001 par value, authorised, of which 27,983,352 were issued and outstanding, and 100 manager shares, \$0.001 par value, authorised, of which 100 were issued and outstanding.

Common Shares

Holders of common shares have no pre-emptive, redemption, conversion or sinking fund rights. Holders of common shares are entitled to one vote per share on all matters submitted to a vote of holders of common shares. Unless a different majority is required by law or by FLY’s bye-laws, resolutions to be approved by holders of common shares require approval by a simple majority of votes cast at a meeting at which a quorum is present.

INFORMATION ON FLY (CONT'D)

In the event of FLY's liquidation, dissolution or winding up, the holders of common shares are entitled to share equally and ratably in FLY's assets, if any, remaining after the payment of all of FLY's debts and liabilities, subject to any liquidation preference on any issued and outstanding preference shares.

Preference Shares

Pursuant to Bermuda law and FLY's amended and restated bye-laws, FLY's board of directors by resolution may establish one or more series of preference shares having such number of shares, designations, dividend rates, relative voting rights, conversion or exchange rights, redemption rights, liquidation rights and other relative participation, optional or other special rights, qualifications, limitations or restrictions as may be fixed by FLY's board of directors without any further shareholder approval. The rights with respect to a series of preference shares may be greater than the rights attached to FLY's common shares. It is not possible to state the actual effect of the issuance of any preference shares on the rights of holders of FLY's common shares until FLY's board of directors determines the specific rights attached to those preference shares. The effect of issuing preference shares could include one or more of the following:

- (i) restricting dividends in respect of FLY's common shares;
- (ii) diluting the voting power of FLY's common shares or providing that holders of preference shares have the right to vote on matters as a class;
- (iii) impairing the liquidation rights of FLY's common shares; or
- (iv) delaying or preventing a change of control of FLY.

As of 31 December 2017, there are no preference shares outstanding.

Manager Shares

FLY Manager owns 100 manager shares that are entitled to director appointment rights and the right to vote on amendments to the provision of FLY's amended and restated bye-laws relating to termination of FLY's management agreement with the FLY Manager. Manager shares cannot be converted into common shares. Upon termination of FLY's management agreement, the manager shares will cease to have any appointment and voting rights and, to the extent permitted under Section 42 of the Companies Act 1981 (Bermuda), will be automatically redeemed for their par value. Manager shares are not entitled to receive any dividends and, other than with respect to director appointment rights, holders of manager shares have no voting rights.

3. SUBSTANTIAL SHAREHOLDERS

The table below sets forth certain information regarding the beneficial ownership of FLY Depository Shares by each person known to FLY to be a beneficial owner of more than 5% of FLY Depository Shares as of 31 December 2017, being the latest practicable date of extraction of information that is publicly available:

Name	FLY Depository Shares Beneficially Owned	
	Number	Percent
Donald Smith & Co., Inc. ⁽¹⁾	2,814,483	10.1%
Onex Corporation ⁽²⁾	2,443,476	8.7%
Summit Aviation Partners LLC ⁽³⁾	1,708,156	6.1%

Notes:

- (1) *Incorporated in State of Delaware, U.S. The information above and in this footnote is based on information taken from the Schedule 13G filed by Donald Smith & Co., Inc., Donald Smith Long/Short Equities Fund, L.P. and Jon Hartsel with the SEC on February 12, 2018. Donald Smith & Co., Inc. has sole voting power over 2,629,749 FLY Depository Shares and sole dispositive power over 2,814,483 FLY Depository Shares. Donald Smith Long/Short*

INFORMATION ON FLY (CONT'D)

Equities Fund, L.P. has sole voting power over 8,086 FLY Depositary Shares and sole dispositive power over 2,814,483 FLY Depositary Shares. Jon Hartsel has sole voting power over 3,500 FLY Depositary Shares and sole dispositive power over 2,814,483 FLY Depositary Shares.

- (2) *Incorporated in Ontario, Canada. The information above and in this footnote is based on information taken from the Schedule 13G/A filed by Onex Corporation, Onex Partners III GP LP, Onex Partners GP Inc., Onex US Principals LP, Onex American Holdings GP LLC, Onex American Holdings II LLC, Onex Partners III PV LP, Onex Partners III Select LP, Onex Partners III LP, New PCo II Investments Ltd., and Gerald W. Schwartz (collectively, the "Onex Reporting Persons") with the SEC on April 3, 2017. Onex Corporation has shared voting and dispositive power over 2,427,732 FLY Depositary Shares. Gerald W. Schwartz has shared voting and dispositive power over 2,443,476 FLY Depositary Shares.*
- (3) *Incorporated in State of Delaware, U.S. The information above and in this footnote is based on information taken from the Schedule 13D/A filed by Steven Zissis, the Zissis Family Trust and Summit Aviation Partners LLC with the SEC on March 14, 2016, and from information independently provided to us by Mr. Zissis. Steven Zissis and the Zissis Family Trust have shared voting and dispositive power over 1,708,156 FLY Depositary Shares. Summit Aviation Partners LLC has shared voting and dispositive power over 1,610,717 FLY Depositary Shares.*

4. DIRECTORS

FLY's Directors as of 31 December 2017, being the latest practicable date of extraction of information that is publicly available, are as follows:

Name	Nationality	Designation
Colm Barrington	Irish	Chief Executive Officer and Director
Joseph M. Donovan	American	Director and Chairman
Erik G. Braathen	Norwegian	Director
Eugene McCague	Irish	Director
Robert S. Tomczak	American	Director
Susan M. Walton	British	Director
Steven Zissis	American	Director

None of FLY's directors individually holds more than 1% of FLY's Shares.

5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As of 31 December 2017, being the latest practicable date of extraction of information that is publicly available, the details of FLY's subsidiaries are as follows and all of the subsidiaries are principally engaged in aircraft leasing and related activities:

Name of company	Date and place of incorporation	Issued Share Capital	Effective Equity Interest (%)
Amber Aircraft Leasing Limited	11 Jul 2012 / Ireland	€1.00	100.0
Amethyst Aircraft Leasing Limited	26 Nov 2013 / Ireland	€1.00	100.0
Aphrodite Aviation Limited	30 Aug 2006 / Ireland	€1.00	100.0
Aquamarine Aircraft Leasing Limited	18 Mar 2014 / Ireland	€1.00	100.0
Artemis Aviation Limited	30 Aug 2006 / Ireland	€1.00	100.0
B&B Air Acquisition 3151 Leasing Limited	7 Dec 2007 / Ireland	€1.00	100.0
B&B Air Acquisition 3237 Leasing Limited	18 Jan 2008 / Ireland	€1.00	100.0

INFORMATION ON FLY (CONT'D)

<u>Name of company</u>	<u>Date and place of incorporation</u>	<u>Issued Share Capital</u>	<u>Effective Equity Interest (%)</u>
B&B Air Acquisition 34953 Leasing Limited	14 Mar 2007 / Ireland	€1.00	100.0
B&B Air Acquisition 34956 Leasing Limited	14 Mar 2007 / Ireland	€1.00	100.0
B&B Air Acquisition 403 Leasing Limited	7 Dec 2007 / Ireland	€1.00	100.0
B&B Air Funding 27974 Leasing Limited	25 Sep 2008 / Ireland	€1.00	100.0
B&B Air Funding 28595 Leasing Limited	24 Jul 2007 / Ireland	€1.00	100.0
B&B Air Funding 29052 Leasing Limited	21 Apr 2008 / Ireland	€1.00	100.0
B&B Air Funding 29330 Leasing Limited	8 Oct 2008 / Ireland	€1.00	100.0
B&B Air Funding 30785 Leasing Limited	24 Sep 2014 / Ireland	€1.00	100.0
B&B Air Funding 888 Leasing Limited	24 Jul 2007 / Ireland	€1.00	100.0
Babcock & Brown Air Acquisition I Limited	26 Jul 2007 / Bermuda	\$96,000,000	100.0
Babcock & Brown Air Finance (Cayman) Limited	4 Mar 2009 / Cayman Islands	\$100	100.0
Babcock & Brown Air Finance II (Cayman) Limited	3 Jun 2009 / Cayman Islands	\$100	100.0
Babcock & Brown Air Funding I Limited	29 Jun 2007 / Bermuda	\$12,700	100.0
Baker & Spice Aviation Limited	12 Jul 2006 / Ireland	€23,011,165	100.0
Balfour Aviation Limited	23 Jan 2006 / Ireland	\$1,000	100.0
Brookdell Limited	17 May 2005 / Ireland	€1.00	100.0
Caledonian Aviation Holdings Limited	5 Sep 2007 / Ireland	€100	100.0
Callista Aviation Limited	22 Dec 2004 / Ireland	\$1,000	100.0
Caraway Aircraft Leasing SARL	22 Oct 2012 / France	€10,000	100.0
Cardamom Aircraft Leasing Pte. Ltd.	19 Mar 2013 / Singapore	\$1.00	100.0
Carnelian Aircraft Leasing Limited	2 Jul 2012 / Ireland	€1.00	100.0
Cassia Aircraft Leasing (Labuan) Ltd.	1 Jun 2017 / Malaysia	\$25,000	100.0
Churchill Aviation Limited	7 Sep 2005 / Ireland	\$1,000	100.0
Citrine Aircraft Leasing Limited	25 Nov 2013 / Ireland	€1.00	100.0
Clementine Aviation Limited	7 Sep 2005 / Ireland	\$1,000	100.0
Coral Aircraft Holdings Limited	15 Jun 2011 / Cayman Islands	\$100	100.0
Coral Aircraft One Limited	8 Oct 2008 / Ireland	€1.00	100.0
Coral Aircraft Three Limited	25 May 2012 / Ireland	€1.00	100.0
Coral Aircraft Two Limited	8 Oct 2008 / Ireland	€1.00	100.0

INFORMATION ON FLY (CONT'D)

Name of company	Date and place of incorporation	Issued Share Capital	Effective Equity Interest (%)
Drake Aviation Limited	3 Feb 2006 / Ireland	\$1,000	100.0
Eternity Aviation Limited	24 Mar 2005 / Ireland	\$1,000	100.0
Fairydell Limited	14 Mar 2007 / Ireland	€1.00	100.0
Fly 30144 Leasing SARL	28 Mar 2014 / France	€10,000	100.0
Fly 30145 Leasing SARL	28 Mar 2014 / France	€10,000	100.0
Fly Acquisition 37774 Owner Limited	26 Mar 2013 / Ireland	€1.00	100.0
Fly Acquisition 39330 Leasing Limited	29 May 2013 / Ireland	€1.00	100.0
Fly Acquisition II Limited	17 Aug 2012 / Bermuda	\$12,000	100.0
Fly Acquisition III Limited	18 Jan 2016 / Bermuda	\$100	100.0
Fly Aircraft Holdings Eight Limited	14 Aug 2012 / Ireland	€1.00	100.0
Fly Aircraft Holdings Eighteen Limited	26 May 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Eleven Limited	12 Apr 2013 / Ireland	€1.00	100.0
Fly Aircraft Holdings Fifteen Limited	5 Dec 2013 / Ireland	€1.00	100.0
Fly Aircraft Holdings Five Limited	15 Mar 2007 / Ireland	€1.00	100.0
Fly Aircraft Holdings Forty Limited	1 Aug 2017 / Ireland	€1.00	100.0
Fly Aircraft Holdings Forty-One Limited	21 Sep 2017 / Ireland	€1.00	100.0
Fly Aircraft Holdings Four Limited	15 Mar 2007 / Ireland	€1.00	100.0
Fly Aircraft Holdings Fourteen Limited	5 Dec 2013 / Ireland	€1.00	100.0
Fly Aircraft Holdings Nine Limited	3 Oct 2012 / Ireland	€1.00	100.0
Fly Aircraft Holdings Nineteen Limited	26 May 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings One Limited	22 Feb 2008 / Ireland	€1.00	100.0
Fly Aircraft Holdings Seven Limited	14 Aug 2012 / Ireland	€1.00	100.0
Fly Aircraft Holdings Seventeen Limited	29 Apr 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Six Limited	15 Mar 2007 / Ireland	€1.00	100.0
Fly Aircraft Holdings Sixteen Limited	4 Feb 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Ten Limited	21 Feb 2013 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirteen Limited	5 Dec 2013 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty Limited	9 Feb 2015 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty-Eight Limited	3 Feb 2016 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty-Five Limited	2 Sep 2015 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty-Four Limited	2 Sep 2015 / Ireland	€1.00	100.0

INFORMATION ON FLY (CONT'D)

Name of company	Date and place of incorporation	Issued Share Capital	Effective Equity Interest (%)
Fly Aircraft Holdings Thirty-Nine Limited	1 Aug 2017 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty-One Limited	11 Feb 2015 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty-Seven Limited	3 Feb 2016 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty-Six Limited	3 Feb 2016 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty-Three Limited	17 Aug 2015 / Ireland	€1.00	100.0
Fly Aircraft Holdings Thirty-Two Limited	13 Mar 2015 / Ireland	€1.00	100.0
Fly Aircraft Holdings Three Limited	22 Dec 2005 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twelve Limited	28 May 2013 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty Limited	29 Apr 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-Eight Limited	10 Oct 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-Five Limited	19 Aug 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-Four Limited	20 Jun 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-Nine Limited	4 Nov 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-One Limited	20 Jun 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-Seven Limited	10 Oct 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-Six Limited	10 Oct 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-Three Limited	20 Jun 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Twenty-Two Limited	20 Jun 2014 / Ireland	€1.00	100.0
Fly Aircraft Holdings Two Limited	18 Jan 2008 / Ireland	€1.00	100.0
Fly Funding II S.à.r.l.	11 Jul 2012 / Luxembourg	\$20,000	100.0
Fly Peridot Holdings Limited	14 Jun 2012 / Cayman Islands	\$100	100.0
Fly-BBAM Holdings, Ltd.	18 Mar 2010 / Cayman Islands	\$100	100.0
Fly-Z/C Aircraft Limited	18 Jan 2008 / Ireland	€1.00	57.0
GAAM China No. 1 Limited	16 Jul 2010 / Ireland	\$15,845,054	100.0
GAHF (Ireland) Limited	31 Jan 2006 / Ireland	€1.00	100.0
Garnet Aircraft Leasing Limited	2 Jul 2012 / Ireland	€1.00	100.0
Global Aviation Holdings Fund Limited	11 May 2007 / Cayman Islands	\$24,099,166	100.0
Goa Aviation Limited	24 Feb 2006 / Ireland	\$1,000	100.0
Grace Aviation Limited	24 Mar 2005 / Ireland	\$1,000	100.0

INFORMATION ON FLY (CONT'D)

Name of company	Date and place of incorporation	Issued Share Capital	Effective Equity Interest (%)
Great Wall Aviation Limited	9 Mar 2007 / Ireland	\$1,000	100.0
Hermes Aviation Limited	24 Mar 2005 / Ireland	\$1,000	100.0
Hobart Aviation Holdings Limited	11 Oct 2004 / Ireland	\$1,000	100.0
JET-i 2522 Leasing Limited	22 Mar 2005 / Ireland	€1.00	100.0
JET-i 2670 Leasing Limited	25 Apr 2005 / Ireland	€1.00	100.0
JET-i 2728 Holdings Limited	16 Nov 2006 / Ireland	€1.00	100.0
JET-i 28042 Leasing Limited	1 Dec 2006 / Ireland	€1.00	100.0
JET-i 2849 Leasing Limited	15 Mar 2007 / Ireland	€1.00	100.0
JET-i 34293 Leasing Limited	13 Nov 2006 / Ireland	€1.00	100.0
JET-i 34295 Leasing Limited	13 Nov 2006 / Ireland	€1.00	100.0
JET-i 34898 Leasing Limited	20 Oct 2006 / Ireland	€1.00	100.0
JET-i 34899 Leasing Limited	20 Oct 2006 / Ireland	€1.00	100.0
JET-i 35089 Leasing Limited	31 Oct 2006 / Ireland	€1.00	100.0
Kimolos Limited	8 Oct 2004 / Ireland	\$1,000	100.0
Lapis Aircraft Leasing Limited	26 Nov 2013 / Ireland	€1.00	100.0
Lemongrass Aircraft Leasing Pte. Ltd.	27 Mar 2013 / Singapore	\$1.00	100.0
Magellan Acquisition Limited	18 Oct 2017 / Bermuda	\$100	100.0
Malachite Aircraft Leasing Limited	22 Nov 2013 / Ireland	€1.00	100.0
Marlborough Aviation Limited	3 Feb 2006 / Ireland	\$1,000	100.0
Montgomery Aviation Limited	3 Feb 2006 / Ireland	\$1,000	100.0
Mumbai Aviation Limited	24 Feb 2006 / Ireland	\$1,000	100.0
Nelson Aviation Limited	3 Feb 2006 / Ireland	\$1,000	100.0
Opal Holdings Australia Pty Limited	17 Jun 2011 / Australia	A\$21,247,800	100.0
Opal Holdings Lux S.à.r.l.	31 Jan 2013 / Luxembourg	\$49,500	100.0
Padoukios Limited	8 Oct 2004 / Ireland	\$1,000	100.0
Palma Aviation Limited	3 Feb 2006 / Ireland	\$1,000	100.0
Panda Aviation Limited	9 Mar 2007 / Ireland	\$1,000	100.0
Pandan Aircraft Leasing SARL	4 Apr 2017 / France	€10,000	100.0
Pyrite Aircraft Leasing Limited	18 Mar 2014 / Ireland	€1.00	100.0
Quilldell Limited	15 May 2007 / Ireland	€1.00	100.0

INFORMATION ON FLY (CONT'D)

Name of company	Date and place of incorporation	Issued Share Capital	Effective Equity Interest (%)
Richoux Aviation Limited	27 Jan 2006 / Ireland	€1.00	100.0
Roosevelt Holdings Limited	3 Feb 2006 / Ireland	\$1,000	100.0
Sage Aircraft Leasing Pte. Ltd.	18 Mar 2013 / Singapore	\$1.00	100.0
Sapphire Leasing Pty Limited	4 Jul 2012 / Australia	A\$1.00	100.0
Somerset Aviation Limited	22 Feb 2006 / Ireland	\$1,000	100.0
Suffolk Aviation Limited	22 Feb 2006 / Ireland	\$1,000	100.0
Surrey Aviation Limited	22 Feb 2006 / Ireland	\$1,000	100.0
Sussex Aviation Limited	22 Feb 2006 / Ireland	\$1,000	100.0
Temple Aviation Holdings Limited	31 Jan 2006 / Ireland	€6,674.05	100.0
Topaz Aircraft Leasing Limited	18 Mar 2014 / Ireland	€1.00	100.0
Tourmaline Aircraft Leasing Limited	2 Jul 2012 / Ireland	€1.00	100.0
Victoria Peak Aviation Limited	9 Mar 2007 / Ireland	\$1,000	100.0
Wingate Aviation Limited	23 Jan 2006 / Ireland	\$1,000	100.0
Zircon Aircraft Leasing Limited	23 Nov 2013 / Ireland	€1.00	100.0

As of 31 December 2017, being the latest practicable date of extraction of information that is publicly available, FLY does not have any associated companies.

6. FINANCIAL INFORMATION

(i) Summary of financial information

	FYE 31 December			
	2014	2015	2016	2017
	Audited	Audited	Audited	Audited
	<i>(USD '000)</i>	<i>(USD '000)</i>	<i>(USD '000)</i>	<i>(USD '000)</i>
Total revenue	425,548	462,397	345,039	353,251
Net income/(loss) before provision for income taxes	68,875	28,197	(36,389)	13,930
Net income/(loss)	60,184	22,798	(29,112)	2,598
Paid-in capital ⁽¹⁾	658,563	577,326	536,954	479,665
Shareholders' equity / NA	756,254	656,964	593,235	543,709
Total borrowings (all interest bearing debts) ⁽²⁾	3,002,852	2,385,120	2,523,375	2,645,597
Key financial ratio				
Number of shares outstanding	41,432,998	35,671,400	32,256,440	27,983,352
Weighted average shares outstanding – diluted	41,527,584	41,315,149	33,239,001	30,353,425
Gross income/(loss) per share (USD) ⁽³⁾	1.66	0.68	(1.09)	0.46

INFORMATION ON FLY (CONT'D)

	FYE 31 December			
	2014	2015	2016	2017
	Audited	Audited	Audited	Audited
	<i>(USD '000)</i>	<i>(USD '000)</i>	<i>(USD '000)</i>	<i>(USD '000)</i>
Net income/(loss) per share diluted (USD) ⁽⁴⁾	1.45	0.55	(0.88)	0.09
NA per share (USD) ⁽⁵⁾	18.3	18.4	18.4	19.4
Current ratio (times) ⁽⁶⁾	-	-	-	-
Gearing ratio (times) ⁽⁷⁾	3.97	3.63	4.25	4.87

Notes:

- (1) *Comprising the common shares, manager shares and additional paid-in capital*
- (2) *Comprising unsecured and secured borrowings*
- (3) *Gross income/(loss) per share is computed as net income/(loss) before provision for income taxes divided by the weighted average shares outstanding – diluted*
- (4) *Net income/(loss) per share is computed as net income/(loss) divided by the weighted average shares outstanding – diluted*
- (5) *NA per share is computed as shareholders' equity divided by the number of shares outstanding*
- (6) *FLY does not present a classified balance sheet*
- (7) *Gearing ratio is computed as total borrowing (all interest bearing debts) divided by the shareholders' equity/NA*

(ii) Commentary on past performance**FYE 31 December 2015**

FLY reported approximately 8.7% growth in revenue to approximately USD462.4 million for FYE 31 December 2015 mainly attributable to (i) operating lease revenue which recorded a growth of approximately USD23.1 million and (ii) gain on sale of aircraft which recorded a growth of approximately USD14.2 million.

The growth of operating lease revenue was primarily due to additional lease revenue of approximately USD76.0 million from aircraft purchased in 2014 and 2015, which was partially offset by loss of lease revenue of approximately USD40.5 million from aircraft sold in 2014 and 2015. The growth of gain on sale of aircraft was the result of 44 aircraft being sold in FYE 31 December 2015 which recognised a gain totaling USD29.0 million compared with 8 aircraft sold in the preceding financial year, 6 of which generated a gain on sale of USD14.8 million.

However, the net income before provision for income taxes fell approximately 59.1% from approximately USD68.9 million for FYE 31 December 2014 to approximately USD28.2 million for FYE 31 December 2015, mainly due to (i) increase in aircraft impairment by approximately USD64.9 million and (ii) increase in net loss on extinguishment of debt by approximately USD19.7 million.

The increase in impairment charge was due to recognition of aircraft impairment totaling approximately USD66.1 million for FYE 31 December 2015 for 3 wide-body aircraft and 11 narrow-body aircraft compared with impairment recognition of only approximately USD1.2 million for 1 wide-body aircraft in the preceding financial year. In FYE 31 December 2015, FLY also wrote off unamortised loan costs and debt discounts totaling approximately USD13.9 million as debt extinguishment costs, and incurred approximately USD2.6 million of prepayment and other fees, compared with recognising a net gain on extinguishment of debt of approximately USD2.2 million in the preceding financial year.

INFORMATION ON FLY (CONT'D)

FYE 31 December 2016

FLY reported approximately 25.4% decline in revenue to approximately USD345.0 million for FYE 31 December 2016 largely contributed by a decrease in operating lease revenue which recorded a decline of approximately USD116.1 million.

The decline in operating lease revenue was primarily due to (i) loss of lease revenue of approximately USD133.2 million from aircraft sold in 2015 and 2016 and (ii) a decrease of approximately USD44.8 million from end of lease revenue recognised. The decrease was partially offset by additional lease revenue of approximately USD52.9 million from aircraft purchased in 2015 and 2016.

FLY reported a net loss before provision for income taxes of approximately USD36.4 million for FYE 31 December 2016 compared with a net income before provision for income taxes of approximately USD28.2 million in the preceding financial year, mainly driven by higher aircraft impairment by approximately USD30.0 million.

The increase in impairment charge was due to recognition of aircraft impairment totaling approximately USD96.1 million for FYE 31 December 2016 for 3 wide-body aircraft and one narrow-body aircraft compared with impairment recognition of only approximately USD66.1 million for 3 wide-body aircraft and 11 narrow-body aircraft in the preceding financial year.

FYE 31 December 2017

FLY reported approximately 2.4% increase in revenue to approximately USD353.3 million for FYE 31 December 2017 mainly attributable to (i) operating lease revenue which recorded a growth of approximately USD23.2 million and (ii) end of lease income which recorded a growth of approximately USD8.9 million. These increases were partially offset by decrease in gain on sale of aircraft of USD23.3 million to USD3.9 million for FYE 31 December 2017.

The growth in operating lease revenue was primarily due to aircraft purchased in 2016 and 2017. The increase in end of lease income was primarily from the termination of lease for two aircraft from a lessee, Air Berlin, that had commenced insolvency proceedings. In the FYE 31 December 2017, FLY sold one aircraft compared to 27 aircraft sold during the FYE 31 December 2016.

FLY reported a net income before provision for income taxes of approximately USD13.9 million for FYE 31 December 2017 compared with a net loss before provision for income taxes of approximately USD36.4 million in the preceding financial year, mainly driven by lower aircraft impairment by approximately USD74.1 million. These items were partially offset by higher loss on modification and extinguishment of debt of approximately USD14.1 million.

The impairment charge of USD22.0 million in FYE 31 December 2017 was for one wide-body aircraft that was leased to Air Berlin. During FYE 31 December 2016, FLY recognised aircraft impairment totaling approximated USD96.1 million on three wide-body aircraft and one narrow-body aircraft. The loss on debt modification and extinguishment of USD23.3 million in FYE 31 December 2017 primarily consisted of USD19.7 million in connection with the redemption of FLY's 2020 unsecured notes payable. During FYE 31 December 2016, FLY incurred debt extinguishment costs of approximately USD9.2 million.

Please refer to "Item 5 – Operating and Financial Review and Prospects" set out in page 36 in the FLY's annual report for FYE 31 December 2017 as appended in Appendix VIII of this Circular for more commentary on FLY's past performance.

INFORMATION ON FLY (CONT'D)

(iii) Accounting policies adopted

Please refer to the notes of the audited consolidated financial statements set out in page 37 in the FLY's annual report for FYE 31 December 2017 as appended in Appendix VIII of this Circular for the critical accounting policies of FLY.

(iv) Audit qualification for the financial statements

No audit qualifications were reported in the audited consolidated financial statements of FLY for FYE 31 December 2017, FYE 31 December 2016 and FYE 31 December 2015 as included in FLY's annual report on Form 20-F for the FYE 31 December 2017. Please refer to the "Report of Independent Registered Public Accounting Firm" included in page F-3 in the FLY's annual report for FYE 31 December 2017 as appended in Appendix VIII of this Circular for the critical accounting policies of FLY.

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INFORMATION ON DISPOSAL SUBSIDIARIES

1. INFORMATION ON RED 1**(i) BACKGROUND**

Red 1 was incorporated as an exempted company under the laws of Bermuda on 22 February 2018 and its principal activity is owning, leasing and/or financing of aircraft.

(ii) SHARE CAPITAL

As at the LPD Red 1 has 1 issued common share of par value of USD0.01.

(iii) SUBSTANTIAL SHAREHOLDERS

As at the LPD, Red 1 is a wholly-owned direct subsidiary of AACL, which in turn is a wholly-owned indirect subsidiary of our Company.

(iv) DIRECTORS

As at the LPD, the directors of Red 1 are as follows:

Name	Nationality	Designation
Ciaran Madigan	Irish	Director
Julian Dunphy	Irish	Director

As at the LPD, none of the company's directors has direct and indirect shareholding in Red 1.

(v) SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, the details of the subsidiaries of Red 1 are as follows:

Name of company	Date and place of incorporation	Issued share capital (EUR)	Effective equity interest (%)	Principal activities
Merah Aircraft 1 Ltd	23 February 2018 / Dublin, Ireland	1	100	Owning, leasing and/or financing aircraft
Merah Aircraft 2 Ltd	23 February 2018 / Dublin, Ireland	1	100	Owning, leasing and/or financing aircraft

(vi) SUMMARY OF FINANCIAL INFORMATION

There is no audited financial information on Red 1 as the company is newly incorporated.

INFORMATION ON DISPOSAL SUBSIDIARIES (CONT'D)

2. INFORMATION ON RED 2**(i) BACKGROUND**

Red 2 was incorporated as an exempted company under the laws of Bermuda on 22 February 2018 and its principal activity is owning, leasing and/or financing of aircraft.

(ii) SHARE CAPITAL

As at the LPD, Red 2 has 1 issued common share of par value of USD0.01.

(iii) SUBSTANTIAL SHAREHOLDERS

As at the LPD, Red 2 is a wholly-owned directly subsidiary of AACL, which in turn is a wholly-owned indirect subsidiary of our Company.

(iv) DIRECTORS

As at the LPD, the directors of Red 2 are as follows:

Name	Nationality	Designation
Ciaran Madigan	Irish	Director
Julian Dunphy	Irish	Director

As at the LPD, none of the company's directors has direct and indirect shareholdings in Red 2.

(v) SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, the details of the subsidiaries of Red 2 are as follows:

Name of company	Date and place of incorporation	Issued share capital (EUR)	Effective equity interest (%)	Principal activities
Merah Aircraft 3 Ltd	23 February 2018 / Dublin, Ireland	1	100	Owning, leasing and/or financing aircraft
Merah Aircraft 4 Ltd	23 February 2018 / Dublin, Ireland	1	100	Owning, leasing and/or financing aircraft

(vi) SUMMARY OF FINANCIAL INFORMATION

There is no audited financial information on Red 2 as the company is newly incorporated.

INFORMATION ON DISPOSAL SUBSIDIARIES (CONT'D)

3. INFORMATION ON RED 3**(i) BACKGROUND**

Red 3 was incorporated as an exempted company under the laws of Bermuda on 22 February 2018 and its principal activity is owning, leasing and/or financing of aircraft.

(ii) SHARE CAPITAL

As at the LPD, Red 3 has 1 issued common share of par value of USD0.01.

(iii) SUBSTANTIAL SHAREHOLDERS

As at the LPD, Red 3 is a wholly-owned direct subsidiary of AACL, which in turn is a wholly-owned indirect subsidiary of our Company.

(iv) DIRECTORS

As at the LPD, the directors of Red 3 are as follows:

Name	Nationality	Designation
Ciaran Madigan	Irish	Director
Julian Dunphy	Irish	Director

As at the LPD, none of the company's directors has direct and indirect shareholdings in Red 3.

(v) SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, the details of the subsidiaries of Red 3 are as follows:

Name of company	Date and place of incorporation	Issued share capital (EUR)	Effective equity interest (%)	Principal activities
Merah Aircraft 5 Ltd	23 February 2018 / Dublin, Ireland	1	100	Owning, leasing and/or financing aircraft

(vi) SUMMARY OF FINANCIAL INFORMATION

There is no audited financial information on Red 3 as the company is newly incorporated.

INFORMATION ON DISPOSAL SUBSIDIARIES (CONT'D)

4. INFORMATION ON RED 4**(i) BACKGROUND**

Red 4 was incorporated as an exempted company under the laws of Bermuda on 22 February 2018 and its principal activity is owning, leasing and/or financing of aircraft.

(ii) SHARE CAPITAL

As at the LPD, Red 4 has 1 issued common share of par value of USD0.01

(iii) SUBSTANTIAL SHAREHOLDERS

As at the LPD, Red 4 is a wholly-owned direct subsidiary of AACL, which in turn is a wholly-owned indirect subsidiary of our Company.

(iv) DIRECTORS

As at the LPD, the directors of Red 4 and their respective shareholdings in Red 4 are as follows:

<u>Name</u>	<u>Nationality</u>	<u>Designation</u>
Ciaran Madigan	Irish	Director
Julian Dunphy	Irish	Director

As at the LPD, none of the company's directors has direct and indirect shareholdings in Red 4.

(v) SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, the details of the subsidiaries of Red 4 are as follows:

<u>Name of company</u>	<u>Date and place of incorporation</u>	<u>Issued share capital (EUR)</u>	<u>Effective equity interest (%)</u>	<u>Principal activities</u>
Merah Aircraft 6 Ltd	23 February 2018 / Dublin, Ireland	1	100	Owning, leasing and/or financing aircraft

(vi) SUMMARY OF FINANCIAL INFORMATION

There is no audited financial information on Red 4 as the company is newly incorporated.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON



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REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared for inclusion in the Circular to Shareholders to be dated 27 April 2018)

25 April 2018

The Board of Directors
 AirAsia Group Berhad
 Unit 30-01, Level 30, Tower A,
 Vertical Business Suite, Avenue 3,
 Bangsar South, No. 8, Jalan Kerinchi,
 59200 Kuala Lumpur,
 Malaysia.

Dear Sirs

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 FOR THE PROPOSED DISPOSAL BY AIRASIA GROUP BERHAD OF ITS AIRCRAFT LEASING OPERATIONS ("PROPOSED DISPOSALS")

We have completed our assurance engagement to report on the compilation of pro forma consolidated statement of financial position of AirAsia Group Berhad (the "Company or AAGB") prepared by the Directors of the Company. The pro forma consolidated statement of financial position as at 31 December 2017 and the related notes are as set out in Appendix 1 which we have stamped for the purpose of identification.

The pro forma consolidated statement of financial position for inclusion in the circular to shareholders of the Company in relation to the Proposed Disposals ("Circular") has been compiled by the Directors to illustrate the impact of the Proposed Disposals on AAGB's financial position as at 31 December 2017 as if the Proposed Disposals had taken place at 31 December 2017. As part of this process, information about the financial position has been extracted by the Directors from the financial statements of AAGB and AirAsia Berhad ("AAB") for the financial period/year ended 31 December 2017, on which audit reports have been published.

The Directors' Responsibility for the Pro Forma Consolidated Statement of Financial Position

The Directors are responsible for compiling the pro forma consolidated statement of financial position on the basis described in Appendix 1 to this report.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities

Our responsibility is to express an opinion, about whether the pro forma consolidated statement of financial position has been compiled, in all material respects, by the Directors on the basis of the applicable criteria.

We conducted our engagement in accordance with the Malaysian Approved Standard on Assurance Engagements, ISAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the pro forma consolidated financial information on the basis of the applicable criteria.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma consolidated statement of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma consolidated statement of financial position.

The purpose of the pro forma consolidated statement of financial position included in a Circular is solely to illustrate the impact of the Proposed Disposals on the unadjusted statement of financial position of the entity as if the Proposed Disposals had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Disposals would have been as presented.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)

**Our Responsibilities (Contd.)**

A reasonable assurance engagement to report on whether the pro forma consolidated statement of financial position has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma consolidated statement of financial position provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Disposals, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma consolidated statement of financial position reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Company, the Proposed Disposals in respect of which the pro forma consolidated statement of financial position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated statement of financial position.

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

Opinion

In our opinion, the pro forma consolidated statement of financial position has been compiled, in all material respects, on the basis described in Note 1 of Appendix 1.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)

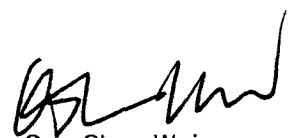
**Other matters**

This letter is issued for the sole purpose of complying with the Prospectus Guidelines - Equity issued by the Securities Commission in connection with the Proposed Disposals. Our work had been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this letter is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the Proposed Disposals described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this letter in connection with any type of transaction, including the sale of securities other than the Proposed Disposals.

Yours faithfully

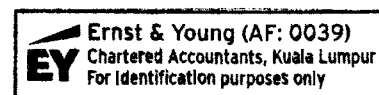


Ernst & Young
AF: 0039
Chartered Accountants



Ong Chee Wai
No. 2857/07/18(J)
Chartered Accountant

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)

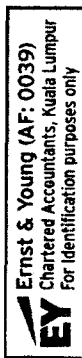


APPENDIX 1

**AIRASIA GROUP BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017**

The pro forma consolidated statement of financial position of AirAsia Group Berhad ("AAGB") as at 31 December 2017 as set out below is presented for illustrative purposes only and is based on the audited statement of financial position of AAGB and consolidated statement of financial position of AirAsia Berhad ("AAB") as at 31 December 2017 to show the effects of the internal reorganisation, subsequent material events and the Proposed Disposals had they been effected on 31 December 2017 and should be read in conjunction with the Notes thereon.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

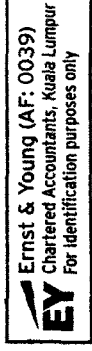
**AIRASIA GROUP BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONT'D)**

	Audited as at 31.12.17		Pro forma I		Pro forma II		Pro forma III		Pro forma IV	
	AAGB RM'000	AAB RM'000	After completion of the Internal Reorganisation	Note	Pro forma I and subsequent material events	Note	After Pro forma II and Herondell Disposal	Note	Pro forma III, Proposed Disposal to Incline B and Proposed Disposal to Fly	Note
			RM'000		RM'000		RM'000		RM'000	
Non-current assets										
Property, plant and equipment	-	12,303,522	12,303,522		13,395,211	2. ii.	11,851,123	2. iii a)	5,466,604	2. iv. a)
Investment in joint ventures	-	5,596	5,596		5,596		5,596		5,596	
Investment in associates	-	548,558	548,558		548,558		548,558		548,558	
Available-for-sale financial assets	-	301,518	301,518		301,518		301,518		707,568	2. iv. e)
Intangible assets	-	609,329	609,329		609,329		609,329		609,329	
Deferred tax assets	-	486,880	486,880		486,880		546,402	2. iii a)	1,167,588	2. iv. a)
Receivables and prepayments	-	2,301,531	2,301,531		2,301,531		2,301,531		2,301,531	
Deposits on aircraft purchase	-	412,272	412,272		412,272		412,272		412,272	
Derivative financial instruments	-	382,177	382,177		382,177		382,177		382,177	
	-	17,351,383	17,351,383		18,443,072		16,958,506		11,601,223	
Current assets										
Inventories	-	68,234	68,234		68,234		68,234		68,234	
Receivables and prepayments	-	1,482,291	1,482,291		1,482,291		1,486,476	2. iii c)	1,546,902	2. iv. c)
Deposits on aircraft purchase	-	503,914	503,914		503,914		503,914		503,914	
Derivative financial instruments	-	205,380	205,380		205,380		205,380		205,380	
Amounts due from joint ventures	-	4,893	4,893		4,893		4,893		4,893	
Amounts due from associates	-	147,617	147,617		147,617		147,617		147,617	
Amounts due from related parties	-	7,875	7,875		7,875		7,875		7,875	
Tax recoverable	-	20,296	20,296		20,296		20,296		20,296	
Deposits, cash and bank balances	-*	1,882,195	1,880,695	2. i.	1,392,580	2. ii.	2,058,350	2. iii d)	5,139,147	2. iv. e)
	-	4,322,695	4,321,195		3,833,080		4,503,035		7,644,258	

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OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)

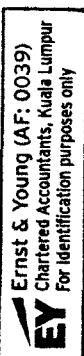


APPENDIX I

**AIRASIA GROUP BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONT'D.)**

	Audited as at 31.12.17				AAGB			
	AAGB RM'000	AAB RM'000	Pro forma I Note	Pro forma II Note	Pro forma III Note	Pro forma IV Note	Pro forma V Note	Pro forma VI Note
Current liabilities								
Trade and other payables	6	2,148,682	2,148,688	2,148,688	2,148,688	2,148,688	2,660,805	2,660,805
Aircraft maintenance provisions	-	178,569	178,569	178,569	178,569	178,569	178,569	178,569
Sales in advance	-	938,342	938,342	938,342	938,342	938,342	938,342	938,342
Amounts due to associates	-	59,499	59,499	59,499	59,499	59,499	59,499	59,499
Amounts due to related parties	-	94,019	94,019	94,019	94,019	94,019	94,019	94,019
Borrowings	-	1,821,847	1,821,847	1,821,847	1,821,847	1,821,847	1,821,847	1,821,847
Provision for taxation	-	18,033	18,033	18,033	18,033	18,033	18,033	18,033
Derivative financial instruments	-	74,852	74,852	74,852	74,852	74,852	74,852	74,852
	6	5,333,843	5,333,849	5,333,849	5,333,849	5,333,849	5,845,966	5,845,966
Net current (liabilities)/assets	(6)	(1,011,148)	(1,012,654)	(1,500,769)	(830,814)	(830,814)	1,798,292	1,798,292
Non-current liabilities								
Trade and other payables	-	1,239,024	1,239,024	1,244,409	1,379,655	1,379,655	2,814,239	2,814,239
Aircraft maintenance provisions	-	559,069	559,069	559,069	559,069	559,069	366,862	366,862
Deferred tax liabilities	-	104,954	104,954	104,954	104,954	104,954	104,954	104,954
Amounts due to associates	-	86,292	86,292	86,292	86,292	86,292	86,292	86,292
Amount due to a related party	-	10,939	10,939	10,939	10,939	10,939	10,939	10,939
Borrowings	-	7,486,787	7,486,787	8,084,976	8,084,976	7,022,005	1,708,027	1,708,027
Derivative financial instruments	-	70,883	70,883	70,883	70,883	70,883	70,883	70,883
Provision for retirement benefits	-	72,207	72,207	72,207	72,207	72,207	72,207	72,207
	-	9,630,155	9,630,155	10,233,729	9,306,004	9,306,004	5,234,403	5,234,403
	(6)	6,710,080	6,708,574	6,708,574	6,821,688	6,821,688	8,165,112	8,165,112

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX I

**AIRASIA GROUP BERHAD
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONT'D.)**

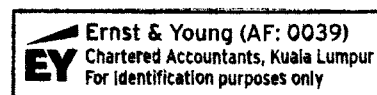
	AAGB				
	Audited as at 31.12.17	Pro forma I	Pro forma II	Pro forma III	Pro forma IV
	RM'000	RM'000	RM'000	RM'000	RM'000
Capital and reserves					
Share capital	-*	2,515,438	7,573,232	7,573,232	7,573,232
Merger deficit	-	-	(5,057,954)	(5,057,954)	(5,057,954)
Treasury shares	-	(160)	-	-	-
Foreign exchange reserve	-	196,050	196,050	196,050	196,050
Retained earnings	(6)	5,404,393	5,402,887	5,489,557	6,801,091
Other reserves	-	(67,608)	(67,608)	(41,164)	(9,274)
	(6)	8,048,113	8,046,607	8,159,721	9,503,145
	-	(1,338,033)	(1,338,033)	(1,338,033)	(1,338,033)
Non-controlling interests	(6)	6,710,080	6,708,574	6,821,688	8,165,112
Number of ordinary shares ('000)	**	3,341,974	3,341,974	3,341,974	3,341,974
Net asset per share ('RM)	(3,000)	2.41	2.41	2.44	2.84

* The issued share capital of AAGB was RM2 as at 31 December 2017.

** Based on the existing 2 AAGB shares.

This pro forma consolidated statement of financial position should be read in conjunction with the following notes.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017****1. Basis of preparation**

The pro forma consolidated statement of financial position of AAGB for which the Directors are solely responsible, has been prepared for illustrative purposes only for the inclusion in the circular to shareholders of AAGB.

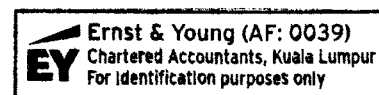
The pro forma consolidated statement of financial position illustrates the effect of the proposed disposal by AAGB of its leasing operations, had the Proposed Disposals been implemented and completed on 31 December 2017. The pro forma consolidated statement of financial position of AAGB takes into account the effects of the internal reorganisation by way of a scheme of arrangement comprising the exchange of AAB shares with AAGB shares on the basis of 1 new AAGB share for every 1 existing AAB share held on 6 April 2018. The internal reorganisation has been accounted for using merger accounting principles as there is no change to the shareholder group and it does not affect the consolidated financial statements of the existing AAB group of companies ("AAB Group"). Accordingly, the pro forma consolidated statement of financial position of AAGB represents the consolidation of the existing AAB Group.

The pro forma consolidated statement of financial position of AAGB has been properly compiled using the audited financial statements of AAGB and the audited consolidated financial statements of AAB for the financial period/year ended 31 December 2017 which was prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards, and in a manner consistent with both the format of financial statements and the accounting policies of AAGB and AAB.

The pro forma consolidated statement of financial position, because of its nature, may not be reflective of AAGB's actual financial position. Furthermore, such financial information does not purport to predict the future financial position of AAGB.

The pro forma consolidated statement of financial position is expressed in Ringgit Malaysia ("RM"), and rounded to the nearest thousand, unless otherwise stated. The foreign exchange rate of USD1.00: RM4.0605 used in this pro forma consolidated statement of financial position is consistent with the rate used in preparing the financial statements of AAGB and AAB as at 31 December 2017.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

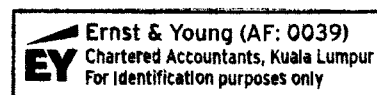
AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position**

The pro forma consolidated statement of financial position incorporates the effects of:

- a. The internal reorganisation of AAB through a scheme of arrangement comprising the exchange of AAB shares with AAGB shares on the basis of 1 new AAGB share for every 1 existing AAB share held on 6 April 2018 and AAGB assuming the listing status of AAB on the Main Market of Bursa Securities (the "Internal Reorganisation");
- b. Adjustments to account for subsequent material events between 1 January 2018 and 2 April 2018;
- c. The disposal of 9 aircraft held by Red Aircraft Holdings 1 Co., Ltd ("Red 1"), a wholly-owned subsidiary of AAB, under Asia Aviation Capital Limited ("AACL"), through the disposal of the entire equity interest in Red 1 and the outright sale of 4 aircraft (2 of which were delivered to AACL as at 2 April 2018 and the remaining 2 will be delivered to AACL after 2 April 2018) to Herondell Limited ("Herondell") for a disposal consideration of USD183.2 million (approximately RM743.9 million) ("Herondell Disposal");
- d. The proposed disposal of 35 aircraft held by Red Aircraft Holdings 2 Co., Ltd ("Red 2"), a wholly-owned subsidiary of AAB, under AACL, through the disposal of the entire equity interest in Red 2, as well as the outright sale of 3 aircraft and 7 aircraft engines to Incline Aladdin Holdings Limited ("Incline Aladdin") for a disposal consideration of USD548.5 million (approximately RM2,227.2 million) ("Proposed Disposal to Incline B").

As part of the arrangement, AACL or its nominee will commit to invest a total of USD50.0 million (approximately RM203.0 million) in Incline A Aviation LLC ("Incline A LLC") and Incline B Aviation Parallel Limited Partnership ("Incline B Parallel") (Incline A LLC and Incline B Parallel collectively, the "Incline Funds"), of which the initial capital commitment into the Incline B Parallel of approximately USD15.0 million (approximately RM60.9 million) is to be net settled against the disposal consideration of USD548.5 million (approximately RM2,227.2 million) for the Proposed Disposal to Incline B ("Incline B Disposal Consideration"), with the remaining approximately USD35.0 million (approximately RM142.1 million) remains as committed capital to the Incline Funds; and

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)**

- e. The proposed disposal of 32 aircraft held by Red Aircraft Holdings 3 Co., Ltd ("Red 3") and Red Aircraft Holdings 4 Co., Ltd ("Red 4"), both of which are wholly-owned subsidiaries of AAB, under AACL, through the disposal of the entire equity interests in Red 3 and Red 4, as well as the outright sale of 1 aircraft and 7 aircraft engines to Fly Aladdin Holdings Limited ("Fly Aladdin") for a total disposal consideration of USD453.3 million (approximately RM1,840.6 million) ("Proposed Disposal to Fly").

As part of the arrangement, AAB, AACL and FLY Leasing Limited ("FLY") will enter into a subscription agreement for the issuance and sale of up to 3,333,333 American Depositary Shares of FLY ("FLY Depositary Shares") at an issue price of USD15 (approximately RM60.90) per FLY Share to AACL. The subscription amount of USD50.0 million (approximately RM203.0 million) is to be net settled against the disposal consideration of USD453.3 million (approximately RM1,840.6 million).

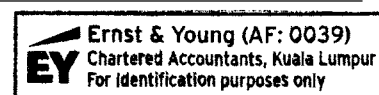
(the Herondell Disposal, Proposed Disposal to Incline B and Proposed Disposal to Fly are collectively known as the "Proposed Disposals").

The Internal Reorganisation and Proposed Disposals will have the following effects on the pro forma consolidated statement of financial position as at 31 December 2017.

i. Pro forma I - After completion of the Internal Reorganisation

The Internal Reorganisation involves the exchange of AAB shares with AAGB shares on the basis of 1 new AAGB share for every 1 existing AAB share held by shareholders on 6 April 2018. Upon the completion of the share exchange, AAGB is the new holding company of AAB Group and assumed the listing status of AAB on 16 April 2018. Accordingly, AAB was delisted from the Official List of Bursa Securities and AAGB is admitted to the Official List of Bursa Securities in place of AAB with the listing of and quotation for the entire number of issued shares of 3,341,974,082 AAGB shares (including the 2 existing AAGB shares, which are currently held by the existing shareholders) on the Main Market of Bursa Securities.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****i. Pro forma I - After completion of the Internal Reorganisation (contd.)**

The Internal Reorganisation has been accounted for using merger accounting principles as there is no change to the shareholder group and it does not affect the consolidated financial statements of the existing AAB Group. Accordingly, the consolidated financial statements of AAGB is a continuation of the existing AAB Group. The consolidated financial statements will reflect any difference in share capital (i.e. difference between AAGB's share capital of RM7,573.2 million and AAB's share capital of RM2,515.4 million) as an adjustment to equity, i.e. merger deficit of RM5,058.0 million.

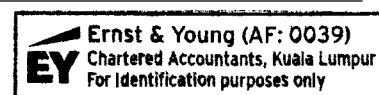
The estimated expenses in relation to the Internal Reorganisation amounted to RM1.5 million.

The pro forma effects of the Internal Reorganisation are illustrated below:

	Audited as at 31 December 2017		Increase/ (decrease) RM'000	Pro forma I RM'000
	AAGB RM'000	AAB RM'000		
Deposits, cash and bank balances	-*	1,882,195	(1,500)	1,880,695
Share capital	-*	2,515,438	5,057,794	7,573,232
Merger deficit	-	-	(5,057,954)	(5,057,954)
Treasury shares	-	(160)	160	-
Retained earnings	(6)	5,404,393	(1,500)	5,402,887

* The issued share capital of AAGB was RM2 as at 31 December 2017.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****ii. Pro forma II - After Pro forma I and subsequent material events**

Pro forma II takes into account the effects of the subsequent material events between 1 January 2018 and 2 April 2018. The subsequent material events are as follows:

- a) The AAGB group of companies ("AAGB Group" or "the Group") through its wholly-owned subsidiary, AACL, took delivery of 6 new aircraft between 1 January 2018 and 2 April 2018 at a total acquisition price of RM1,091.7 million. The acquisition was funded by borrowings totaling RM598.2 million and cash payments for the remaining acquisition price of the aircraft amounting to RM493.5 million. These aircraft form part of the total aircraft to be disposed to Herondell and Incline Aladdin; and
- b) AACL, upon entering into lease agreements with various third parties for the new aircraft, received lease deposits amounting to RM5.4 million.

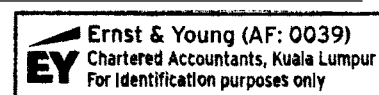
The pro forma effects of the subsequent material events are illustrated below:

	After Pro forma I RM'000	Increase/ (decrease) RM'000	Pro forma II RM'000
Property, plant and equipment	12,303,522	1,091,689	13,395,211
Deposits, cash and bank balances	1,880,695	(488,115)	1,392,580
Trade and other payables			
- non-current	1,239,024	5,385	1,244,409
Borrowings			
- non-current	7,486,787	598,189	8,084,976

iii. Pro forma III - After Pro forma II and Herondell Disposal

Pro forma III takes into account the effects of Herondell Disposal, which involves the proposed disposal of 9 aircraft (of which 3 aircraft were delivered to AACL as at 2 April 2018) held by Red 1, a wholly-owned subsidiary of AAB, under AACL, through the disposal of the entire equity interest in Red 1 and the outright sale of 4 aircraft (2 of which were delivered to AACL as at 2 April 2018) for a disposal consideration of USD183.2 million (approximately RM743.9 million).

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

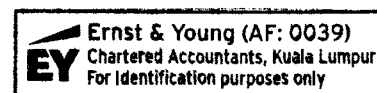
AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****iii. Pro forma III - After Pro forma II and Herondell Disposal (contd.)**

The disposal consideration of USD183.2 million (approximately RM743.9 million) is made up of acquisition of 11 aircraft of USD435.9 million (approximately RM1,769.8 million), the acquisition of 2 aircraft of USD91.9 million (approximately RM373.1 million) to be delivered after 2 April 2018 (as indicated in Note 2.1 to the Circular) net of debt financings for the aircraft of USD344.6 million (approximately RM1,399.2 million) by Herondell. The adjustments to the disposal consideration as indicated in Note 4.5 and Appendix I(A) to the Circular will have no material impact to this pro forma, as it is assumed that Herondell Disposal is completed as at 31 December 2017.

For the avoidance of doubt, the disposal consideration of USD435.9 million (approximately RM1,769.8 million) represents the disposal consideration for the 11 aircraft (9 aircraft held by Red 1 and outright sale of 2 aircraft delivered as at 2 April 2018).

From the Group perspective, the Herondell Disposal is considered a sale of aircraft. Further, upon completion of the disposal of aircraft, AAB and its affiliate airlines will enter into lease arrangements to lease 13 aircraft from Herondell. The Directors have determined that the lease of the aircraft will result in an operating lease arrangement. Pursuant to *MFRS 117: Leases*, this lease arrangements constitutes a sale and leaseback. *MFRS 117* states that if a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value, any profit or loss should be recognised immediately unless the loss is compensated by future lease payments at below market price, in which case it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used. For the purpose of this pro forma, it is assumed that the sale and the operating lease transactions are at fair value, hence the profit or loss arising from the sale and leaseback transactions are recognised immediately in profit or loss.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****iii. Pro forma III - After Pro forma II and Herondell Disposal (contd.)**

The pro forma effects of the Herondell Disposal are as follows:

- a) The net carrying amount of the 11 aircraft to be disposed (at disposal consideration of RM1,769.8 million) is RM1,544.1 million.

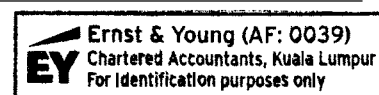
Based on tax advice, the disposal of the 11 aircraft would result in the de-recognition of deferred tax assets on investment tax allowance ("ITA"). AAB qualifies for ITA claim on new aircraft used for its airline business in Malaysia acquired from 1 July 2009 to 30 June 2014 with further extension of another 5 years to 30 June 2019. This is where deferred tax assets were recognised on unutilised ITA. However, the ITA will be clawed back if disposals happen within 5 years from June 2014. Further, deferred tax liabilities arising from temporary differences between tax written down value and net carrying amount of the aircraft are also needed to be reversed. The net effect of the de-recognition of deferred tax assets and reversal of deferred tax liabilities is the net increase in deferred tax assets of RM59.5 million.

	After Pro forma II RM'000	(Decrease)/ increase RM'000	Pro forma III RM'000
Property, plant and equipment	13,395,211	(1,544,088)	11,851,123
Deferred tax assets	486,880	59,522	546,402

- b) The disposal proceeds will be used to early-settle the Group's borrowings, resulting in reduction of term loan of RM1,063.0 million and corresponding de-recognition of cash flow hedge assets of RM26.4 million.

	After Pro forma II RM'000	(Decrease)/ Increase RM'000	Pro forma III RM'000
Borrowings	8,084,976	(1,062,971)	7,022,005
- non-current	(67,608)	26,444	(41,164)
Other reserves			

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD

NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)

2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)

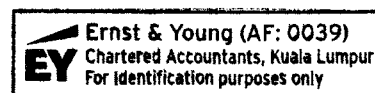
iii. Pro forma III - After Pro forma II and Herondell Disposal (contd.)

- c) Additional aircraft maintenance payables of RM144.5 million would need to be set aside from the disposal consideration to account for aircraft under operating lease where the Group is contractually committed to return the aircraft at the end of the lease term in a certain condition agreed with lessors. Accordingly, management would record aircraft maintenance payables comprising aircraft maintenance cost estimated using average engine flight hours per aircraft and engine maintenance cost per flight hour. The Group would also transfer the lease deposits recorded on the 11 aircraft of RM9.2 million to Herondell. This resulted in a net increase of RM135.2 million in non-current trade and other payables.

To secure the operating lease from Herondell, the Group would pay lease deposits to Herondell amounting to RM4.2 million.

	After Pro forma II RM'000	Increase RM'000	Pro forma III RM'000
Receivables and prepayments - current	1,482,291	4,185	1,486,476
Trade and other payables - non-current	1,244,409	135,246	1,379,655

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD

NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)

2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)

iii. Pro forma III - After Pro forma II and Herondell Disposal (contd.)

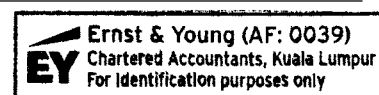
- d) The net movement in deposits, bank and cash balances of RM665.8 million is the result of proceeds from disposal consideration of the 11 aircraft totaling RM1,769.8 million net of early-retirement of borrowings of RM1,063.0 million, payment of borrowings related expenses amounting to RM20.4 million and expenses attributed to the disposal of RM7.3 million as well as the payment/transfer of lease deposits totaling RM13.4 million.

	After Pro forma II RM'000	Increase RM'000	Pro forma III RM'000
Deposits, cash and bank balances	1,392,580	665,770	2,058,350

- e) The Herondell Disposal resulted in a pro forma gain to the Group as illustrated below:

	RM'000	RM'000
Proceeds from disposal of 11 aircraft		1,769,834
Less aircraft related expenses:		
- Net carrying amount of disposed aircraft	(1,544,088)	
- Estimated expenses attributed to the disposal	(7,261)	(1,551,349)
Gain on disposal		218,485
Less finance related expenses:		
- Estimated costs related to retirement of borrowings	(20,405)	
- Recognition of additional aircraft maintenance payables	(144,488)	
- De-recognition of cash flow hedge assets	(26,444)	(191,337)
		27,148
Add: Deferred tax implication on the disposal		59,522
Net impact to profit or loss on disposal		86,670

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****iii. Pro forma III - After Pro forma II and Herondell Disposal (contd.)**

Movement in the retained earnings is as follows:

	After Pro forma II RM'000	Increase RM'000	Pro forma III RM'000
Retained earnings	5,402,887	86,670	5,489,557

iv. Pro forma IV - After Pro forma III, Proposed Disposal to Incline B and Proposed Disposal to Fly

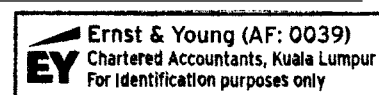
Pro forma IV takes into account the effects of Proposed Disposal to Incline B and Proposed Disposal to Fly.

The Proposed Disposal to Incline B involves the disposal of 35 aircraft held by Red 2, a wholly-owned subsidiary of AAB, under AACL, through the disposal of the entire equity interest in Red 2, as well as the outright sale of 3 aircraft (of which 1 aircraft was delivered as at 2 April 2018) and 7 aircraft engines to Incline Aladdin for a disposal consideration of USD548.5 million (approximately RM2,227.2 million).

The disposal consideration of USD548.5 million (approximately RM2,227.2 million) is made up of acquisition of aircraft and aircraft engines of USD1,248.8 million (approximately RM5,070.8 million) net of debt financings for the aircraft of USD700.3 million (approximately RM2,843.6 million) by Incline Aladdin. The adjustments to the disposal consideration as indicated in Note 4.5 and Appendix II(B) to the Circular will have no material impact to this pro forma, as it is assumed that Proposed Disposal to Incline B is completed as at 31 December 2017.

The Proposed Disposal to Fly involves the disposal of 32 aircraft held by Red 3 and Red 4, both of which are wholly-owned subsidiaries of AAB, under AACL, through the disposal of the entire equity interests in Red 3 and Red 4, as well as the outright sale of 1 aircraft and 7 aircraft engines to Fly Aladdin for a total disposal consideration of USD453.3 million (approximately RM1,840.6 million).

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****iv. Pro forma IV - After Pro forma III, Proposed Disposal to Incline B and Proposed Disposal to Fly (contd.)**

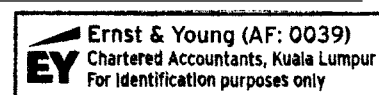
The disposal consideration of USD453.3 million (approximately RM1,840.6 million) is made up of acquisition of aircraft of USD1,069.6 million (approximately RM4,343.2 million) net of debt financings for the aircraft of USD616.3 million (approximately RM2,502.6 million) by Fly Aladdin. The adjustments to the disposal consideration as indicated in Note 4.5 and Appendix II(D) to the Circular will have no material impact to this pro forma, as it is assumed that Proposed Disposal to Fly is completed as at 31 December 2017.

For the avoidance of doubt, the total disposal consideration of USD1,001.8 million (approximately RM4,067.8 million) on the Proposed Disposal to Incline B and the Proposed Disposal to Fly represents the total disposal consideration for the 67 aircraft that would be held by Red 2, Red 3 and Red 4, as well as the outright sale of 4 aircraft and 14 aircraft engines. It does not include the disposal consideration for a further 98 aircraft (as indicated in Note 2.8 to the Circular) that can be acquired by Incline Aladdin and Fly Aladdin which will be determined in a future date.

From the Group perspective, the Proposed Disposal to Incline B and Proposed Disposal to Fly are considered sale of aircraft. Further, upon completion of the disposal of aircraft, AAB and its affiliate airlines would enter into lease arrangements to lease 66 aircraft and 14 aircraft engines from Incline Aladdin and Fly Aladdin. The Directors have determined that the lease of the aircraft will result in an operating lease arrangement.

For the purpose of this pro forma, it is assumed that the sale and the operating lease transactions are at fair value, hence the profit or loss arising from the sale and leaseback transactions are recognised immediately in profit or loss.

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****iv. Pro forma IV - After Pro forma III, Proposed Disposal to Incline B and Proposed Disposal to Fly (contd.)**

The pro forma effects of the Proposed Disposal to Incline B and Proposed Disposal to Fly are as follows:

- a) The net carrying amount of the combined disposal of a total 71 aircraft and 14 aircraft engines (at disposal consideration of RM9,414.0 million) amounted to RM6,384.5 million.

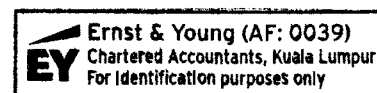
Based on tax advice, the disposal of the 71 aircraft and 14 aircraft engines would result in the de-recognition of deferred tax assets arising from unutilised ITA. Deferred tax liabilities arising from temporary differences between tax written down value and net carrying amount of the aircraft would also need to be reversed. The net impact of the above is a net increase in deferred tax assets of RM621.2 million.

	After Pro forma III RM'000	(Decrease)/ increase RM'000	Pro forma IV RM'000
Property, plant and equipment	11,851,123	(6,384,519)	5,466,604
Deferred tax assets	546,402	621,186	1,167,588

- b) The disposal proceeds will be used to early-settle the Group's borrowings, resulting in reduction of term loan of RM5,314.0 million and the corresponding de-recognition of cash flow hedge assets of RM31.9 million.

	After Pro forma III RM'000	(Decrease)/ increase RM'000	Pro forma IV RM'000
Borrowings - non-current	7,022,005	(5,313,978)	1,708,027
Other reserves	(41,164)	31,890	(9,274)

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****iv. Pro forma IV - After Pro forma III, Proposed Disposal to Incline B and Proposed Disposal to Fly (contd.)**

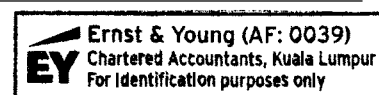
- c) The Group would transfer lease deposits recorded on the 71 aircraft disposed to both Incline Aladdin and Fly Aladdin of RM72.7 million and unwind the non-current lease deposits discounting of RM16.1 million. The Group would also record additional aircraft maintenance payables of RM2,003.3 million (comprising RM512.1 million and RM1,491.2 million in current and non-current portion, respectively), resulting in a net increase of RM512.1 million and RM1,434.6 million in current and non-current trade and other payables, respectively.

It would also transfer maintenance reserve funds collected on the 71 aircraft disposed amounting to RM192.2 million.

To secure the operating lease from both Incline Aladdin and Fly Aladdin, the Group would pay lease deposits to Incline Aladdin and Fly Aladdin totalling RM60.4 million.

	After Pro forma III RM'000	Increase/ (decrease) RM'000	Pro forma IV RM'000
Receivables and prepayments			
- current	1,486,476	60,426	1,546,902
Trade and other payables			
- current	2,148,688	512,117	2,660,805
- non-current	1,379,655	1,434,584	2,814,239
Aircraft maintenance provisions:			
- non-current	559,069	(192,207)	366,862

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)****iv. Pro forma IV - After Pro forma III, Proposed Disposal to Incline B and Proposed Disposal to Fly (contd.)**

d) Pursuant to the terms of the transaction between the Group, Incline Aladdin and Fly Aladdin, the Group is committed to invest in:

- (i) Unquoted Incline Funds amounting to USD50.0 million (approximately RM203.0 million); and
- (ii) Quoted FLY Depository Shares amounting to USD50.0 million (approximately RM203.0 million)

(collectively known as the "Investments").

It is assumed that the fair value of the Investments approximates the USD100.0 million (approximately RM406.0 million) committed investment.

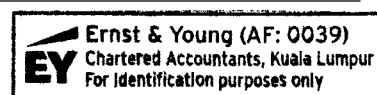
e) The net movement in deposits, cash and bank balances of RM3,080.8 million is the result of:

- (i) Proceeds from disposal consideration of the 71 aircraft and 14 aircraft engines totaling RM9,414.0 million;
- (ii) Early repayment of borrowings of RM5,314.0 million;
- (iii) Payment and transfer of lease deposits amounting to RM133.2 million;
- (iv) Transfer of maintenance reserve funds collected on the 71 aircraft totaling RM192.2 million;
- (v) Cash outflow to invest in the Investments of RM406.0 million; and
- (vi) Payment of borrowings related expenses of RM178.7 million and expenses attributed to the disposal of RM109.2 million.

The disposal consideration that would be repaid in shares in unquoted Incline Aladdin funds and quoted FLY Depository Shares would be classified as available-for-sale financial assets.

	After Pro forma III RM'000	Increase RM'000	Pro forma IV RM'000
Available-for-sale financial assets	301,518	406,050	707,568
Deposits, bank and cash balances	2,058,350	3,080,797	5,139,147

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD

NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)

2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)

iv. Pro forma IV - After Pro forma III, Proposed Disposal to Incline B and Proposed Disposal to Fly (contd.)

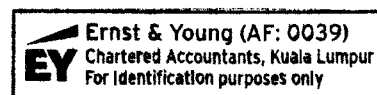
- f) The Proposed Disposal to Incline B and Proposed Disposal to Fly resulted in a pro forma gain to the Group as illustrated below:

	RM'000	RM'000
Proceeds from disposal of 71 aircraft and 14 aircraft engines		9,414,044
Less aircraft related expenses:		
- Net carrying amount of disposed aircraft	(6,384,519)	
- Estimated expenses attributed to the disposal	(109,179)	(6,493,698)
Gain on disposal		2,920,346
Less finance related expenses:		
- Estimated costs related to retirement of borrowings	(178,673)	
- Recognition of additional aircraft maintenance payables	(2,003,321)	
- Unwinding of discount on non-current lease deposits	(16,114)	
- De-recognition of cash flow hedge assets	(31,890)	(2,229,998)
		690,348
Add: Deferred tax implication on disposal		621,186
Net impact to profit or loss on disposal		1,311,534

Movement in the retained earnings is as follows:

	After Pro forma III RM'000	Increase RM'000	Pro forma IV RM'000
Retained earnings	5,489,557	1,311,534	6,801,091

OUR PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (CONT'D)



APPENDIX 1

AIRASIA GROUP BERHAD**NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTD.)****2. Effects on the Pro Forma Consolidated Statement of Financial Position (Contd.)**

The total disposal consideration arising from the Herondell Disposal, the Proposed Disposal to Incline B and the Proposed Disposal to Fly is approximately RM11,183.9 million.

The estimated net gain on disposal (after taking into consideration of deferred tax impacts) arising from the Herondell Disposal, the Proposed Disposal to Incline B and the Proposed Disposal to Fly is approximately RM1,398.2 million.

3. Effects of adoption of MFRS 16: Leases

On 1 January 2019, MFRS 16 will replace *MFRS 117: Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives* and *IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Of the 82 aircraft and 14 aircraft engines disposed, AAGB and its subsidiaries will leaseback 53 aircraft and 13 aircraft engines. A preliminary assessment indicates that the application of MFRS 16 on the operating leases of the 53 aircraft and 13 aircraft engines mentioned above would result in the Group recognising right-of-use assets and a corresponding liability in respect of these leases of approximately USD874.4 million (approximately RM3,550.5 million) with no material impact to the Group's net assets upon initial adoption of MFRS 16. The exact financial effect on the Group's statement of financial position on the adoption of MFRS 16 will be determined when the Group completes its assessment.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-33701

FLY LEASING LIMITED

(Exact name of Registrant as specified in its charter)

Bermuda

(Jurisdiction of incorporation or organization)

West Pier Business Campus

Dun Laoghaire

County Dublin, A96 N6T7, Ireland

(Address of principal executive office)

Vincent Cannon, West Pier Business Campus, Dun Laoghaire, County Dublin, A96 N6T7, Ireland

Telephone number: +353 1 231 1900, Facsimile number: +353 1 231 1901

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

American Depositary Shares
Common Shares, par value of \$0.001 per share

New York Stock Exchange
New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares representing these shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

27,983,352 Common Shares, par value of \$0.001 per share.

100 Manager Shares, par value of \$0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark, if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

International Financial Reporting Standards as
issued by the International Accounting

U.S. GAAP Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

PRELIMINARY NOTE

This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

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. These statements and discussion below contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, objectives, expectations and intentions and other statements contained in this Annual Report that are not historical facts, as well as statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” or words of similar meaning. Such statements address future events and conditions concerning matters such as, but not limited to, our earnings, cash flow, liquidity and capital resources, compliance with debt and other restrictive financial and operating covenants, interest rates, dividends, acquisitions and dispositions of aircraft, and our ability to complete the AirAsia Transactions (as defined below) and achieve its anticipated benefits. 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. Actual results may differ materially from these expectations due to changes in political, economic, business, competitive, market and regulatory factors. We believe that these factors include, but are not limited to those described under Item 3 “Key Information — Risk Factors” and elsewhere in this Annual Report.

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

Unless the context requires otherwise, when used in this Annual Report, (1) the terms “Fly,” “Company,” “we,” “our” and “us” refer to Fly Leasing Limited and its subsidiaries; (2) the term “B&B Air Funding” refers to our subsidiary, Babcock & Brown Air Funding I Limited; (3) all references to our shares refer to our common shares held in the form of American Depositary Shares, or ADSs; (4) the term “BBAM LP” refers to BBAM Limited Partnership and its subsidiaries and affiliates; (5) the terms “BBAM” and “Servicer” refer to BBAM Aircraft Management LP, BBAM Aircraft Management (Europe) Limited, BBAM Aviation Services Limited and BBAM US LP collectively; (6) the term “Manager” refers to Fly Leasing Management Co. Limited, the Company’s manager; (7) the term “Fly-Z/C LP” refers to Fly-Z/C Aircraft Holdings LP; (8) the term “GAAM” refers to Global Aviation Asset Management; (9) the term “GAAM Portfolio” refers to the portfolio of 49 aircraft and other assets acquired from GAAM; (10) the term “ECAF-I Transaction” refers to the portfolio of 33 aircraft sold to ECAF I Ltd; and (11) the term “AirAsia Transactions” refers to the pending acquisition by Fly of (i) a portfolio of 34 Airbus A320-200 aircraft and seven engines, on operating leases, from AirAsia Berhad (“AirAsia”) and its subsidiary, Asia Aviation Capital Limited (“AACL”) in 2018, (ii) the portfolio of 21 Airbus A320neo family aircraft on operating leases to AirAsia and its affiliated airlines (the “AirAsia Group”) to be acquired as the aircraft deliver between 2019 and 2021 and (iii) the options to purchase an additional 20 Airbus A320neo family aircraft, not subject to lease, which begin delivering as early as 2019.

Unless indicated otherwise, all percentages and weighted average characteristics of the aircraft in our portfolio have been calculated using net book values as of December 31, 2017.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

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, which we lease under multi-year contracts to a diverse group of airlines throughout the world. Although we are organized under the laws of Bermuda, we are a resident of Ireland for tax purposes and are subject to Irish corporation tax on our income in the same way, and to the same extent, as if we were organized under the laws of Ireland. We completed our initial public offering on October 2, 2007. We are listed on the New York Stock Exchange under the ticker symbol "FLY."

As of December 31, 2017, we had 85 aircraft in our portfolio, of which 84 were held for operating lease and one was recorded as an investment in finance lease.

Selected Financial Data

The following selected financial data should be read in conjunction with Item 5 "Operating and Financial Review and Prospects" and our audited consolidated financial statements and notes related thereto included in Item 18 "Financial Statements" in this Annual Report. The selected financial data presented below are our operating results for the years ended December 31, 2017, 2016, 2015, 2014 and 2013.

	(Dollars in thousands, except per share data)				
	Years ended				
	2017	2016	2015	2014	2013
Statement of income data:					
Operating lease revenue	\$346,894	\$313,582	\$429,691	\$406,563	\$351,792
Gain on sale of aircraft	3,926	27,195	28,959	14,761	5,421
Total revenues	353,251	345,039	462,397	425,548	360,634
Total expenses	339,321	381,428	434,200	356,673	303,560
Net income (loss)	2,598	(29,112)	22,798	60,184	53,940
Earnings (loss) per share:					
Basic	\$ 0.09	\$ (0.88)	\$ 0.52	\$ 1.42	\$ 1.55
Diluted	\$ 0.09	\$ (0.88)	\$ 0.52	\$ 1.42	\$ 1.55
Dividends declared and paid per share	\$ —	\$ —	\$ 1.00	\$ 1.00	\$ 0.88
	(Dollars in thousands, except per share data)				
	As of December 31,				
	2017	2016	2015	2014	2013
Balance sheet data:					
Total assets	\$ 3,595,615	\$ 3,447,009	\$ 3,424,480	\$ 4,218,408	\$ 3,660,679
Total liabilities	3,051,906	2,853,774	2,767,516	3,462,154	2,918,583
Total shareholders' equity	543,709	593,235	656,964	756,254	742,096
Number of shares outstanding	27,983,352	32,256,440	35,671,400	41,432,998	41,306,338

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Risk Factors

The risks discussed below could materially and adversely affect our business, prospects, financial condition, results of operations, cash flows and the trading price of our shares. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, prospects, financial condition, results of operations, cash flows and the trading price of our shares.

Risks Related to Our Business

Factors that increase the risk of decline in aircraft value and achievable lease rates could have an adverse effect on our financial results and growth prospects and on our ability to meet our debt obligations.

Aircraft values and achievable lease rates have from time to time experienced sharp decreases due to a number of factors including, but not limited to, decreases in passenger and air cargo demand, increases in fuel costs, government regulation and increases in interest rates. Operating leases place the risk of realization of residual values on aircraft lessors because only a portion of the equipment's value is covered by contractual cash flows at lease inception. In addition to factors linked to the aviation industry generally, factors that may affect the value and achievable lease rates of our aircraft include:

- the particular maintenance, damage and operating history of the airframes and engines;
- the number of operators using a type of aircraft or engine;
- whether an aircraft is subject to a lease and, if so, whether the lease terms are favorable to the lessor;
- the age of our aircraft;
- airworthiness directives and service bulletins;
- aircraft noise and emission standards;
- any tax, customs, regulatory and other legal requirements that must be satisfied when an aircraft is purchased, sold or re-leased;
- compatibility of our aircraft configurations or specifications with other aircraft owned by operators of that type; and
- decreases in the creditworthiness of our lessees.

Any decrease in the values of and achievable lease rates for commercial aircraft that may result from the above factors or other unanticipated factors may have a material adverse effect on our financial results and growth prospects and our ability to meet our debt obligations.

Our business model depends on the continual leasing and re-leasing of our aircraft, and we may not be able to do so on favorable terms, which would negatively affect our financial condition, cash flows and financial results.

Our business model depends on the continual leasing and re-leasing of our aircraft to generate sufficient cash flows to finance our growth and operations, make payments on our debt, and meet our other corporate and contractual obligations. Our ability to lease and re-lease our aircraft will depend on general market and competitive conditions at the time the leases are entered into and expire. Our ability to lease and re-lease aircraft on favorable terms, without significant off-lease time and costs, could be negatively affected by a number of factors, including general business, economic and financial conditions, market conditions in the airline industry, airline bankruptcies, restructurings and mergers, the effects of terrorism and other global conflicts, and other factors, including those described in these "Risk Factors" and elsewhere in this Annual Report, and unanticipated risks, many of which are outside of our control. If we are unable to lease and re-lease our aircraft on favorable terms, our financial condition, cash flows and financial results may be negatively impacted.

The variability of supply and demand for aircraft could depress lease rates and the value of our leased assets, which could have a material adverse effect on our financial results, our growth prospects and our ability to meet our debt obligations.

The aviation industry has experienced periods of aircraft oversupply and weak demand. The economic downturn and the slowdown in air travel between 2008 and early 2010 contributed to a decrease in the demand for aircraft. More recently, the airline industry has committed to a significant number of aircraft deliveries through order

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placements with manufacturers, and manufacturers have increased production rates of some aircraft types in response. The increase in production levels could result in an oversupply of these aircraft types if growth in airline traffic does not meet expectations. The oversupply of a specific type of aircraft in the market is likely to depress lease rates for, and the value of, that aircraft type. Any oversupply of new aircraft also could depress lease rates for, and the value of, used aircraft.

The supply and demand for aircraft is affected by various cyclical and non-cyclical factors that are not under our control, including:

- passenger air travel and air cargo demand;
- geopolitical and other events, including war, acts of terrorism, civil unrest, outbreaks of epidemic diseases and natural disasters;
- airline operating costs, including fuel costs;
- general economic conditions affecting our lessees' operations;
- governmental regulation, including new airworthiness directives, statutory limits on age of aircraft, and restrictions in certain jurisdictions on the age of aircraft for import, climate change initiatives and environmental regulation, and other factors leading to obsolescence of aircraft models;
- interest and foreign exchange rates;
- airline restructurings and bankruptcies;
- increased supply due to the sale of aircraft portfolios;
- availability and cost of credit;
- manufacturer production levels and technological innovation;
- retirement and obsolescence of aircraft models;
- manufacturers merging or exiting the industry or ceasing to produce aircraft or engine types;
- accuracy of estimates relating to future supply and demand made by manufacturers and lessees;
- reintroduction into service of aircraft or engines previously in storage; and
- airport and air traffic control infrastructure constraints.

Any of these factors may produce sharp and prolonged decreases in aircraft values and achievable lease rates, which would have a negative impact on the value of our fleet, and may prevent our aircraft from being leased or re-leased on favorable terms, or at all. Any of these factors could have a material adverse effect on our financial results, our growth prospects and our ability to meet our debt obligations.

We will need additional capital to finance our growth, fund potential aircraft purchase commitments, and refinance our existing debt, and we may not be able to obtain it on acceptable terms, or at all, which may adversely affect our financial condition, cash flows and financial results, and inhibit our ability to grow and compete in the commercial aircraft leasing market.

We will need additional capital to finance our growth, fund potential aircraft purchase commitments and refinance our existing debt. Our ability to acquire additional aircraft and to refinance our existing debt depends to a significant degree on our ability to access debt and equity capital markets. Our access to capital markets will depend on a number of factors including our historical and expected performance, compliance with the terms of our debt agreements, general market conditions, interest rate fluctuations and the relative attractiveness of alternative investments. In addition, volatility or disruption in the capital markets or a downgrade in our credit ratings could cause lenders to be reluctant or unable to provide us with financing on terms acceptable to us, or to increase the costs of such financing.

We compete with other lessors and airlines when acquiring aircraft and our ability to grow our portfolio is dependent on our ability to access attractive financing. The terms of our debt facilities include significant restrictions on our ability to incur additional indebtedness. Depending on the terms of these facilities and market conditions at the time, we may have to rely more heavily on additional equity issuances, or on less efficient forms of debt financing that require a larger portion of our cash flows from operations, thereby reducing funds

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available for our operations, future business opportunities and other purposes. If we are unable to raise additional funds or obtain capital on attractive terms, our ability to finance growth opportunities and fund potential aircraft purchase commitments will be limited, and our ability to refinance our existing debt could be adversely affected. Any of the foregoing could have a material adverse effect on our financial condition, cash flows and financial results, and inhibit our ability to grow and compete in the commercial aircraft leasing market.

We have entered into residual value guarantees that may require us to make significant cash disbursements, which would reduce our cash flows and may negatively impact our financial results.

We have entered into residual value guarantees (“RVGs”) in which we agreed to guarantee the residual value of certain wide-body aircraft leased to commercial airlines by third parties. In an RVG, the third-party lessor agrees to pay us an upfront fee in exchange for our commitment to purchase the aircraft for a specified price at the expiry of the lease term if the third-party lessor elects to exercise the guarantee. We may enter into additional RVGs, if we perceive the economic benefit of the upfront payment to exceed the risk of payout.

We continuously re-evaluate our risk related to the RVGs based on a number of factors, including the estimated future base value of the aircraft based on third-party appraisals and information on similar aircraft remarketing in the secondary market. Assuming that we were required to pay the full aggregate amount of our outstanding RVGs and were unable to remarket any of the aircraft to offset our obligations, our maximum exposure as of December 31, 2017 would have been \$82.5 million.

The RVGs contain covenants requiring us to post cash collateral as security for our obligations upon the occurrence of certain corporate events, including a change in control, a downgrade in our corporate family rating beyond a specified threshold, or a sale of all or substantially all of our assets. Assuming that we were required to post the full aggregate amount of the cash collateral at December 31, 2017, it would have been \$23.0 million.

If we are required to pay amounts, or post cash collateral, under the RVGs, we may not have sufficient cash or other financial resources available to do so and may need to seek financing to fund these payments. Moreover, any unexpected decrease in the market value of the aircraft covered by RVGs would decrease our ability to recover the amounts payable to satisfy our obligations and cause us to incur additional charges to net income. We cannot assure you that the then-prevailing market conditions would allow us to lease the underlying aircraft at their anticipated fair values or in a timely manner. Honoring our RVGs could require us to make significant cash disbursements in a given year, which, in turn, would reduce our cash flow, and may negatively impact our financial results in that year.

Our future growth and profitability will depend on our ability to acquire aircraft and make other strategic investments.

Growth through future acquisitions of additional commercial aircraft requires the availability of capital. Even if capital were available, the market for commercial aircraft is cyclical, sensitive to economic instability and extremely competitive, and we may encounter difficulties in acquiring aircraft on favorable terms, or at all. A significant increase in our cost to acquire aircraft may make it more difficult for us to make accretive acquisitions. Any acquisition of aircraft may not be profitable to us. In addition, acquisition of additional aircraft and other investments that we may make, may expose us to risks that may harm our business, financial condition, cash flows and financial results, including risks that we may:

- impair our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions and investments;
- significantly increase our interest expense and financial leverage to the extent we incur additional debt to finance acquisitions and investments;
- incur or assume unanticipated liabilities, losses or costs associated with the aircraft that we acquire, or investments we may make; or
- incur other significant charges, including asset impairment or restructuring charges.

We operate in a highly competitive market for investment opportunities in aircraft.

The leasing and remarketing of commercial jet aircraft is highly competitive. We compete with other aircraft leasing companies, including AerCap Holdings N.V., Air Lease Corp., Airastle Limited, Aviation Capital Group, Bank of China Aviation, Boeing Capital Corporation, Bohai Leasing (which, in 2016, acquired Avolon Holdings

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Limited, and CIT Aerospace), Castlake, Dubai Aerospace Enterprise (which, in 2017, acquired AWAS), GE Commercial Aviation Services Limited (GECAS), ICBC Leasing, Intrepid Aviation Limited, Jackson Square Aviation, Macquarie Bank Limited, ORIX and SMBC Aviation Capital, among others. We also may encounter competition from other entities that selectively compete with us, including:

- airlines;
- aircraft manufacturers;
- financial institutions (including those seeking to dispose of repossessed aircraft at distressed prices);
- aircraft brokers;
- special purpose vehicles formed for the purpose of acquiring, leasing and selling aircraft; and
- public and private partnerships, investors and funds, including private equity and hedge funds.

Competition for a leasing transaction is based principally upon lease rates, delivery dates, lease terms, reputation, management expertise, aircraft condition, specifications and configuration and the availability of the types of aircraft necessary to meet the needs of the customer. Some of our competitors have significantly greater operating and financial resources than we have. In addition, some competing aircraft lessors have a lower overall cost of capital and may provide financial services, maintenance services or other inducements to potential lessees that we cannot provide.

Competition in the purchase and sale of used aircraft is based principally on the availability of used aircraft, price, the terms of the lease to which an aircraft is subject and the creditworthiness of the lessee.

Many of our competitors have order positions with Boeing and Airbus that guarantee them the delivery of new, highly desirable aircraft in the future. We do not currently have any order positions with aircraft manufacturers.

We rely on our lessees' continuing performance of their lease obligations.

We operate as a supplier to airlines and are indirectly impacted by the risks facing airlines today. Our success depends upon the financial strength of our lessees, our ability to assess the credit risk of our lessees and the ability of lessees to perform their contractual obligations to us. The ability of each lessee to perform its obligations under its lease will depend primarily on the lessee's financial condition and cash flow, which may be affected by factors beyond our control, including:

- competition;
- fare levels;
- air cargo rates;
- passenger air travel and air cargo demand;
- geopolitical and other events, including war, acts of terrorism, civil unrest, outbreaks of epidemic diseases and natural disasters;
- increases in operating costs, including the availability and cost of jet fuel and labor costs;
- labor difficulties;
- economic and financial conditions and currency fluctuations in the countries and regions in which the lessee operates; and
- governmental regulation of, or affecting, the air transportation business, including noise and emissions regulations, climate change initiatives and age limitations.

We expect that some lessees may encounter financial difficulties or suffer liquidity problems and, as a result, will struggle to make lease payments under our operating leases. For example, in 2017, we repossessed two aircraft previously leased to Air Berlin, after Air Berlin commenced insolvency proceedings in Germany and the United States. We further expect that lessees experiencing financial difficulties may seek a reduction in their lease rates or other concessions in lease terms. We could experience increased delinquencies, particularly in any future downturns in the airline industry, which could worsen the financial condition and liquidity problems of these lessees. In addition, many airlines are exposed to currency risk due to the fact that they earn revenues in their

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local currencies and certain of their liabilities and expenses are denominated in U.S. dollars, including lease payments to us. A delayed, missed or reduced rental payment from a lessee decreases our revenues and cash flows and may adversely affect our ability to make payments on our indebtedness.

We are typically not in possession of any aircraft while the aircraft are on lease to the lessees. Consequently, our ability to determine the condition of the aircraft or whether the lessees are properly maintaining the aircraft is limited to periodic inspections that we perform or that are performed on our behalf by third-party service providers or aircraft inspectors. A lessee's failure to meet its maintenance obligations under a lease could:

- result in a grounding of the aircraft;
- cause us to incur costs in restoring the aircraft to an acceptable maintenance condition to re-lease the aircraft;
- adversely affect lease terms in the re-lease of the aircraft; and
- adversely affect the value of the aircraft.

We cannot assure you that, in the event that a lessee defaults under a lease, any security deposit paid or letter of credit provided by the lessee will be sufficient to cover the lessee's outstanding or unpaid lease obligations and required maintenance expenses or be sufficient to discharge liens that may have attached to our aircraft.

Lease defaults could result in significant expenses and loss of revenues.

We have experienced, and may in the future experience, lessee defaults. For example, in 2017, two leases were terminated prior to their expiration dates. Repossession, re-registration and flight and export permissions after a lessee default typically result in greater costs than those incurred when an aircraft is redelivered at the end of a lease. These costs may include legal and other expenses of court or other governmental proceedings, including the cost of posting surety bonds or letters of credit necessary to effect repossession of an aircraft which could be significant, particularly if the lessee is contesting the proceedings or is in bankruptcy. Delays resulting from repossession proceedings also would increase the period of time during which an aircraft does not generate lease revenue. In addition, we may incur substantial maintenance, refurbishment or repair costs that a defaulting lessee has failed to pay and that are necessary to put the aircraft in a condition suitable for re-lease or sale. We may incur storage costs associated with any aircraft that we repossess and are unable to immediately place with another lessee. In addition, it may be necessary to pay off liens, taxes and governmental charges on the aircraft to obtain clear possession and to remarket the aircraft effectively, including liens that a defaulting lessee may have incurred in connection with the operation of its other aircraft.

It is likely that our rights upon a lessee default will vary significantly depending upon the jurisdiction of operation and the applicable law, including the need to obtain a court order for repossession of the aircraft and/or consents for deregistration or re-export of the aircraft. We anticipate that when a defaulting lessee is in bankruptcy, protective administration, insolvency or similar proceedings, additional limitations may apply. Certain jurisdictions give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or to assign it to a third party, or entitle the lessee or another third party to retain possession of the aircraft without paying lease rentals or performing all or some of the obligations under the relevant lease. In addition, certain of our lessees are owned in whole, or in part, by government-related entities, which could make it difficult to repossess our aircraft in that lessee's domicile. Accordingly, we may be delayed in, or prevented from, enforcing certain of our rights under a lease and in re-leasing the affected aircraft.

If we repossess an aircraft, we may not be able to export or deregister and profitably redeploy the aircraft. For instance, where a lessee or other operator flies only domestic routes in the jurisdiction in which an aircraft is registered, repossession may be more difficult, especially if the jurisdiction permits the lessee or the other operator to resist deregistration. Significant costs may also be incurred in retrieving or recreating aircraft records required for registration of the aircraft and obtaining a certificate of airworthiness for the aircraft or engine. In addition, we may not be able to re-lease a repossessed aircraft at a similar lease rate.

Lessee defaults and related expenses could result in significant expenses and loss of revenues, which may materially and adversely affect our financial condition, cash flows and financial results.

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Our lessees' failure to comply with their maintenance obligations on our aircraft could significantly harm our financial condition, cash flows and financial results.

The standards of maintenance observed by our lessees and the condition of aircraft at the time of sale or lease may affect the market values and rental rates of our aircraft. Under each of our leases, the lessee is primarily responsible for maintaining the aircraft and complying with all governmental requirements applicable to the lessee and to the aircraft, including operational, maintenance, government agency oversight, registration requirements and airworthiness directives. A lessee's failure to perform required maintenance during the term of a lease could result in a diminution in the value of an aircraft, an inability to re-lease the aircraft at favorable rates or at all, or a potential grounding of the aircraft.

Failure by a lessee to maintain an aircraft would also likely require us to incur maintenance and modification costs upon the termination of the applicable lease, which could be substantial, to restore the aircraft to an acceptable condition prior to re-leasing or sale. Even if we are entitled to receive maintenance payments, these payments may not cover the entire cost of actual maintenance required. If we are unable to re-lease an aircraft when it comes off-lease because we need to make repairs or conduct maintenance, we may realize a substantial loss of cash flow without any corresponding decrease in our debt service obligations with respect to that aircraft. Any failure by our lessees to maintain our aircraft may materially adversely affect our financial condition, cash flows and financial results.

If we experience abnormally high maintenance or obsolescence issues with any aircraft that we acquire, our financial results, cash flows and liquidity could be materially and adversely affected.

Aircraft are long-lived assets, requiring long lead times to develop and manufacture, with particular types and models becoming obsolete and less in demand over time when newer, more advanced aircraft are manufactured. By acquiring used aircraft, we have greater exposure to more rapid obsolescence of our fleet, particularly if there are unanticipated events shortening the life cycle of such aircraft, such as government regulation or changes in our airline customers' preferences. This may result in a shorter life cycle for our fleet and, accordingly, declining lease rates, impairment charges or increased depreciation expense.

As of December 31, 2017, the weighted average age of our aircraft was 6.4 years. In general, the costs of operating an aircraft, including maintenance and modification expenses, increase with the age of the aircraft. Further, variable expenses like fuel, crew size or aging aircraft corrosion control or modification programs and related airworthiness directives could make the operation of older aircraft more costly to our lessees and may result in increased lessee defaults or renegotiation of lease terms. We also may incur some of these increased maintenance expenses and regulatory costs upon acquisition or re-leasing of our aircraft. Any of these expenses or costs would have a material and adverse impact on our financial results.

Unlike new aircraft, used aircraft typically do not carry warranties as to their condition. As a result, we may not be able to claim any warranty related expenses on used aircraft. Although we may inspect an existing aircraft and its documented maintenance, usage, lease and other records prior to acquisition, we may not discover all defects during an inspection. Repairs and maintenance costs for existing aircraft are difficult to predict and generally increase as aircraft age and can be adversely affected by prior use. These costs could have a material and adverse impact on our cash flows and our liquidity.

The advent of superior aircraft and engine technology or the introduction of a new line of aircraft could cause our existing aircraft portfolio to become outdated and therefore less desirable, which could adversely affect our financial results and growth prospects.

As manufacturers introduce technological innovations and new types of aircraft and engines, certain aircraft in our existing aircraft portfolio may become less desirable to potential lessees or purchasers. Such technological innovations may increase the rate of obsolescence of existing aircraft faster than currently anticipated by our management or accounted for in our accounting policy. For example, the Boeing 787 and the Airbus A350, which entered production in recent years, provide improved fuel consumption and operating economics as compared to earlier aircraft types. In addition, Airbus has launched the A320neo family, and Boeing has launched the 737 MAX family of aircraft. These "next generation" narrow-body aircraft are expected to improve fuel consumption and to reduce noise, emissions and maintenance costs as compared to current models. In addition, Embraer, Bombardier Inc., Commercial Aircraft Corporation of China Ltd and PJSC United Aircraft Corporation in Russia could develop aircraft models that will compete with existing Airbus and Boeing aircraft. It is not

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certain how these new aircraft offerings will impact the demand and liquidity of existing equipment. In addition, the imposition of more stringent noise or emissions standards and the development of more fuel efficient engines could make aircraft in our portfolio less attractive for potential lessees and less valuable in the marketplace. Any of these risks could adversely affect our ability to lease or sell our aircraft on favorable terms or at all or our ability to charge rental amounts that we would otherwise seek to charge, all of which could have an adverse effect on our financial results and growth prospects.

The concentration of aircraft types in our portfolio could harm our business and financial results should any difficulties specific to these particular types of aircraft occur.

As of December 31, 2017, our aircraft portfolio contained a mix of aircraft types, including Airbus A319 aircraft, A320 aircraft, A321 aircraft, A330 aircraft, and A340 aircraft, and Boeing 737 aircraft, Boeing 757 aircraft, Boeing 777 aircraft and Boeing 787 aircraft. 64% of these aircraft are single-aisle, narrow-body aircraft, and 36% of these aircraft are wide-body aircraft, as measured by net book value. Our business and financial results could be negatively affected if the market demand for any of these aircraft types (or other types that we acquire in the future) declines, if any of them is redesigned or replaced by its manufacturer. Out-of-production aircraft, such as the Boeing 757 and Airbus A340, current models of the A320 family, known as the CEO, and Boeing 737, known as Next Generation, may have shorter useful lives or lower residual values due to obsolescence. In addition, if any of these aircraft types (or other types that we acquire in the future) should encounter technical or other difficulties, such affected aircraft types may be subject to grounding or diminution in value, and we may be unable to lease such affected aircraft types on favorable terms or at all. The inability to lease the affected aircraft types may harm our business and financial results to the extent the affected aircraft types comprise a significant percentage of our aircraft portfolio.

We have written down the value of some of our assets and we may be required to record further write-downs or losses upon sale of assets.

We test our assets for recoverability whenever events or changes in circumstances indicate that the carrying amounts for such assets are not recoverable from their expected, undiscounted cash flows. We also perform a fleet-wide recoverability assessment at least annually. This recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry as well as from information received from third party sources.

In the years ended December 31, 2017, 2016 and 2015, we recognized impairment charges of \$22.0 million, \$96.1 million and \$66.1 million, respectively. The impairment charges in 2016 and 2017 related primarily to wide-body aircraft, all of which are nearing the end of their useful lives. In the future, if expected cash flows related to any of our aircraft are adversely affected by factors including credit deterioration of a lessee, declines in rental rates, shortened economic life, residual value risk and other market conditions, then we may be required to recognize additional impairment charges that would reduce our total assets and shareholders' equity. For example, as aircraft approach the end of their economic useful lives, their carrying values may be more susceptible to non-recoverable declines in value because such assets will have a shorter opportunity in which to benefit from a market recovery.

In addition, if we dispose of an aircraft for a price that is less than its book value, then we would be required to recognize a loss that would reduce our total assets and shareholders' equity. Asset write downs or losses on sale of assets negatively impact our financial results during the period. A reduction in our shareholders' equity may negatively impact our ability to comply with covenants in certain of our debt facilities requiring us to maintain a minimum tangible net worth, and could result in an event of default under such facilities.

Our financial performance, and our ability to meet our potential aircraft purchase commitments, will depend in part in our ability to sell aircraft, and we may not be able to do so on favorable terms, or at all.

Our financial performance will depend in part in our ability to sell aircraft profitably. In addition, if we complete the AirAsia Transactions, we intend to sell a number of the aircraft in the initial 34 aircraft portfolio to reduce our leverage, manage our lessee and geographic concentrations, and provide part of the funding for our purchase and leaseback to the AirAsia Group of 21 new Airbus A320neo family aircraft currently on order, and delivering

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between 2019 and 2021. When we decide to dispose of an aircraft, BBAM, as our servicer, will arrange the disposition pursuant to the terms of the relevant servicing agreement. In doing so, BBAM will compete with other aircraft leasing companies, as well as with other types of entities with which we compete. Our ability to sell our aircraft profitably, or at all, will depend on conditions in the airline industry and general market and competitive conditions at the time we seek to sell. In addition, our ability to sell our aircraft will be affected by the maintenance, damage and operating history of the aircraft and its engines. Failure to sell aircraft regularly and profitably could have a material adverse effect on our financial condition, cash flows and financial results, and our ability to meet our potential aircraft purchase commitments.

Aircraft liens could impair our ability to repossess, re-lease or sell the aircraft in our portfolio.

In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, air navigation charges, landing charges, crew wages, maintenance charges, salvage or other obligations are likely, depending on the laws of the jurisdictions where aircraft operate, to attach to the aircraft in our portfolio (or, if applicable, to the engines separately). The liens may secure substantial sums that may, in certain jurisdictions or for limited types of liens (particularly fleet liens), exceed the value of the aircraft to which the liens have attached. Until they are discharged, the liens described above could impair our ability to repossess, re-lease or sell our aircraft.

If our lessees fail to fulfill their financial obligations, liens may attach to our aircraft. In some jurisdictions, aircraft liens or separate engine liens may give the holder thereof the right to detain or, in limited cases, sell or cause the forfeiture of the aircraft (or, if applicable, the engines separately). We cannot assure you that the lessees will comply with their obligations under the leases to discharge liens arising during the terms of the leases. We may, in some cases, find it necessary to pay the claims secured by such liens in order to repossess or sell the aircraft or obtain the aircraft or engines from a creditor thereof. These payments, and associated legal and other expenses, would be required expenses for us, and would negatively impact our cash flows and financial results.

We cannot assure you that lessees and governmental authorities will comply with the registration and deregistration requirements in the jurisdictions where our lessees operate.

All of our aircraft are required to be registered at all times with appropriate governmental authorities. Generally, in jurisdictions outside the United States, failure by a lessee to maintain the registration of a leased aircraft would be a default under the applicable lease, entitling us to exercise our rights and remedies thereunder. If an aircraft were to be operated without a valid registration, the lessee or, in some cases, the owner or lessor might be subject to penalties, which could result in a lien being placed on such aircraft. Failure to comply with registration requirements also could have other adverse effects, including inability to operate the aircraft and loss of insurance. We cannot assure you that all lessees will comply with these requirements.

An aircraft cannot be registered in two countries at the same time. Before an aviation authority will register an aircraft that has previously been registered in another country, it must receive confirmation that the aircraft has been deregistered by that country's aviation authority. In order to deregister an aircraft, the lessee must comply with applicable laws and regulations, and the relevant governmental authority must enforce these laws and regulations. Failure by lessees and governmental authorities to comply with or enforce deregistration requirements in the jurisdictions in which they operate could impair our ability to repossess, re-lease or sell our aircraft, and cause us to incur associated legal and other expenses, which would negatively impact our cash flows and financial results.

Our lessees may have inadequate insurance coverage or fail to fulfill their respective indemnity obligations, which could result in us not being covered for claims asserted against us and may negatively affect our business, financial condition and financial results.

Although we do not expect to control the operation of our leased aircraft, our ownership of the aircraft could give rise, in some jurisdictions, to strict liability for losses resulting from their operation. Our lessees are required to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and hull all risks and hull war risks insurance on the aircraft at agreed upon levels. However, they are not generally required to maintain political risk insurance. There may be circumstances under which it would be desirable for us to maintain "top-up" and/or political risk coverage at our expense, which would add to our operating expenses.

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Following the terrorist attacks of September 11, 2001, aviation insurers significantly reduced the amount of insurance coverage available to airlines for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. At the same time, they significantly increased the premiums for such third-party war risk and terrorism liability insurance and coverage in general. As a result, the amount of such third-party war risk and terrorism liability insurance that is available at any time may be below the amount required under the initial leases and required by the market in general.

We cannot assure you that the insurance maintained by our lessees will be sufficient to cover all types of claims that may be asserted against us. Any inadequate insurance coverage or default by lessees in fulfilling their indemnification or insurance obligations, as well as the lack of available insurance, could reduce the proceeds upon an event of loss and could subject us to uninsured liabilities, either of which could adversely affect our business, financial condition and financial results.

Risks associated with the concentration of our lessees in certain geographical regions could harm our business.

In addition to global economic conditions, our business is exposed to local economic and political conditions that can influence the performance of lessees located in a particular region. Such conditions can be adverse to us, and may include regional recession and financial or political emergencies, additional regulation or, in extreme cases, seizure of our aircraft. The effect of these conditions on payments to us will be more or less pronounced, depending on the concentration of lessees in the region with adverse conditions. In the year ended December 31, 2017, we had our largest concentration of total revenues in Asia and the South Pacific (44%), followed by Europe (33%), the Middle East and Africa (11%), North America (7%), and Mexico, South and Central America (5%). Severe recession in any of these regions, or the inability to resolve financial or political emergencies in any particular region where we have many customers, could result in additional failures of airlines and could have a material adverse effect on our business, financial condition and financial results.

The risks associated with the geographical concentration of our lessees may become exacerbated as our aircraft are re-leased to lessees or subleased to sublessees in other regions or as we acquire additional aircraft.

We derived approximately 67% of our total revenues for the year ended December 31, 2017 from airlines in emerging markets. Emerging markets have less developed economies and infrastructure and are often more vulnerable to business and political disturbances. The emerging markets in which our lessees were based have included Brazil, Chile, China, the Czech Republic, Ethiopia, India, Indonesia, Malaysia, Mexico, Moldova, the Philippines, Russia, Thailand, Turkey, the United Arab Emirates and Vietnam. These countries may experience significant fluctuations in GDP, interest rates and currency exchange rates, as well as civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of unexpected taxes or other charges by government authorities. The occurrence of any of these events in markets served by our lessees and the resulting economic instability may adversely affect our ownership interest in aircraft or the ability of lessees which operate in these markets to meet their lease obligations. As a result, lessees that operate in emerging market countries may be more likely to default than lessees that operate in developed countries. In addition, legal systems in emerging market countries may be less developed, which could make it more difficult for us to enforce our legal rights in such countries. For example, certain countries may not have fully implemented the Cape Town Convention on International Interests in Mobile Equipment, a treaty that, among other things, established international standards for the registration, protection and enforcement of lessors' and financiers' rights in aircraft. These matters may not be resolved on terms favorable to us, or in a timely fashion.

We may enter into strategic ventures which pose risks including a lack of complete control over the enterprise, and potential unforeseen risks, any of which may have a material adverse effect on our financial results and growth prospects.

We may occasionally enter into strategic ventures or investments with third parties. For example, we have a 57% investment in a joint venture that owns two Boeing 767-300 aircraft. We may have limited management rights in our strategic ventures and may not control decisions regarding the remarketing or sale of aircraft owned by these strategic ventures. If we are unable to resolve a dispute with a strategic partner that retains material managerial veto rights, we might reach an impasse that could require us to liquidate our investment at a time and in a

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manner that would result in our losing some or all of our original investment in the venture. These strategic ventures and investments also may subject us to unforeseen risks, including adverse tax consequences and additional reporting and compliance requirements. Any of these risks may have a material adverse effect on our financial results and growth prospects.

Risks Related to the Aviation Industry***Airline reorganizations could impair our lessees' ability to comply with their lease payment obligations to us.***

In recent years, multiple airlines have sought to reorganize and seek protection from creditors under their local laws and certain airlines have gone into liquidation. Bankruptcies have led to the grounding of significant numbers of aircraft, rejection of leases and negotiated reduction in aircraft lease rentals, with the effect of depressing aircraft market values. Additional reorganizations or liquidations by airlines under applicable bankruptcy or reorganization laws or further rejection or abandonment of aircraft by airlines in bankruptcy proceedings may depress aircraft values and aircraft lease rates. Additional grounded aircraft and lower market values would adversely affect our ability to sell our aircraft or re-lease our aircraft at favorable rates.

Changes in fuel prices can adversely affect the profitability of the airline industry and our lessees' ability to meet their lease payment obligations to us.

Fuel costs represent a major expense to airlines, significantly impacting the profitability of the airline industry and our lessees' operating results. Fuel prices fluctuate widely, driven primarily by international market conditions, geopolitical and environmental events, regulatory changes and currency exchange rates. In recent years, fuel prices have been volatile, increasing and decreasing rapidly due to factors outside of airlines' control.

Higher fuel costs may have a material adverse impact on airline profitability, including the profitability of our lessees. Due to the competitive nature of the airline industry, airlines may not be able to pass on increases in fuel prices to their customers by increasing fares. If they pass on the higher costs, it may adversely affect demand for air travel, which would reduce revenues to our customers. In addition, airlines may not be able to manage this risk by appropriately hedging their exposure to fuel price fluctuations.

A sustained period of lower fuel costs may adversely affect regional economies that depend on oil revenue, including those in which our lessees operate.

Government regulations could require substantial expenditures, reduce our profitability and limit our growth.

Certain aspects of our business are subject to regulation by state, federal and foreign governmental authorities. Aircraft are subject to regulations imposed by aviation authorities regarding aircraft maintenance and airworthiness. Laws affecting the airworthiness of aircraft generally are designed to ensure that all aircraft and related equipment are continuously maintained in proper condition to enable safe operation of the aircraft. Aircraft manufacturers also may issue their own recommendations. Airworthiness directives and similar requirements typically set forth particular special maintenance actions or modifications to certain aircraft types or models that the owners or operators of aircraft must implement.

Each lessee generally is responsible for complying with airworthiness directives with respect to its aircraft and is required to maintain the aircraft's airworthiness. To the extent that a lessee fails to comply with airworthiness directives required to maintain its certificate of airworthiness or other manufacturer requirements in respect of an aircraft or if the aircraft is not currently subject to a lease, we may have to bear the cost of such compliance. Under many leases, we have agreed to share with our lessees the cost of obligations under airworthiness directives (or similar requirements). These expenditures can be substantial and, to the extent we are required to pay them, our financial condition and cash flows could be materially and adversely affected.

In addition to these expenditures, which may be substantial, significant new requirements with respect to noise standards, emission standards and other aspects of our aircraft or their operation could cause our costs to increase and could cause the value of our aircraft portfolio to decrease. Other governmental regulations relating to noise and emissions levels may be imposed not only by the jurisdictions in which the aircraft are registered, possibly as part of the airworthiness requirements, but also by other jurisdictions where the aircraft operate. In addition, most countries' aviation laws require aircraft to be maintained under an approved maintenance program having defined procedures and intervals for inspection, maintenance and repair. To the extent that our aircraft are off-lease or a lessee defaults in effecting such compliance, we are required to comply with such requirements at our expense.

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The effects of various environmental regulations may negatively affect the airline industry. This may cause lessees to default on their lease payment obligations to us.

The airline industry is subject to increasingly stringent federal, state, local and international environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters, safe drinking water, aircraft noise, the management of hazardous substances, oils and waste materials, and other regulations affecting aircraft operations. Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated.

Jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with noise level standards. In addition to the current requirements, the United States and the International Civil Aviation Organization (“ICAO”) adopted set of standards for noise levels which applies to engines manufactured or certified on or after January 1, 2006. Currently, U.S. regulations do not require any phase-out of aircraft that qualify with the older standards applicable to engines manufactured or certified prior to January 1, 2006, but the European Union imposes operating limitations on aircraft that do not comply with the new standards and incorporates aviation-related emissions into the European Union’s Emissions Trading Scheme (“ETS”). ICAO has also adopted new, more stringent noise level standards to apply to new airplane type design with a maximum certificated takeoff weight of 55,000 kg or more on or after December 31, 2017; or with maximum certificated takeoff weight of less than 55,000 kg on or after December 31, 2020. The United States has proposed noise regulations to harmonize with the new ICAO standards.

The potential impact of ETS and ICAO standards on costs have not been completely identified. Concerns over global warming also could result in more stringent limitations on the operation of aircraft. Any of these regulations could limit the economic life of the aircraft and engines, reduce their value, limit our ability to lease or sell the non-compliant aircraft and engines or, if engine modifications are permitted, require us to make significant additional investments in the aircraft and engines to make them compliant. In addition, compliance with current or future regulations, taxes or duties imposed to deal with environmental concerns could cause lessees to incur higher costs and lead to higher ticket prices, which could mean lower demand for travel, thereby generating lower net revenues and resulting in an adverse impact on the financial condition of our lessees.

Failure to obtain certain required licenses, consents and approvals could negatively affect our ability to re-lease or sell aircraft, which would negatively affect our business, financial condition and financial results.

Aircraft leases often require specific licenses, consents or approvals. These include consents from governmental or regulatory authorities for certain payments under the leases and for the import, re-export or deregistration of the aircraft. Subsequent changes in applicable law or administrative practice may increase or otherwise modify these requirements. In addition, a governmental consent, once given, might be withdrawn. Any of these events could adversely affect our ability to re-lease or sell aircraft, which would negatively affect our business, financial condition and financial results.

If the effects of terrorist attacks and geopolitical conditions adversely impact the financial condition of the airlines, our lessees might not be able to meet their lease payment obligations, which would have an adverse effect on our financial results and growth prospects.

War, armed hostilities or terrorist attacks, or the fear of such events, could decrease demand for air travel or increase the operating costs of our customers. The situations in Iraq, Afghanistan, Syria, Iran, North Africa and Ukraine remain unsettled, and other international incidents, such as terrorist attacks in Belgium, France, Germany and Turkey, tension over North Korea’s nuclear program and territorial disputes in East Asia, may lead to regional or broader international instability. Future terrorist attacks, war or armed hostilities, large protests or government instability, or the fear of such events, could further negatively impact the airline industry and may have an adverse effect on the financial condition and liquidity of our lessees, aircraft values and rental rates and may lead to lease restructurings or aircraft repossessions, all of which could adversely affect our financial results and growth prospects.

Terrorist attacks and geopolitical conditions have negatively affected the airline industry, and concerns about geopolitical conditions and further terrorist attacks could continue to negatively affect airlines (including our lessees) for the foreseeable future, depending upon various factors, including: (i) higher costs to the airlines due to the increased security measures; (ii) decreased passenger demand and revenue due to safety concerns or the inconvenience of additional security measures; (iii) the price and availability of jet fuel; (iv) higher financing

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costs and difficulty in raising the desired amount of proceeds on favorable terms, or at all; (v) the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance has been or will continue to be available; (vi) the ability of airlines to reduce their operating costs and conserve financial resources, taking into account the increased costs incurred as a consequence of terrorist attacks and geopolitical conditions, including those referred to above; and (vii) special charges recognized by some airlines, such as those related to the impairment of aircraft and other long lived assets stemming from the above conditions.

Epidemic diseases, severe weather conditions, natural disasters or their perceived effects may negatively impact the airline industry and our lessees' ability to meet their lease payment obligations to us, which, in turn, could have an adverse effect on our financial results and growth prospects.

Over the past several years, there have been outbreaks of epidemic diseases, such as Ebola virus disease and Zika virus disease. If an outbreak of epidemic diseases were to occur, numerous responses, including travel restrictions, might be necessary to combat the spread of the disease. Even if restrictions are not implemented, it is likely that passengers would voluntarily choose to reduce travel. Outbreaks of epidemic diseases, or the fear of such events, could result in travel bans or could have an adverse effect on our financial results. Similarly, demand for air travel or the inability of airlines to operate to or from certain regions due to severe weather conditions or natural disasters, such as floods, earthquakes or volcanic eruptions, could have an adverse effect on our lessees' ability to make their lease payment obligations to us, which could negatively impact our financial results and growth prospects.

We are subject to various risks and requirements associated with transacting business in multiple countries which could have a material adverse effect on our business, financial condition and financial results.

Our international operations expose us to trade and economic sanctions and other restrictions imposed by the United States, the European Union (the "EU") and other governments or organizations. The U.S. Departments of Justice, Commerce, State and Treasury and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of economic sanctions laws, export control laws, the Foreign Corrupt Practices Act ("FCPA"), and other federal statutes and regulations, including those established by the Office of Foreign Assets Control ("OFAC"). In addition, the U.K. Bribery Act of 2010 (the "Bribery Act") prohibits both domestic and international bribery, as well as bribery across both private and public sectors. An organization that "fails to prevent bribery" by anyone associated with the organization can be charged under the Bribery Act unless the organization can establish the defense of having implemented "adequate procedures" to prevent bribery. Under these laws and regulations, various government agencies may require export licenses, may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries or with sanctioned persons or entities, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions. A violation of these laws or regulations could adversely impact our business, financial condition and financial results.

The European Union and the United States have imposed sanctions on Russia and certain businesses, sectors and individuals in Russia, including the airline industry. The European Union and the United States have also suspended the granting of certain types of export licenses to Russia. Russia has imposed its own sanctions on certain individuals in the United States and may impose other sanctions on the United States and the European Union and/or certain businesses or individuals from these regions. We cannot assure you that the current sanctions or any further sanctions imposed by the European Union, the United States or other international interests will not materially adversely affect our business, financial condition and financial results.

In 2016, the United States and European Union lifted certain nuclear-related secondary sanctions as provided by the Joint Comprehensive Plan of Action ("JCPOA") with Iran. Among other things, the sale or lease of civil passenger aircraft to most Iranian airlines is now permitted, subject to receipt of an appropriate license. Transactions with sanctioned individuals and entities, including aircraft sale and lease transactions with such persons, remain prohibited, and the United States retains the authority to revoke the sanctions relief provided by the JCPOA if Iran fails to meet its commitments thereunder. While we do not currently do business in Iran or with Iranian airlines, we may seek to do so in the future in compliance with applicable laws and regulations.

We and our Manager have implemented and maintain policies and procedures designed to ensure compliance with FCPA, OFAC, the Bribery Act and other export control, anti-corruption, anti-terrorism and anti-money

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laundering laws and regulations. We cannot assure you, however, that our directors, officers, consultants and agents will not engage in conduct for which we may be held responsible, nor can we assure you that our business partners will not engage in conduct which could materially affect their ability to perform their contractual obligations to us or even result in our being held liable for such conduct. Moreover, while we believe that we have been in compliance with all applicable sanctions laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to change. Violations of FCPA, OFAC, the Bribery Act and other export control, anti-corruption, anti-terrorism and anti-money laundering laws and regulations may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could have a material adverse effect on our business, financial condition and financial results.

Adverse conditions and disruptions in European economies could have a material adverse effect on our business.

Our business can be affected by a number of factors that are beyond our control, such as general geopolitical, economic and business conditions. Political uncertainty has created financial and economic uncertainty, most recently as a result of the United Kingdom's June 2016 referendum (commonly referred to as "Brexit") to withdraw from the European Union (the "EU"). The economic consequences of Brexit, including the possible repeal of open-skies agreements, could have a material adverse effect on our business. Further, many of the structural issues facing the EU following the global financial crisis of 2008 and Brexit remain, and problems could resurface that could affect market conditions, and, possibly, our business, financial results and liquidity, particularly if they lead to the exit of one or more countries from the European Monetary Union (the "EMU") or the exit of additional countries from the EU. If one or more countries exited the EMU, there would be significant uncertainty with respect to outstanding obligations of counterparties and debtors in any exiting country, whether sovereign or otherwise, and it would likely lead to complex and lengthy disputes and litigation.

We depend on aircraft and engine manufacturers' success in remaining financially stable and producing aircraft.

The supply of commercial aircraft is dominated by a few airframe manufacturers, including Boeing, Airbus, Embraer, ATR and Bombardier, and a limited number of engine manufacturers, such as GE Aircraft Engines, Rolls-Royce plc, Pratt & Whitney, a division of United Technologies Corporation, IAE International Aero Engines AG and CFM International, Inc. As a result, we will be dependent on the success of these manufacturers in remaining financially stable, producing products and related components which meet the airlines' demands, providing customer support and fulfilling any contractual obligations they may have to us.

In the event that the manufacturers provide deep discounts with respect to certain aircraft, that could affect our ability to effectively compete in the market, we may not be able to remarket similar aircraft in our fleet at a profit or at all. This could also lead to reduced market lease rates and aircraft values.

Risks Related to Our Relationship with BBAM LP

BBAM has conflicts of interest with us and may favor their own business interest and those of their other managed entities to our detriment.

Conflicts of interest will arise between us and BBAM LP with respect to our operations and business opportunities. BBAM LP acquires, manages and remarkets aircraft for lease or sale for us and for other entities, including entities in which the owners of BBAM LP, Summit Aviation Partners II LLC and its affiliates ("Summit"), Onex Corporation and its affiliates ("Onex"), and GIC Private Limited ("GIC") may have an economic interest. We may compete directly with such other managed entities for investment opportunities. For example, BBAM performs aircraft acquisition, disposition and management services pursuant to a joint marketing agreement with Nomura Babcock & Brown Co., Ltd, referred to as NBB, and manages and services other investment vehicles, including the Incline Aviation Fund, pursuant to long-term, exclusive agreements. BBAM has arranged a significant number of aircraft acquisitions and dispositions pursuant to these agreements. We expect that BBAM will continue to arrange acquisition and disposition opportunities with NBB, and for other investment vehicles, and that we may compete with these parties for such opportunities. A conflict of interest will arise if BBAM identifies an aircraft acquisition opportunity that would meet our investment objectives as well as those of another vehicle managed or serviced by BBAM. BBAM, Onex and GIC also may participate in other ventures that acquire and lease commercial jet aircraft. We do not have any exclusive right to participate in

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aircraft acquisition opportunities originated or identified by BBAM. Under our agreements with BBAM LP, our Manager has agreed to act in the best interests of our shareholders. However, neither BBAM nor any other BBAM LP affiliate will be restricted from pursuing, or offering to another party, any investment or disposal opportunity, or will be required by Fly to establish any investment protocol in relation to prioritization of any investment or disposal opportunity. We may purchase aircraft from, or sell aircraft to, entities managed by BBAM, or entities in which Summit, Onex or GIC has an ownership interest. Although such purchases will require approval by our independent directors, the pricing and other terms of these transactions may be less advantageous to us than if they had been the result of transactions among unaffiliated third parties.

Under our servicing agreements with BBAM, if a conflict of interest arises as to our aircraft and other aircraft managed by BBAM, BBAM must perform the services in good faith, and, to the extent that our aircraft or other aircraft managed by BBAM have substantially similar characteristics that are relevant for purposes of the particular services to be performed, BBAM has agreed not to discriminate among our aircraft or between any of our aircraft and any other managed aircraft on an unreasonable basis. Nevertheless, despite these contractual undertakings, BBAM as Servicer may favor its own interests and the interests of other managed entities over our interests. Conflicts may arise when our aircraft are leased to entities that also lease other aircraft managed by BBAM and decisions affecting some aircraft may have an adverse impact on others. For example, when a lessee in financial distress seeks to return some of its aircraft, BBAM may be required to decide which aircraft to accept for return and may favor its or another managed entity's interest over ours. Conflicts also may arise, for example, when our aircraft are being marketed for re-lease or sale at a time when other aircraft managed by BBAM are being similarly marketed.

Under the terms of our servicing agreements, we are not entitled to be informed of all conflicts of interest involving BBAM and are limited in our right to replace BBAM because of conflicts of interest. Any replacement Servicer may not provide the same quality of service or may not afford us terms as favorable as the terms currently offered by BBAM. If BBAM, as the servicer, makes a decision that is adverse to our interests, our business, financial condition, financial results and cash flows could suffer.

Even if we were to become dissatisfied with BBAM LP's performance, there are only limited circumstances under which we are able to terminate our management and servicing agreements and we may not terminate certain of our servicing agreements without the prior written consent of third parties, including insurance policy provider or lenders.

Our management agreement with our Manager expires on July 1, 2025. At that time, the management agreement will automatically renew for five years, unless we make a payment to the Manager equal to \$6.0 million, plus, so long as the management expense amount does not exceed \$12.0 million, 50% of the excess (if any) of the management expense amount over \$6.0 million. We may terminate the management agreement sooner only if:

- at least 75% of our independent directors and holders of 75% or more of all of our outstanding common shares (measured by vote) determine by resolution that there has been unsatisfactory performance by our Manager that is materially detrimental to us;
- our Manager materially breaches the management agreement and fails to remedy such breach within 90 days of receiving written notice from us requiring it to do so, or such breach results in liability to us and is attributable to our Manager's gross negligence, fraud or dishonesty, or willful misconduct in respect of the obligation to apply the standard of care;
- any license, permit or authorization held by the Manager which is necessary for it to perform the services and duties under the management agreement is materially breached, suspended or revoked, or otherwise made subject to conditions which, in the reasonable opinion of our board of directors, would prevent the Manager from performing the services and the situation is not remedied within 90 days;
- BBAM Aviation Services Limited or one of its affiliates ceases to hold (directly or indirectly) more than 50% of the voting equity of, and economic interest in, the Manager;
- our Manager becomes subject to bankruptcy or insolvency proceedings that are not discharged within 75 days, unless our Manager is withdrawn and replaced within 90 days of the initiation of such bankruptcy or insolvency proceedings with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the management agreement;

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- our Manager voluntarily commences any proceeding or files any petition seeking bankruptcy, insolvency, receivership or similar law, or makes a general assignment for the benefit of its creditors, unless our Manager is withdrawn and replaced within 15 days with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the management agreement; or
- an order is made for the winding up of our Manager, unless our Manager is withdrawn and replaced within 15 days with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the management agreement.

We have the right to terminate the servicing agreement for B&B Air Funding (with the prior written consent of the financial guaranty provider for B&B Air Funding, which we refer to as the policy provider) and the policy provider has the independent right to terminate the agreement (without our consent) in the following limited circumstances:

- Bankruptcy or insolvency of BBAM LP;
- BBAM LP ceases to own, directly or indirectly, at least 50% of the Servicer;
- Summit ceases to own, directly or indirectly, at least 33.33% of the partnership interests in BBAM LP; provided that a sale that results in such ownership being at a level below 33.33% shall not constitute a servicer termination event if the sale is to a publicly listed entity or other person with a net worth of at least \$100.0 million; and
- 50% or more of the Servicer's key finance and legal team or technical and marketing team cease to be employed by BBAM LP and are not replaced with employees with reasonably comparable experience within 90 days.

In addition, we are required to obtain written consent of certain of our lenders prior to terminating certain of our servicing agreements.

Our management and servicing agreements limit our remedies against BBAM LP for unsatisfactory performance and provide certain termination rights to the policy provider.

Under our management and servicing agreements with BBAM LP, in many cases we may not have the right to recover damages from BBAM LP for unsatisfactory performance. Moreover, we have agreed to indemnify our Manager, BBAM LP and their affiliates for broad categories of losses arising out of the performance of services, unless they are finally adjudicated to have been caused directly by our Manager's or BBAM LP's gross negligence, fraud, deceit or willful misconduct in respect of its obligation to apply its standard of care or, in the case of the servicing agreement for B&B Air Funding, conflicts of interest standard in the performance of its services. In addition, because of our substantial dependence on BBAM LP, our board of directors may be reluctant to initiate litigation against BBAM LP to enforce contractual rights under our management and servicing agreements.

Under certain circumstances the provider of the financial guaranty insurance policy with respect to the notes issued by B&B Air Funding (the "Securitization Notes"), and certain of our lenders may have the right to terminate BBAM as the servicer for certain of our aircraft without our consent and may terminate the Servicer at a time which may be disadvantageous to us.

BBAM may resign as Servicer under our servicing agreements under certain circumstances, which would significantly impair our ability to re-lease or sell aircraft and service our leases.

BBAM may resign under one or more of our servicing agreements under certain circumstances if it reasonably determines that directions given, or services required, would, if carried out, be unlawful under applicable law, be likely to lead to an investigation by any governmental authority having jurisdiction over BBAM or its affiliates, expose BBAM to liabilities for which, in BBAM's good faith opinion, adequate bond or indemnity has not been provided or place BBAM in a conflict of interest with respect to which, in BBAM's good faith opinion, BBAM could not continue to perform its obligations under the servicing agreement with respect to all serviced aircraft or any affected aircraft, as the case may be (but with respect to the foregoing circumstance, BBAM may resign only

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with respect to the affected aircraft). Whether or not it resigns, BBAM is not required to take any action of the foregoing kind. BBAM may also resign if it becomes subject to taxes for which we do not indemnify it. BBAM's decision to resign would significantly impair our ability to re-lease or sell aircraft and service our leases.

A cyber-attack that bypasses BBAM's information technology, or IT, security systems, causing an IT security breach, may lead to a material disruption of our IT systems and the loss of business information, which may hinder our ability to conduct our business effectively and may result in lost revenues and additional costs.

We depend on the secure operation of BBAM's computer systems, to manage, process, store, and transmit information associated with aircraft leasing. A cyber-attack on these computer systems could adversely impact our daily operations and lead to the loss of sensitive information, including our own proprietary information and that of our customers. Such losses could harm our reputation and result in competitive disadvantages, litigation, regulatory enforcement actions, lost revenues, additional costs and liability. While BBAM devotes substantial resources to maintaining adequate levels of cyber-security, its resources and technical sophistication may not be adequate to prevent all types of cyber-attacks.

Risks Related to Our Indebtedness

We have substantial indebtedness that imposes constraints on our operations.

We and our subsidiaries have a significant amount of indebtedness. As of December 31, 2017, our total consolidated indebtedness, net of unamortized debt discounts and loan costs, was \$2.6 billion.

The terms of our debt facilities subject us to certain risks and operational restrictions, including:

- most of the aircraft and related leases in our portfolio secure debt obligations, the terms of which restrict our ability to sell aircraft and require us to use proceeds from sales of aircraft, in part, to repay outstanding debt;
- we are required to dedicate a significant portion of our cash flows from operations to debt service payments, thereby reducing the amount of our cash flows available to fund working capital, make capital expenditures and satisfy other needs;
- restrictions on our subsidiaries' ability to distribute excess cash flows to us under certain circumstances;
- lessee, geographical and other concentration requirements limit our flexibility in leasing our aircraft;
- requirements to obtain the consent of third parties including lenders, the insurance policy provider and rating agency confirmations for certain actions; and
- restrictions on our subsidiaries' ability to incur additional debt, pay dividends or make other restricted payments, create liens on assets, sell assets, enter into transactions with our affiliates, make freighter conversions and make certain investments or capital expenditures.

In addition, the indentures and agreements governing certain of our indebtedness contain financial and operating covenants that, among other things, require us to maintain specified financial ratios and tests. Our ability to meet these financial and operating covenants can be affected by events beyond our control, and we may be unable to meet them. As a result of these restrictions, we may be limited in how we conduct and grow our business, or unable to compete effectively or to take advantage of new business opportunities.

For example, B&B Air Funding is required to apply all of its available cash flow, after payment of certain expenses (including interest), to repay the principal on the Securitization Notes, and the cash flow from the aircraft in the B&B Air Funding portfolio is not available to us. We also have a debt facility provided by Norddeutsche Landesbank Girozentrale ("Nord LB Facility"). Substantially all cash flows associated with these aircraft, after payment of certain expenses, are applied to payment of interest and principal and therefore are not available for distribution to us.

A breach of the covenants or restrictions under the indentures and agreements governing certain of our indebtedness could result in an event of default under the applicable indebtedness. Such a default may allow holders of our debt securities or our lenders, as applicable, to accelerate the related indebtedness, which may result in the acceleration of other indebtedness to which a cross-acceleration or cross-default provision applies. In

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addition, such lenders or debt holders could terminate commitments to lend money, if any. Furthermore, if we were unable to repay the indebtedness then due and payable, secured lenders could proceed against the aircraft, if any, securing such indebtedness. In the event our lenders or holders of our debt securities accelerate the repayment of our borrowings, we may not have sufficient assets to repay that indebtedness.

The restrictions described above, as well as restrictions in our other financing facilities, may impair our ability to operate and to compete effectively with our competitors. Similar restrictions may be contained in the terms of future financings that we may enter into to finance our growth.

In addition, if the AirAsia Transactions are completed as currently contemplated, we will incur additional secured indebtedness of approximately \$0.7 billion in connection with the acquisition of the initial 34 aircraft portfolio, which would further exacerbate the risks outlined above and described elsewhere in these “Risk Factors” and this Annual Report.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under our borrowings.

Subject to the limits contained in the agreements governing our existing and future indebtedness, we may be able to incur substantial additional debt from time to time to finance aircraft, working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our debt obligations with respect to the notes and our other debt;
- limiting our ability to obtain additional financing to fund the acquisition of aircraft or for other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for aircraft acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under our various credit facilities, are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the aircraft industry;
- placing us at a disadvantage compared to other competitors; and
- increasing our cost of borrowing.

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations, depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal of, premium, if any, or interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay aircraft purchases or to dispose of material assets, or seek additional debt or equity capital or to restructure or refinance our indebtedness. We may not be able to effect any such measures on commercially reasonable terms or at all and, even if successful, those actions may not allow us to meet our scheduled debt service obligations. Certain agreements governing our indebtedness restrict our ability to dispose of assets and use the proceeds from those dispositions. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and financial results and our ability to satisfy our obligations.

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If we cannot make scheduled payments on our indebtedness, we will be in default and holders of our debt securities or our lenders, as applicable, may be able to declare such indebtedness to be due and payable, terminate commitments to lend money, foreclose against the aircraft, if any, securing such indebtedness or pursue other remedies, including potentially forcing us into bankruptcy or liquidation.

We have a significant amount of non-recourse debt.

As of December 31, 2017, we had total debt, net of unamortized debt discounts and loan costs, of \$2.6 billion. Of this amount, \$677.0 million was non-recourse to Fly, except for certain limited obligations which typically include reimbursement for certain expenses and costs incurred by the lenders. These non-recourse loans may be provided through loan facilities that are typically cross-collateralized and contain cross-default provisions against all of the loans advanced within each facility, as well as through individual loans against individual aircraft. As of December 31, 2017, we had the following non-recourse debt facilities that provided financing against multiple aircraft:

<u>Facility</u> ⁽¹⁾	<u>Amount Outstanding at December 31, 2017</u> ⁽²⁾	<u>Number of Aircraft Financed</u>	<u>Maturity Date</u>
Securitization Notes	\$101.6 million	9	November 2033
Nord LB Facility	\$153.2 million	6	November 2018

(1) Excludes \$431.9 million outstanding for seven aircraft financed by individual non-recourse loans.

(2) Excludes unamortized debt discounts and loan costs.

The maturity dates for non-recourse loans range from November 2018 to November 2033. In general, upon a default on a non-recourse loan, the lenders will have the ability to foreclose upon any or all available collateral (including aircraft, leases and shares of aircraft-owning and/or aircraft-leasing special purposes entities) to satisfy amounts due under the loan. However, the lenders cannot make a claim against us for payment of these outstanding obligations, except for the limited payment obligations described above. The non-recourse nature of these loans means that we may decide, for economic reasons, to default on a non-recourse loan if and when we believe that the aircraft and other assets securing such loan are worth less than the amount outstanding under the loan. Although the direct financial impact to us under such a default on a non-recourse loan is limited, these defaults may impact our reputation as a borrower and impair our ability to secure future borrowings, which could have a material adverse impact on our ability to grow our aircraft portfolio and earnings.

We have a significant amount of recourse debt outstanding, including debt of our subsidiaries that we have guaranteed.

We had \$2.0 billion of recourse debt outstanding as of December 31, 2017, including debt of our subsidiaries that we have guaranteed. We expect to incur additional recourse indebtedness in the future. Although these recourse loans may be secured by aircraft and their associated leases, we have guaranteed and will be responsible for timely payment of all debt service and other amounts due under these loans in the event that the underlying leases do not provide sufficient cash flows to meet required debt payments. In this case, we will be required to make payments from our unrestricted cash, which could have a materially adverse impact on our ability to grow through future acquisitions of aircraft. In addition, the Term Loan, the CBA Facility, the Magellan Acquisition Limited Facility, the Fly Acquisition III Facility, our 2021 Notes and 2024 Notes, and certain of our other recourse indebtedness contain cross-default provisions to other recourse indebtedness which if triggered could significantly increase the amount of indebtedness which is payable by us at the time of the cross-default.

Certain of the agreements governing our recourse debt may limit our operational flexibility which could negatively affect our financial condition, cash flow and results of operations.

Certain of the agreements governing our recourse debt, including our warehouse and term loan facilities, contain covenants that require us to comply with one or more of the following: maximum loan-to-value ratios, minimum tangible net worth and minimum liquidity requirements; and interest coverage ratios. Complying with such covenants may at times require us to deposit cash as additional collateral and to forego use of such cash for other needs or opportunities. Moreover, our failure to comply with any of these covenants (if the period of time

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to exercise any temporary cure has lapsed) could constitute a default under such agreements and could potentially trigger a cross-default and acceleration of some, if not all, of our then outstanding debt in our recourse credit facilities, which would negatively affect our financial condition, cash flows and results of operations.

We are a holding company and currently rely on our subsidiaries to provide us with funds necessary to meet our financial obligations.

We are a holding company and our principal assets are the investments we hold in our subsidiaries, which own either directly or indirectly through their subsidiaries, the aircraft in our portfolio. As a result, we depend on cash flows from our subsidiaries to generate the funds necessary to meet our financial obligations. Our existing subsidiaries are legally distinct from us and may be significantly restricted from paying dividends or otherwise making funds available to us pursuant to the agreements governing their financing arrangements. If we are unable to comply with the covenants contained in these agreements, then the amounts outstanding under these debt facilities may become immediately due and payable, cash generated by aircraft financed through these facilities may be unavailable to us and/or we may be unable to draw additional amounts under these facilities. The events that could cause some of our subsidiaries to be noncompliant under their loan agreements, such as a lessee default, may be beyond our control, but they nevertheless could have a substantial adverse impact on the amount of our cash flows available to fund working capital, make capital expenditures and satisfy other cash needs. For a description of the operating and financial restrictions in our debt facilities, see the section titled “*Operating and Financial Review and Prospects—Financing.*”

We are subject to interest rate risk.

Certain of our debt facilities have floating interest rates, creating the risk of an increase in interest rates and the risk that cash flows may be insufficient to make scheduled interest payments if interest rates were to increase. To limit this risk, we have entered into interest rate swap contracts with one or more counterparties. We remain exposed, however, to changes in interest rates to the extent that our interest rate swap contracts are not correlated to our financial liabilities. In addition, if any counterparty were to default on its obligations, then a mismatch in the floating rate interest obligations and fixed rate lease payments may arise, which could impair our ability to meet our financial obligations. If any of our interest rate swap contracts were terminated early, we could be obligated to make a material payment to our counterparties.

Risks Related to Taxation

We expect that we will be treated as a passive foreign investment company, or a “PFIC,” for the current taxable year and for the foreseeable future, which could have adverse U.S. federal income tax consequences to a U.S. shareholder.

We expect that we will be treated as a PFIC for U.S. federal income tax purposes for the current taxable year and for the foreseeable future. Assuming we are a PFIC, a U.S. holder of our shares will be subject to the PFIC rules, with a variety of potentially adverse tax consequences under the U.S. federal income tax laws. Such consequences depend in part on whether such shareholder elects to treat us as a qualified electing fund (a “QEF”). Absent a QEF election or mark-to-market election, a U.S. shareholder who disposes or is deemed to dispose of our shares at a gain, or who receives or is deemed to receive certain distributions with respect to our shares, generally will be required to treat such gain or distributions as ordinary income and to pay an interest charge on the tax imposed. If a U.S. shareholder makes a QEF election in the first taxable year in which the U.S. shareholder owns our shares, then such U.S. shareholder will be required for each taxable year to include in income a pro rata share of our ordinary earnings as ordinary income and a pro rata share of our net capital gains as long-term capital gain, subject to a separate voluntary election to defer payment of taxes, which deferral is subject to an interest charge. Such inclusion of taxable income is required even if the amount exceeds cash distributions, if any. Moreover, our distributions, if any, will not qualify for the reduced rate of U.S. federal income tax that applies to qualified dividends paid to non-corporate U.S. taxpayers.

It is also possible that one or more of our subsidiaries is or will become a PFIC. Such determination is made annually after the close of each taxable year and is dependent upon a number of factors, some of which are beyond our control, including the amount and nature of a subsidiary’s income, as well as the market valuation and nature of a subsidiary’s assets. In such case, assuming a U.S. shareholder does not receive from us the information it needs to make a QEF election with respect such a subsidiary, a U.S. shareholder generally will be

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deemed to own a portion of the shares of such lower-tier PFIC and may incur liability for a deferred tax and interest charge if we receive a distribution from, or dispose of all or part of our interest in, or the U.S. shareholder otherwise is deemed to have disposed of an interest in, the lower-tier PFIC (including through a sale of our shares).

The determination whether or not we (or any of our subsidiaries) is a PFIC is a factual determination that is made annually based on the types of income we (or any of our subsidiaries) earn and the value of our (or our subsidiaries') assets, and because certain aspects of the PFIC rules are not entirely certain, there can be no assurance that we (or any of our subsidiaries) will or will not be considered a PFIC in the current or future years or that the IRS will agree with our conclusion regarding our (or our subsidiaries') PFIC status. Investors should consult with their own tax advisors about the PFIC rules, including the advisability of making a QEF election or the mark-to-market election. (See Item 10, "Additional Information — Taxation — U.S. Federal Income Tax Considerations").

We may face increased tax costs.

We and our subsidiaries could face increased tax costs for various reasons, including our failure to qualify for treaty benefits under the Irish Treaty, the assertion of a permanent establishment within the United States, or the deduction of withholding taxes from rent payments. Any increase in our tax costs, directly or indirectly, would adversely affect our net income and cash flows.

Because Ireland does not have tax treaties with all jurisdictions, we may find it necessary to establish subsidiaries in other jurisdictions to lease or sublease aircraft to customers in those jurisdictions. Such subsidiaries may be subject to taxation in the jurisdictions in which they are organized, which would reduce our net income and have an adverse impact on our cash flows. In addition, any increase in Irish corporate tax rates could have an adverse impact on us.

With the finalization of the Base Erosion and Profit Shifting Project undertaken by the Organization for Economic Development and Cooperation (the "OECD"), the OECD has published final reports outlining a set of consensus actions aimed at restructuring the taxation scheme currently affecting multinational entities (the "Actions"). Many OECD countries have acknowledged their intent to implement the Actions and update their local tax regulations. The extent (if any) to which countries in which we operate adopt and implement the Actions could affect our effective tax rate and our future results from our operations.

Depending upon how these schemes are implemented by participating and non-participating countries, it could result in certain countries asserting that we have a permanent establishment in a country other than Ireland and that income is sourced to a country other than Ireland, where the tax rate and capital recovery mechanisms are different from Ireland. It is also possible that multiple jurisdictions will seek to source in their country income claimed by another jurisdiction.

U.S. federal income tax reform could adversely affect us.

On December 22, 2017, the United States passed comprehensive tax reform legislation that, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest and executive compensation, allows for the expensing of capital expenditures and puts into effect the migration from a worldwide system of taxation to a territorial system. We do not expect this legislation to have a material impact on us. However, the full impact of this tax reform on our business is still uncertain and could adversely affect us.

The tax rate applicable to us would be higher than we expect if we were considered not to be carrying on a trade in Ireland for the purposes of Irish law.

We are subject to Irish corporation tax on our net trading income at the rate of 12.5%. Under Irish tax law, non-trading income is taxed at the rate of 25% and capital gains are taxed at the rate of 33%. We believe that we carry on sufficient activity in Ireland, directly through our board of directors and indirectly through the services of our Manager, BBAM LP and our Servicer, so as to be treated as carrying on a trade in Ireland for the purposes of Irish tax law. If we or any of our Irish tax-resident subsidiaries were considered not to be carrying on a trade in Ireland, we or they may be subject to additional Irish tax liabilities. The application of a higher tax rate (25% instead of 12.5%) on taxable income could negatively impact our cash flows. In addition, we cannot assure you that the 12.5% tax rate applicable to trading income, the 33% tax rate applicable to capital gains or the 25% tax rate applicable to non-trading income will not be changed in the future.

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Risks Related to the Ownership of Our Shares

The price of our shares has been volatile. This volatility may negatively affect the price of our shares.

Our shares have experienced substantial price volatility. This volatility may negatively affect the price of our shares at any point in time. Our share price is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market and other factors, including:

- announcements concerning our competitors, the airline industry or the economy in general;
- announcements concerning the availability of the type of aircraft we own;
- general and industry-specific economic conditions;
- changes in the price of aircraft fuel;
- changes in financial estimates or recommendations by securities analysts or failure to meet analysts' performance expectations;
- any increased indebtedness we may incur in the future;
- speculation or reports by the press or investment community with respect to us or our industry in general;
- announcements by us or our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments;
- changes or proposed changes in laws or regulations affecting the airline industry or enforcement of these laws and regulations, or announcements relating to these matters; and
- general market, political and economic conditions, including any such conditions and local conditions in the markets in which our lessees are located.

Broad market and industry factors may decrease the market price of our shares, regardless of our actual operating performance. The stock market in general has from time to time experienced extreme price and volume fluctuations, including periods of sharp decline. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Provisions in our bye-laws, our management agreement and the indentures governing our 2021 Notes and 2024 Notes may discourage a change of control.

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors. These include:

- provisions that permit us to require any competitor of BBAM LP that acquires beneficial ownership of more than 15% of our common shares either to tender for all of our remaining common shares for no less than their fair market value, or sell such number of common shares to us or to third parties as to reduce its beneficial ownership to less than 15%, in either case within 90 days of our request to so tender or sell;
- provisions that reduce the vote of each common share held by a competitor of BBAM LP that beneficially owns 15% or more, but less than 50%, of our common shares to three-tenths of one vote per share on all matters upon which shareholders may vote;
- provisions that permit our board of directors to determine the powers, preferences and rights of any preference shares we may issue and to issue any such preference shares without shareholder approval;
- advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings; and

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- no provision for cumulative voting in the election of directors, such that all the directors standing for election may be elected by our shareholders by a plurality of votes cast at a duly convened annual general meeting, the quorum for which is two or more persons present in person or by proxy at the start of the meeting and representing in excess of 25% of all votes attaching to all shares in issue entitling the holder to vote at the meeting.

These provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and/or our board of directors. Public shareholders who might desire to participate in these types of transactions may not have an opportunity to do so. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control of our company or change our board of directors and, as a result, may adversely affect the market price of our shares and your ability to realize any potential change of control premium.

Provisions in our management agreement could make it more difficult for a third party to acquire our company without the consent of our board of directors or BBAM. Upon a change of control, our management agreement requires us to pay a fee equal to 1.5% of our enterprise value to our Manager. In addition, if the directors in office on December 28, 2012 and any successor to any such director who was nominated or selected by a majority of the current directors and our Manager appointed directors, cease to constitute at least a majority of the board (excluding directors appointed by our Manager), our Manager may terminate the management agreement, and we will pay our Manager a fee as follows: (i) during the first five year term, an amount equal to three times the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date; (ii) during the second five year term, an amount an amount equal to two times the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date; (iii) during the third five year term, an amount an amount equal to the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date. Neither our management agreement nor our servicing agreements automatically terminate upon a change of control.

Furthermore, the indentures governing our 2021 Notes and 2024 Notes contain provisions that permit our noteholders to require us to redeem their notes before maturity at a premium to par upon a change of control of our company.

Shareholders may have greater difficulties in protecting their interests than they would have as shareholders of a U.S. corporation.

The Companies Act 1981 of Bermuda, as amended, which we refer to as the “Companies Act,” applies to our company and differs in material respects from laws generally applicable to U.S. corporations and their shareholders. Taken together with the provisions of our bye-laws, some of these differences may result in shareholders having greater difficulties in protecting their interests as a shareholder of our company than they would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with our company, what approvals are required for business combinations by our company with a large shareholder or a wholly-owned subsidiary, what rights shareholders may have to enforce specified provisions of the Companies Act or our bye-laws, and the circumstances under which we may indemnify our directors and officers.

We are a Bermuda company that is managed and controlled in Ireland. It may be difficult for you to enforce judgments against us or against our directors and executive officers.

We are incorporated under the laws of Bermuda and are managed and controlled in Ireland. Our business is based outside the United States, a majority of our directors and officers reside outside the United States and a majority of our assets and some or all of the assets of such persons are located outside the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon us or those persons, or to recover against us or them on judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. Further, no claim may be brought in Bermuda or Ireland against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial application under Bermuda or Irish law and do not have force of law in Bermuda or Ireland. However, a Bermuda or Irish court may impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda or Irish law.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

There is doubt as to whether the courts of Bermuda or Ireland would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, predicated upon the civil liability provisions of the U.S. federal securities laws, or entertain actions brought in Bermuda or Ireland against us or such persons predicated solely upon U.S. federal securities laws. Further, there is no treaty in effect between the United States and Bermuda or Ireland providing for the enforcement of judgments of U.S. courts in civil and commercial matters, and there are grounds upon which Bermuda or Irish courts may decline to enforce the judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda or Irish courts as contrary to public policy in Bermuda or Ireland. Because judgments of U.S. courts are not automatically enforceable in Bermuda or Ireland, it may be difficult for you to recover against us or our directors and officers based upon such judgments.

Future offerings of debt or equity securities by us may adversely affect the market price of our shares.

In the future, we may attempt to obtain financing or to further increase our capital resources by issuing additional common shares or offering debt or additional equity securities, including commercial paper, medium-term notes, senior or subordinated notes or preference shares. Issuing additional common shares or other additional equity offerings may dilute the economic and voting rights of our existing shareholders or reduce the market price of our common shares, or both. Upon liquidation, holders of such debt securities and preference shares, if issued, and lenders with respect to other borrowings, would receive a distribution of our available assets prior to the holders of our common shares. Preference shares, if issued, may have rights, preferences or privileges senior to existing shareholders, including with respect to liquidating distributions, dividend payments or share repurchases. Because our bye-laws permit the issuance of common and preference shares, if our board of directors approves the issuance of such shares in a future financing transaction, our existing shareholders will not have the ability to approve such a transaction. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common shares bear the risk of our future offerings reducing the market price of our common shares and diluting their share holdings in us.

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of applicable SEC and NYSE requirements, which may result in less protection than is accorded to investors under rules applicable to domestic issuers.

As a foreign private issuer, we are not required to comply with all of the rules that apply to listed U.S. companies. Nevertheless, we have generally chosen to comply with the corporate governance rules of the New York Stock Exchange (“NYSE”) as though we were a U.S. company. Accordingly, we do not believe there are any significant differences between our corporate governance practices and those that would typically apply to a U.S. domestic issuer under the NYSE corporate governance rules.

However, we intend to follow the practices of our home country, Bermuda, in connection with certain matters, including shareholder approval requirements. Under Bermuda law, we are not required to obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity-based compensation plans, certain transactions other than a public offering involving issuances of a 20% or greater interest in our company and certain acquisitions of the stock or assets of another company. Following our home country practices as opposed to the requirements that would otherwise apply to a U.S. domestic issuer listed on the NYSE may provide less protection than is accorded to investors under the NYSE rules applicable to domestic issuers.

In addition, as a foreign private issuer, we are exempt from the rules and regulations under the Securities Exchange Act of 1934 (the “Exchange Act”) related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

Risks Related to the AirAsia Transactions

The AirAsia Transactions may not be successfully completed or, if completed, achieve their anticipated benefits, may prove disruptive, and could cause our business to fail to meet investor expectations.

On February 28, 2018, we entered into definitive agreements with respect to the AirAsia Transactions. Under the terms of the agreements, we will acquire a portfolio of 33 Airbus A320-200 aircraft and seven engines on

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

operating leases to the AirAsia Group, and one Airbus A320-200 aircraft on operating lease to a third-party airline (“Portfolio A”). AirAsia will receive approximately \$1.0 billion in cash and 3,333,333 FLY common shares, valued at \$15.00 per share (the “Fly Shares”) in consideration for Portfolio A. The completion of the Portfolio A transaction, which is expected to occur in the second and third quarters of 2018, remains subject to approval by AirAsia shareholders, receipt of regulatory approvals and satisfaction of other closing conditions set forth in the sale and purchase agreement, and the termination rights of the parties thereunder. In addition to the Portfolio A transaction, we will acquire 21 Airbus A320neo family aircraft on operating leases to the AirAsia Group as the aircraft deliver between 2019 and 2021 (“Portfolio B”). We also will acquire the option to purchase an additional 20 Airbus A320neo family aircraft, not subject to lease, which begin delivering as early as 2019 (“Portfolio C”). The consummation of the Portfolio B and Portfolio C transactions is conditioned upon the closing of the Portfolio A transaction.

If the AirAsia Transactions are completed, we may not successfully realize anticipated growth opportunities or successfully integrate the AirAsia portfolio with our existing fleet. We will have increased revenues, expenses, assets, and indebtedness, and we may encounter unforeseen difficulties in managing the integration. We also expect to sell some of the aircraft in Portfolio A to reduce our leverage, manage our lessee and geographic concentrations, and provide part of the funding for our acquisition of Portfolios B and C. To combine the AirAsia portfolio with our existing fleet, our Manager and Servicer will need to integrate, manage and service the larger fleet; maintain and monitor our compliance with substantial additional indebtedness; seek attractive disposition opportunities for some aircraft; and continue to pursue other business opportunities on our behalf. Even if we are able to complete the AirAsia Transactions and manage the integration, we may not realize the full benefits of the growth opportunities that we currently expect within the anticipated time frame, or at all.

While the AirAsia Transactions are pending, and following their completion, they could cause disruptions in our business. For example, lessees may refrain from leasing or re-leasing our aircraft until they determine whether the AirAsia Transactions will affect our business or their relationship with us or BBAM. Uncertainty concerning potential changes to us and our business, or BBAM and its business, could harm our ability to enter into agreements with new lessees.

Alongside the AirAsia Transactions, two other capital pools affiliated with BBAM, NBB and the Incline Aviation Fund, will acquire an aggregate of 73 Airbus narrowbody aircraft and seven engines on operating lease to AirAsia and its affiliated airlines, four narrowbody aircraft on lease to third-party airlines, and the options to purchase an additional 30 Airbus A320neo family aircraft, not subject to lease, delivering in the future. Any diversion of BBAM’s attention and resources away from us may affect our ability to achieve our operational, financial and strategic objectives.

If the AirAsia Transactions are not completed, in whole or in part, for any reason, the price of our shares may decline to the extent that the market price of our shares reflects positive market assumptions that the AirAsia Transactions will be completed, and the related benefits will be realized. In addition, we will incur significant expenses in connection with the AirAsia Transactions, such as legal, advisory and financial services, many of which must be paid regardless of whether the AirAsia Transactions are completed.

We will need additional capital to finance our forward purchase and leaseback commitments to the AirAsia Group under Portfolio B, and our acquisition of any option aircraft under Portfolio C.

We will need additional capital to finance our acquisition of Portfolio B, and any options that we elect to exercise with respect to the aircraft in Portfolio C. We expect to sell some of the aircraft in Portfolio A to provide part of the funding for our acquisition of Portfolios B and C, and to raise additional debt financing for the acquisition of these aircraft. If we are unable to sell a number of Portfolio A aircraft, or to maintain our financing sources or find new sources of financing, we may not be able to close on the purchase of some or all of the aircraft in Portfolios B and C. If our aircraft acquisition commitments under Portfolio B are not closed for these or other reasons, we may fail to realize the full benefits of the AirAsia Transactions. In addition, we will be subject to several risks, including the following: having to pay certain significant costs including potential monetary damages, and legal, accounting and other related expenses; not realizing any of the benefits of completing these transactions; and potential damage to our reputation, and our relationship with the AirAsia Group. If we are unable to finance the exercise of our options to purchase additional aircraft under Portfolio C, we may fail to realize the full benefits of the AirAsia Transactions. These risks would negatively affect our financial condition, cash flows and results of operations.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

ITEM 4. INFORMATION ON THE COMPANY

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 which we lease under multi-year contracts to a diverse group of airlines throughout the world.

Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Although we are organized under the laws of Bermuda, we are resident in Ireland for Irish tax purposes and thus 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. Our principal executive offices are located at West Pier Business Campus, Dun Laoghaire, County Dublin, A96 N6T7, Ireland. Our telephone number at that address is +353-1-231-1900. Our agent for service of process in the United States is Puglisi & Associates located at 850 Library Avenue, Suite 204, Newark, Delaware 19711.

Our web address is: www.flyleasing.com. The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 20-F and should not be considered part of this or any other report filed with the SEC.

Our Relationship with BBAM

BBAM is a leading commercial jet aircraft servicer. BBAM and its affiliates assist us in acquiring, leasing, remarketing and selling aircraft, manage our day-to-day operations and affairs and act as Servicer for our portfolio of aircraft and related leases.

We engage BBAM and its affiliates as Manager of our company and Servicer for our aircraft portfolio under management and servicing agreements. Our Manager manages our company under the direction of its chief executive officer and chief financial officer, who are exclusively dedicated to our business. BBAM assists us in acquiring and disposing of our aircraft, marketing our aircraft for lease and re-lease, collecting rents and other payments from the lessees of our aircraft, monitoring maintenance, insurance and other obligations under our leases and enforcing our rights against lessees. BBAM is among the largest aircraft leasing companies in the world, as measured by the number of aircraft it owns and manages.

BBAM LP is a private company owned by Summit, Onex and GIC. As of February 28, 2018, Summit and Onex beneficially owned an aggregate of 4,151,632 of our common shares in the form of ADSs, 2,191,060 of which are subject to lock-up provisions. In connection with, and subject to, the closing of the AirAsia Transactions, affiliates of Summit and Onex each have agreed to purchase \$10 million of newly issued common shares in the form of ADSs, at a purchase price of \$15.00 per share. The lock-up on existing shares held by Onex will terminate upon issuance and sale of the new shares, and all shares held by Onex at that time will be subject to a lock-up extending 180 days from the date of issuance of the new shares.

Our Aircraft Portfolio

As of December 31, 2017, we had 85 aircraft in our portfolio, of which 84 were held for operating lease and one was recorded as an investment in finance lease. Our portfolio was comprised of 73 narrow-body passenger aircraft (including one freighter) and 12 wide-body passenger aircraft (including two freighters).

We originate aircraft through BBAM's well-established relationships with airlines, financial investors and other aircraft leasing and finance companies. We primarily acquire aircraft by entering into purchase and leaseback transactions with airlines for new aircraft, purchasing portfolios consisting of aircraft of varying types and ages, and opportunistically acquiring individual aircraft that we believe are being sold at attractive prices. In addition, we actively consider opportunities to sell our aircraft, individually or in portfolio sales of various sizes, when we believe that selling will maximize our returns, or to manage the composition of our portfolio.

As of December 31, 2017, we had 56 Boeing aircraft and 29 Airbus aircraft in our portfolio. These aircraft were manufactured between 1990 and 2017 and had a weighted average age of 6.4 years as of December 31, 2017. We estimate that the useful life of our aircraft is generally 25 years from the date of manufacture. In the case of a freighter, the remaining useful life is determined based on the date of conversion and in such case, the total useful life may extend beyond 25 years from the date of manufacture.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

The following table presents the aircraft in our portfolio as of December 31, 2017:

<u>Lessee</u>	<u>Aircraft Type</u>	<u>Airframe Type</u>	<u>Date of Manufacture</u>
1. Aeromexico	B737-700	Narrow-body	2006
2. Aeromexico	B737-700	Narrow-body	2005
3. Aeromexico	B737-700	Narrow-body	2005
4. Air China	B737-800	Narrow-body	2007
5. Air Europa	B787-8	Wide-body	2017
6. Air India	B787-8	Wide-body	2015
7. Air India	B787-8	Wide-body	2014
8. Air India	B787-8	Wide-body	2014
9. Air Moldova	A319-100	Narrow-body	2006
10. American Airlines	B737-800	Narrow-body	2013
11. American Airlines	A319-100	Narrow-body	2000
12. American Airlines	A319-100	Narrow-body	2000
13. American Airlines	A319-100	Narrow-body	2000
14. American Airlines	A319-100	Narrow-body	2000
15. Chang'An Airlines	B737-800	Narrow-body	2006
16. easyJet	A319-100	Narrow-body	2007
17. easyJet	A319-100	Narrow-body	2004
18. easyJet	A319-100	Narrow-body	2004
19. Ethiopian Airlines	B777-200LR ⁽¹⁾	Wide-body	2015
20. Ethiopian Airlines	B777-200LR ⁽¹⁾	Wide-body	2015
21. Finnair	A320-200 ⁽²⁾	Narrow-body	2003
22. flydubai	B737-800	Narrow-body	2010
23. Frontier	A319-100	Narrow-body	2001
24. Garuda Indonesia	B737-800	Narrow-body	2010
25. Garuda Indonesia	B737-800	Narrow-body	2010
26. Go2Sky	B737-800	Narrow-body	1998
27. Icelandair	B757-200SF ⁽¹⁾	Narrow-body	1990
28. Israir Airlines	A320-200	Narrow-body	2016
29. IZair	B737-800	Narrow-body	2007
30. IZair	B737-800	Narrow-body	2006
31. Jet Airways	B737-800	Narrow-body	2014
32. Jet Airways	B737-800	Narrow-body	2014
33. Jet Airways	B737-800	Narrow-body	2014
34. Jet Lite	B737-700	Narrow-body	2002
35. Jetstar Pacific Airlines	A320-200	Narrow-body	2005
36. LATAM	B787-8	Wide-body	2013
37. Lucky Air Airlines	B737-800	Narrow-body	2007
38. Lucky Air Airlines	B737-800	Narrow-body	2007
39. Malaysian Airlines	B737-800	Narrow-body	2012
40. Malaysian Airlines	B737-800	Narrow-body	2011
41. Malaysian Airlines	B737-800	Narrow-body	2011
42. Nok Airlines	B737-800	Narrow-body	2015
43. Oman Air S.A.O.C.	B737-800	Narrow-body	2009
44. Oman Air S.A.O.C.	B737-800	Narrow-body	2009
45. Philippine Airlines	A321-200	Narrow-body	2014
46. Philippine Airlines	A321-200	Narrow-body	2014
47. Philippine Airlines	A330-300	Wide-body	2013
48. Philippine Airlines	A330-300	Wide-body	2013
49. PT Lion Mentari	B737-MAX 8	Narrow-body	2017

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

<u>Lessee</u>	<u>Aircraft Type</u>	<u>Airframe Type</u>	<u>Date of Manufacture</u>
50. PT Lion Mentari	B737-MAX 8	Narrow-body	2017
51. PT. Batik Air Indonesia	A320-200	Narrow-body	2017
52. Shandong Airlines	B737-800	Narrow-body	2013
53. Shandong Airlines	B737-800	Narrow-body	2013
54. Silk Air	A320-200	Narrow-body	2004
55. Spicejet	B737-800	Narrow-body	2010
56. Spicejet	B737-800	Narrow-body	2010
57. Spicejet	B737-800	Narrow-body	2007
58. Spicejet	B737-800	Narrow-body	2007
59. Spicejet	B737-900ER	Narrow-body	2007
60. Sun Express (Turkey)	B737-800	Narrow-body	2007
61. Sunwing Airlines	B737-800	Narrow-body	2006
62. Sunwing Airlines	B737-800	Narrow-body	2006
63. Swift Air	B737-800	Narrow-body	2006
64. TAM	A320-200	Narrow-body	2006
65. TAROM S.A.	B737-800	Narrow-body	2017
66. THY	A320-200	Narrow-body	2005
67. THY	A320-200	Narrow-body	2005
68. THY	A320-200	Narrow-body	2005
69. Transavia France	B737-800	Narrow-body	2008
70. Transavia France	B737-800	Narrow-body	2008
71. Transavia France	B737-800	Narrow-body	2007
72. Transavia France	B737-800	Narrow-body	2007
73. Travel Service	B737-800	Narrow-body	2010
74. Travel Service	B737-800	Narrow-body	2010
75. TUI Travel Aviation Finance	B737-800	Narrow-body	2010
76. TUI Travel Aviation Finance	B757-200	Narrow-body	1999
77. TUI Travel Aviation Finance	B757-200	Narrow-body	1999
78. Virgin America	A320-200	Narrow-body	2007
79. Virgin Atlantic	A340-600	Wide-body	2006
80. Virgin Atlantic	A340-600	Wide-body	2006
81. Vueling Airlines	A320-200	Narrow-body	2007
82. Vueling Airlines	A320-200	Narrow-body	2007
83. Yakutia	B737-800	Narrow-body	2002
84. Off lease	A321-200	Narrow-body	2015
85. Off lease ⁽³⁾	A330-200	Wide-body	2001

(1) Freighter.

(2) Investment in finance lease.

(3) In January 2018, the aircraft was delivered to Virgin Atlantic.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

The following table summarizes the composition of our portfolio by manufacturer and aircraft type as of December 31, 2017:

<u>Aircraft Manufacturer</u>	<u>Aircraft Type</u>	<u>Number of Aircraft</u>
Airbus	A319-100	9
	A320-200 ⁽¹⁾	12
	A321-200	3
	A330-200	1
	A330-300	2
	A340-600	<u>2</u>
	Total	<u>29</u>
Boeing	B737-700	4
	B737-MAX 8	2
	B737-800	39
	B737-900ER	1
	B757-200	2
	B757-200SF	1
	B777-200LR	2
	B787-8	<u>5</u>
Total	<u>56</u>	
Total		<u>85</u>

(1) Includes an investment in finance lease.

Our portfolio is composed of 64% narrow-body aircraft and 36% wide-body aircraft, based on net book values as of December 31, 2017. Our narrow-body aircraft include Airbus A319, Airbus A320, Airbus A321 and next generation Boeing 737 and Boeing 757 aircraft families, which enjoy high worldwide demand due to their fuel-efficient design, relatively low maintenance costs, and an increase in customer demand for point-to-point destination service. These aircraft are based on more routes around the world than any other airframe and thus have the largest installed base. Our wide-body aircraft include Airbus A330, Airbus A340 and next generation Boeing 777 (freighter) and Boeing 787 aircraft families.

The following table presents the composition of our portfolio based on airframe type as of December 31, 2017:

<u>Airframe Type</u>	<u>Number of Aircraft</u>
Narrow-body ⁽¹⁾⁽²⁾	73
Wide-body ⁽³⁾	<u>12</u>
Total	<u>85</u>

(1) Includes an investment in finance lease.

(2) Includes one freighter.

(3) Includes two freighters.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Our Markets

Our aircraft are leased under multi-year contracts to a diverse group of airlines throughout the world. The following table presents the distribution of our lease revenue from our portfolio by geographic region (dollars in thousands):

	Years ended					
	2017		2016		2015	
Europe:						
Spain.....	\$ 11,199	3%	\$ 5,361	2%	\$ 9,191	2%
Turkey	17,103	5%	24,593	8%	29,847	7%
United Kingdom.....	29,182	8%	34,498	11%	50,742	12%
Germany.....	26,457	8%	13,836	4%	18,201	4%
Russia.....	1,927	1%	3,141	1%	24,095	6%
Other ⁽¹⁾	27,984	8%	27,319	8%	46,779	11%
Europe — Total	113,852	33%	108,748	34%	178,855	42%
Asia and South Pacific:						
India.....	64,381	18%	39,640	13%	19,572	4%
Philippines.....	29,825	9%	29,129	9%	38,677	9%
Indonesia.....	16,308	5%	8,320	3%	7,915	2%
China.....	22,611	6%	23,882	8%	37,943	9%
Other.....	19,263	6%	18,967	5%	31,141	7%
Asia and South Pacific — Total.....	152,388	44%	119,938	38%	135,248	31%
Mexico, South and Central America:						
Chile.....	8,939	3%	8,939	3%	24,336	6%
Other.....	8,626	2%	8,768	3%	16,732	4%
Mexico, South and Central America — Total ..	17,565	5%	17,707	6%	41,068	10%
North America:						
United States.....	17,647	5%	24,591	8%	37,316	9%
Other.....	6,237	2%	6,223	2%	6,380	1%
North America — Total.....	23,884	7%	30,814	10%	43,696	10%
Middle East and Africa:						
Ethiopia.....	30,018	9%	30,084	10%	22,808	5%
Other.....	9,918	2%	8,357	2%	8,315	2%
Middle East and Africa — Total.....	39,936	11%	38,441	12%	31,123	7%
Total Lease Revenue.....	\$347,625	100%	\$315,648	100%	\$429,990	100%

(1) Includes \$0.7 million, \$2.1 million and \$0.3 million of finance lease revenue in 2017, 2016 and 2015, respectively.

Our Leases**Lease Terms**

All of our leases are on a “net” basis with the lessee generally responsible for all operating expenses, which customarily include maintenance, fuel, crews, airport and navigation charges, taxes, licenses, aircraft registration and insurance. At December 31, 2017, we had 83 aircraft subject to lease agreements, of which 71 had fixed lease rates and 12 had floating lease rates.

Our aircraft are leased to 44 airlines in 28 countries, in both developed and emerging markets. Under our leases, the lessees agree to lease the aircraft for a fixed term, although in some cases the lessees have early termination or lease extension options. Our leases are scheduled to expire between 2018 and 2029 and have a weighted average remaining lease term of 6.3 years as of December 31, 2017.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

The following table presents the scheduled lease maturity of the aircraft in our portfolio as of December 31, 2017:

Year of Scheduled Lease Expiration	Airframe Type		
	Narrow	Wide	Total
Off-lease.....	1	1	2
2018.....	7	—	7
2019.....	15	2	17
2020.....	11 ⁽¹⁾	—	11
2021.....	8	—	8
2022.....	10	—	10
2023.....	6	—	6
2024.....	4	—	4
2025.....	3 ⁽²⁾	3	6
2026.....	2	—	2
2027.....	2 ⁽³⁾	2	4
2028.....	1	3	4
2029.....	<u>3</u>	<u>1</u>	<u>4</u>
Total.....	<u>73</u>	<u>12</u>	<u>85</u>

(1) Includes one freighter.

(2) Includes an investment in finance lease.

(3) Includes two freighters.

At December 31, 2017, we had seven leases in our portfolio scheduled to expire in 2018 and two aircraft off-lease. Subsequent to year end, we re-leased two aircraft and three aircraft are subject to either a new lease agreement or letter of intent for a re-lease or lease extension. There are four aircraft remaining to be remarketed in 2018. We may have additional remarketings in 2018 if any other leases are terminated prior to their scheduled expiry dates.

Most lease rentals are payable monthly in advance, but some lease rentals are payable in arrears. In addition, some of our leases require quarterly lease payments. Most of our leases provide that the lessee's payment obligations are absolute and unconditional under any and all circumstances. Lessees are generally required to make payment without deduction of any amounts that we may owe the lessee or any claims that the lessee may have against us. Most of our leases also require lessees to gross up lease payments where they are subject to withholdings and other taxes.

The cost of an aircraft typically is not fully recovered over the term of the initial lease. We therefore assume the risk that we will not be able to recover our investment in the aircraft upon expiration or early termination of the lease and of the ultimate residual value. Operating leases allow airlines greater fleet and financial flexibility than outright ownership because of the relatively shorter-term nature of operating leases, the relatively small initial capital outlay necessary to obtain use of the aircraft and the significant reduction in aircraft residual value risk.

Security Deposits and Letters of Credit. The majority of our leases provide for cash security deposits and/or letters of credit which may be drawn in the event that a lessee defaults under its respective lease. These security deposits and/or letters of credit may mitigate losses we may incur while attempting to re-lease the aircraft. Under certain circumstances, the lessee may be required to obtain guarantees or other financial support from an acceptable financial institution or other third parties.

Maintenance Obligations. Under our leases, the lessee is generally responsible for all maintenance and repairs and compliance with return conditions of aircraft on lease. In connection with the lease of a used aircraft we sometimes agree to contribute specific 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.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Our portfolio includes leases pursuant to which we collect maintenance reserve payments that are determined based on passage of time or usage of the aircraft measured by hours flown or cycles operated. These payments may be paid in cash or letters of credit which can be drawn if maintenance obligations are not otherwise paid. Under these leases, we are obligated to make reimbursements to the lessee for expenses incurred for certain major maintenance, up to a maximum amount that is typically determined based on maintenance reserves paid by the lessee. Certain leases also require us to make maintenance contributions for costs associated with certain major maintenance events in excess of any maintenance reserve payments. Major maintenance includes heavy airframe, off-wing engine, landing gear and auxiliary power unit overhauls and replacements of engine life limited parts. We are not obligated to make maintenance contributions under any lease pursuant to which a lessee default has occurred and is continuing. We also have leases that provide for lease-end maintenance adjustment payments based on the usage of the aircraft during the lease term and its condition upon redelivery. Typically, payments are made by the lessee to us, although in some cases, we have been required to make such payments to the lessee.

Compliance with Laws. The lessee is responsible for compliance with all applicable laws and regulations with respect to the aircraft. We generally require our lessees to comply with the standards of either the U.S. Federal Aviation Administration or its non-U.S. equivalent.

General. Each aircraft generally must remain in the possession of the applicable lessee and any sublessees of the aircraft generally must be approved by the lessor unless, in some leases, certain conditions are met. Under most of our leases, the lessees may enter into charter or “wet lease” arrangements in respect of the aircraft (i.e., a lease with crew and services provided by the lessor under the lease), provided the lessee does not part with operational control of the aircraft. Under some of our leases, the lessee is permitted to enter into subleases with specified operators or types of operators without the lessor’s consent, provided certain conditions are met. As of December 31, 2017, our lessees have informed us of the following subleases:

<u>Lessee</u>	<u>Sublessee</u>
Transavia France S.A.S.	Air Transat A.T. Inc.
Travel Service, a.s.	Sunwing Airlines Inc.

Our leases also generally permit the lessees to subject the equipment or components to removal or replacement and, in certain cases, to pooling arrangements (temporary borrowing of equipment), without the lessor’s consent but subject to conditions and criteria set forth in the applicable lease. Under our leases, the lessee may deliver possession of the aircraft, engines and other equipment or components to the relevant manufacturer for testing or similar purposes, or to a third party for service, maintenance, repair or other work required or permitted under the lease.

Some foreign countries have currency and exchange laws regulating the international transfer of currencies. When necessary, we will require as a condition to any foreign transaction, that the lessee or purchaser in a foreign country obtain the necessary approvals of the appropriate government agency, finance ministry or central bank for the remittance of all funds contractually owed in U.S. dollars. We attempt to minimize our currency and exchange risks by negotiating most of our aircraft leases and all of our sales transactions in U.S. dollars.

Lease Restructurings. During the term of a lease, a lessee’s business circumstances may change to the point where it is economically sensible for us to consider restructuring the terms of the lease. Restructurings may involve the voluntary termination of leases prior to the scheduled lease expiration, the arrangement of subleases from the primary lessee to another airline, the rescheduling of lease payments, the forgiveness and/or reduction of lease obligations and the extension of the lease terms.

Aircraft Repossessions. On a lease default, we may seek to terminate the lease and gain possession of the aircraft for remarketing. Although the majority of repossessions are accomplished through negotiation, if we cannot obtain the lessee’s cooperation we would have to take legal action in the appropriate jurisdiction. This legal process could delay the ultimate return of the aircraft. In addition, in connection with the repossession of an aircraft, we may be required to pay outstanding mechanics, airport, navigation and other liens on the repossessed aircraft. These charges could relate to other aircraft that we do not own but were operated by the defaulting lessee. In contested repossessions, we likely would incur substantial additional costs for maintenance, refurbishment and remarketing of the aircraft.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

In August 2017, Air Berlin commenced insolvency proceedings in Germany and the United States. At that time, we had two aircraft on lease to Air Berlin. These leases were terminated and both aircraft were returned to us during the fourth quarter of 2017. In January 2018, one of the aircraft was delivered to a new lessee. The other aircraft is expected to be delivered to a new lessee in the first quarter of 2018.

Lease Management and Remarketing

We outsource our lease management and aircraft remarketing activities to BBAM. Pursuant to our servicing agreements with BBAM, BBAM provides us with services related to leasing our fleet, including marketing aircraft for lease and re-lease or sale, collecting rents and other payments from our lessees, monitoring maintenance, insurance and other obligations under our leases and enforcing our rights against lessees.

From time to time, we may decide to dispose of our aircraft at or before the expiration of their leases. In 2017, we sold one aircraft.

Competition

The leasing and remarketing of commercial jet aircraft is highly competitive. We face competition from airlines, aircraft manufacturers, financial institutions, aircraft brokers, special purpose vehicles formed for the purpose of acquiring, leasing and selling aircraft, and public and private partnerships, investors and funds, including private equity firms and hedge funds. Competition for leasing transactions is based on a number of factors including delivery dates, lease rates, lease terms, aircraft condition and the availability in the marketplace of the types of aircraft to meet the needs of the customers. See the risk factor “*We operate in a highly competitive market for investment opportunities in aircraft.*”

Insurance

We require our lessees to obtain those types of insurance and, as appropriate, reinsurance coverage which are customary in the air transportation industry. These include aircraft all-risk hull insurance covering the aircraft and its engines and spares and hull and spares war and allied perils insurance covering risks such as hijacking, terrorism, confiscation, expropriation, seizure and nationalization to the extent normally available in the international market. Coverage under aircraft hull insurance policies generally is subject to standard deductible levels in respect of partial damage to the aircraft, in some instances and under certain circumstances the lessee has the right to self-insure some or all of the risk. The lessee is required to pay all deductibles, and also would be responsible for payment of amounts self-insured.

We also require our lessees to carry comprehensive aviation liability insurance, including war and allied perils coverage, provisions for bodily injury, property damage, passenger liability, cargo liability and such other provisions reasonably necessary in commercial passenger and cargo airline operations. Coverage under liability policies generally is not subject to deductibles except as to baggage and cargo that are standard in the airline insurance industry.

In general, we are named as an additional insured and loss payee on the hull all risks and hull and spares war policies for the sum of the stipulated loss value or agreed value of the aircraft and our own contingent coverage in place is at least equal to the appraised value of the aircraft. In cases where the Servicer believes that the agreed value stated in the lease is not sufficient, the Servicer will purchase additional coverage, either in the form of hull and hull war total loss only or hull and hull war excess hull insurance for the deficiency and as an additional insured on the liability policies carried by our lessees.

The Servicer will obtain certificates of insurance/reinsurance from the lessees' brokers to evidence the existence of such coverage. These certificates generally include, in addition to the information above, (i) a breach of warranty endorsement so that, subject to certain standard exceptions, our interests are not prejudiced by any act or omission of the lessee, (ii) confirmation that the liability coverage is primary and not contributory, (iii) agreement that insurers waive rights of subrogation against us and (iv) in respect to all policies, a 30-day notice of cancellation or material change; however, war and allied perils policies customarily provide seven days advance written notice for cancellation and may be subject to lesser notice under certain market conditions.

The insurance market imposes a sub limit on each operator's primary liability policy applicable to third-party war risk liability. This limit customarily does not exceed \$150 million, upon which additional excess third party war

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

liability coverage is then obtained in the London and the International Markets. U.S., Canadian and certain other non-European Community-based airlines have government war-risk insurance programs available in which they currently participate.

Although we currently require each lessee to purchase third party war risk liability in amounts greater than such sublimits, or obtain an indemnity from their government, the market or applicable governments may discontinue to make such excess coverage available for premiums that are acceptable to carriers. As a result, it is possible that we may be required to permit lessees to operate with considerably less third-party war risk liability coverage than currently carried, which could have a material adverse effect on the financial condition of our lessees and on us in the event of an uncovered claim.

In addition to the coverage maintained by our lessees, we maintain both contingent hull, hull war and liability insurance and possession hull, hull war and liability insurance with respect to our aircraft. Such contingent insurance is intended to provide coverage in the event that the insurance maintained by any of our lessees should not be available for our benefit as required pursuant to the terms of the contract. Such possession insurance is intended to provide coverage for any periods in which an aircraft is not subject to a lease agreement with a lessee. Consistent with industry practice, our possession insurance policies are subject to commercially reasonable deductibles or self-retention amounts.

We have made every reasonable effort to insure against all customary risks, including that lessees will at all times comply with their obligations to maintain insurance, that any particular claim will be paid, and that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

Government Regulation

The air transportation industry is highly regulated. Because we do not operate aircraft, we generally are not directly subject to most of these laws. However, our lessees are subject to extensive regulation under the laws of the jurisdiction in which they are registered or under which they operate. These laws govern, among other things, the registration, operation, maintenance and condition of our aircraft. See the risk factor, *“We cannot assure you that lessees and governmental authorities will comply with the registration and deregistration requirements in the jurisdictions where our lessees operate.”*

Most of our aircraft are registered in the jurisdictions in which the lessees of our aircraft are certified as air operators. As a result, our aircraft are subject to the airworthiness and other standards imposed by these jurisdictions. See the risk factor, *“Government regulations could require substantial expenditures, reduce our profitability and limit our growth.”*

Properties

We have no physical facilities. Our executive offices are located on our Manager’s premises in Dublin, Ireland.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report. 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 Item 3 “Key Information — Risk factors.”

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, which we lease under multi-year contracts to a diverse group of airlines throughout the world.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

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.

In 2017, we acquired ten aircraft and sold one aircraft.

For the year ended December 31, 2017, we had a net income of \$2.6 million, or diluted income per share of \$0.09. Net cash provided by operating activities for the year ended December 31, 2017 totaled \$179.1 million. Net cash used in investing activities was \$430.4 million and net cash provided by financing activities was \$95.7 million for the year ended December 31, 2017.

As of December 31, 2017, we had 85 aircraft in our portfolio, of which 84 were held for operating lease and one was recorded as an investment in finance lease.

AirAsia Transactions

On February 28, 2018, we announced that we have entered into definitive agreements with AirAsia and its subsidiary, AACL, with respect to the AirAsia Transactions. Pursuant to these agreements, we will acquire 55 Airbus narrowbody aircraft and seven engines on operating leases, in transactions that are expected to close beginning in the second and third quarters of 2018 and ending in 2021. We also will acquire options to purchase an additional 20 Airbus A320neo family aircraft, not subject to lease, which begin delivering as early as 2019. Please refer to “Item 3. Key Information – Risks Related to the AirAsia Transactions” and “Item 18. Financial Statements – Notes to Consolidated Financial Statements – Note 22. Subsequent Events” for further information regarding the AirAsia Transactions and certain risks related thereto.

Market Conditions

The airline industry has been profitable every year since 2012 and airline profitability is expected to continue in 2018 amid strengthening global economic activity. Global passenger air traffic grew by 7.6% in 2017 and load factors were at record levels for the year. Further, utilization remains strong and the parked fleet is steady at about 4% for aircraft under 20 years old. Competition remains strong in the sale lease-back market and aircraft values generally remain stable.

Long term, there continue to be overall positive trends in world air traffic and demand for commercial aircraft, which we believe will continue to drive growth in the aircraft leasing market. Passenger demand continues to grow. Aircraft manufacturers are increasing the production rates of their narrow-body aircraft and certain of their wide-body aircraft, as they continue to transition to new models.

Despite the favorable market conditions, the airline industry is cyclical, and macroeconomic, geopolitical and other risks may negatively impact airline profitability or create unexpected volatility in the aircraft leasing market. Although we expect the overall airline industry to remain profitable, profits are not uniformly distributed among airlines, and certain airlines, particularly smaller airlines and start-up carriers, may struggle financially. These lessees may be unable to make lease rental and other payments on a timely basis. In addition, an increase in new aircraft production rates by aircraft manufacturers may reduce the demand for used aircraft, leading to a reduction in the lease rates and the values of used aircraft, or may create a condition of oversupply should demand falter.

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. The following is a discussion of the accounting policies that involve a high degree of judgment and the methods of their application.

Flight Equipment

Flight equipment held for operating lease is stated at cost less accumulated depreciation and impairment. Flight equipment are depreciated to their residual values on a straight-line basis over their estimated remaining useful

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life, generally 25 years from the date of manufacture. Residual values are generally estimated to be 15% of the original manufacturer's estimated realized price for the flight equipment when new. Estimated residual values and useful lives of flight equipment are reviewed and adjusted, if appropriate, during each reporting period.

Management may, at its discretion, make policy exceptions on a case by case basis when, in its judgment, the residual value calculated pursuant to policy does not appear to reflect current expectations of residual values. Examples of such situations include, but are not limited to:

- Flight equipment where original manufacturer's prices are not relevant due to plane modifications and conversions.
- Flight equipment that is out of production and may have a shorter useful life or lower residual value due to obsolescence.
- The remaining life of a converted freighter is determined based on the date of conversion, in which case, the total useful life may extend beyond 25 years from the date of manufacture.
- Flight equipment which management believes will be disposed of prior to the end of its estimated useful life.

Changes in the expected lives or residual values of aircraft could have a significant impact on our results of operations.

Held for Sale. 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 certain other held for sale criteria provided by the FASB. An aircraft classified as held for sale is not depreciated. Flight equipment held for sale is recorded at the lesser of carrying value or fair value, less estimated cost to sell. An impairment loss is recorded for an asset held for sale when the carrying value of the asset exceeds its fair value, less estimated cost to sell.

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

We evaluate flight equipment for impairment when circumstances indicate that the carrying amounts of such assets may not be recoverable. Our evaluation of impairment indicators include, but are not limited to, recent transactions for similar aircraft, adverse changes in market conditions for specific aircraft types, third party appraisals of aircraft, published values for similar aircraft, any occurrence of adverse changes in the aviation industry and the overall market conditions that could impact the fair value of our aircraft. The review for recoverability includes an assessment of currently contracted leases, future projected lease rates, transition costs, estimated down time and estimated residual or scrap values of the aircraft on its eventual disposition.

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

If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, we will assess whether the carrying values of the flight equipment exceed the fair values. An impairment loss is recognized equal to the excess of the carrying amount of the impaired asset over its fair value. Fair value reflects the present value of the cash expected to be generated in the future, including its expected residual value, discounted at a rate commensurate with the associated risk.

Changes to expected future cash flows could result in impairment charges which could have a significant impact on our results of operations.

Maintenance Right

We identify, measure and account for maintenance right assets and liabilities associated with our acquisitions of aircraft with in-place leases. A maintenance right asset represents the fair value of our contractual right under a lease to receive an aircraft in an improved maintenance condition at lease expiry as compared to the maintenance condition on the acquisition date. A maintenance right liability represents our obligation to pay the lessee for the

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difference between the lease end contractual maintenance condition of the aircraft at lease expiry and the actual maintenance condition of the aircraft on the acquisition date.

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

EOL Leases

Under EOL Leases, the lessee is obligated to comply with certain return conditions which require the lessee to perform lease end maintenance work or make cash compensation payments at the end of the lease to bring the aircraft into a specified maintenance condition.

Maintenance right assets in EOL Leases represent the difference in value between the contractual right to receive an aircraft in an improved maintenance condition at lease expiry as compared to the maintenance condition on the acquisition date. Maintenance right liabilities exist in EOL Leases if, on the acquisition date, the maintenance condition of the aircraft is greater than the contractual return condition in the lease at lease expiry and we are required to pay the lessee in cash for the improved maintenance condition. Maintenance right assets, net are recorded as a separate line item on our balance sheet.

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

When we have recorded maintenance right liabilities with respect to EOL Leases, the following accounting scenarios exist: (i) the aircraft is returned at lease expiry in the contractually specified maintenance condition without any cash payment by us to the lessee, the maintenance right liability is relieved and end of lease income is recognized; (ii) we pay the lessee cash compensation at lease expiry of less than the value of the maintenance right liability, the maintenance right liability is relieved and any difference is recognized as end of lease income; or (iii) we pay the lessee cash compensation at lease expiry in excess of the value of the maintenance right liability, the maintenance right liability is relieved and the excess amount is recorded as an aircraft improvement.

MR Leases

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

Maintenance right assets in MR Leases represent the right to receive an aircraft in an improved condition relative to the actual condition on the acquisition date. The aircraft is improved by the performance of qualified major maintenance paid for by the lessee who is reimbursed by us from the periodic maintenance payments that we receive. Maintenance right assets, net will be recorded as a separate line item on our balance sheet.

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

There are no maintenance right liabilities for MR Leases.

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

Derivative Financial Instruments

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

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

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Fly and the revenue can be reliably measured. Where revenue amounts do not meet these recognition criteria, recognition is delayed until the criteria are met.

- *Operating lease revenue.* We receive lease revenue from flight equipment under operating leases. Rental income from aircraft is recognized on a straight-line basis over the initial term of the respective lease. The operating lease agreements generally do not provide for purchase options, however, the leases may allow the lessee to exercise an option to extend the lease for an additional term. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when collection is not reasonably assured.
- *End of lease income.* The amount of end of lease income we recognize in any reporting period is inherently volatile and depends upon a number of factors, including the timing of both scheduled and unscheduled lease expiries, and the timing of maintenance performed on the aircraft by the lessee, among others.
- *Lease incentives.* Our leases may contain provisions which require us to contribute a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of lease revenue over the life of the lease.
- *Finance lease income.* Revenue from finance leases is recognized using the interest method to produce a level yield over the life of the finance lease.

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Income Taxes

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

We recognize an uncertain tax benefit only to the extent that it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. We have elected to classify any interest on unpaid income taxes and penalties as a component of the provision for income taxes. No interest on unpaid income taxes and penalties were incurred during each of the years ended December 31, 2017, 2016 and 2015.

New Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. Under the guidance, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the guidance requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance specifically notes that lease contracts are a scope exception. The guidance is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. We adopted the guidance effective January 1, 2018. The adoption will not have a significant impact on the consolidated financial statements and the related footnotes because lease revenue, which comprises the majority of our revenue, is excluded from the scope of this guidance.

In February 2016, FASB issued its new lease guidance, ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) on the commencement date: (i) lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. FASB has decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any finance lease that does not transfer control of the underlying asset to the lessee. In addition, the new guidance will require lessors to capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. Any other costs incurred, including allocated indirect costs, will no longer be capitalized and instead will be expensed as incurred. As of December 31, 2017, we had approximately \$2.0 million of unamortized lease costs. The guidance will be effective for annual reporting periods, including interim periods, beginning after December 15, 2018, and early adoption will be permitted. The new guidance must be adopted using the modified retrospective method. We are progressing in our assessment of the impact of ASC 842 and is concurrently gathering business requirements for the implementation of ASC 842. We plan to adopt the guidance effective January 1, 2019.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. The guidance requires application using a retrospective transition method. We early adopted the guidance effective December 31, 2017. The adoption of the guidance requires the classification of cash payments for debt prepayments or extinguishment costs (including third-party costs, premiums paid, and other fees paid to lenders) as financing activities in our statement of cash flows. The adoption changes our net cash provided by operating activities, with a corresponding change in our net cash provided by or used in financing activities.

In October 2016, FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires the recognition of current and deferred income taxes for intra-entity asset transfers, other than inventory, when the transfer occurs. Historically, the income tax consequence was not recognized until the asset was sold to a third party. The guidance is effective for annual reporting periods, including interim periods, beginning after December 15, 2017, and early adoption is permitted. We adopted the guidance effective January 1, 2018. The adoption of the guidance will not have a material impact on our consolidated financial condition, results of operations and cash flows.

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In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. ASU 2016-18 provides guidance on the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to show the changes in total of cash, cash equivalents, restricted cash and restricted cash equivalents. As a result, entities will no longer present transfers between cash and cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. Instead, restricted cash and cash equivalents is included in cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statement of cash flows. The guidance requires application using a retrospective transition method to each period presented. The guidance is effective for annual reporting periods, including interim periods beginning after December 15, 2017. We early adopted the guidance effective December 31, 2017. Prior to the adoption of the guidance, we presented the change in restricted cash and cash equivalents as cash provided by or used in financing activities as required by GAAP. The adoption of the new guidance eliminates the change in restricted cash and cash equivalents line item in financing activities and changes net cash flows provided by or used in financing activities by the same amount.

In August 2017, FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815)*. ASU 2017-12 is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. Under the guidance, if a cash flow hedge is highly effective, all changes in the fair value of the derivative hedging instrument will be recorded in other comprehensive income and reclassified to earnings when the hedged item impacts earnings. After initial qualification, the new guidance permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test, such as a regression analysis, if we can reasonably support an expectation of high effectiveness throughout the term of the hedge. An initial quantitative test to establish that the hedge relationship is highly effective is still required. Additional disclosures include cumulative basis adjustments for fair value hedges and the effect of hedging on individual income statement line items. The guidance will be effective for annual reporting periods, including interim periods, beginning after December 15, 2018, and early adoption will be permitted. We plan to adopt the guidance effective January 1, 2019.

Operating Results

Management's discussion and analysis of operating results presented below pertain to the consolidated statements of income of Fly for the years ended December 31, 2017, 2016 and 2015.

Consolidated Statements of Income of Fly for the years ended December 31, 2017 and 2016

	Years ended		Increase/ (Decrease)
	2017	2016	
	(Dollars in thousands)		
Revenues			
Operating lease revenue	\$346,894	\$313,582	\$ 33,312
Finance lease revenue	731	2,066	(1,335)
Equity earnings from unconsolidated subsidiary	496	530	(34)
Gain on sale of aircraft	3,926	27,195	(23,269)
Interest and other income	1,204	1,666	(462)
Total revenues	353,251	345,039	8,212
Expenses			
Depreciation	133,227	120,452	12,775
Aircraft impairment	22,000	96,122	(74,122)
Interest expense	127,782	123,161	4,621
Selling, general and administrative	30,671	30,077	594
Ineffective, de-designated and terminated derivatives	(192)	91	(283)
Loss on modification and extinguishment of debt	23,309	9,246	14,063
Maintenance and other costs	2,524	2,279	245
Total expenses	339,321	381,428	(42,107)
Net income (loss) before provision (benefit) for income taxes	13,930	(36,389)	50,319
Provision (benefit) for income taxes	11,332	(7,277)	18,609
Net income (loss)	\$ 2,598	\$ (29,112)	\$ 31,710

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As of December 31, 2017, we had 85 aircraft in our portfolio, 84 of which were held for operating lease and one was recorded as an investment in finance lease. As of December 31, 2016, we had 76 aircraft in our portfolio, 75 of which were held for operating lease and one recorded as an investment in finance lease. In 2017, we purchased ten aircraft and sold one aircraft.

	Years ended		Increase/ (Decrease)
	2017	2016	
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	\$337,137	\$313,976	\$23,161
End of lease income	17,837	8,918	8,919
Amortization of lease incentives	(7,668)	(8,898)	1,230
Amortization of lease premiums, discounts & other	(412)	(414)	2
Total operating lease revenue	<u>\$346,894</u>	<u>\$313,582</u>	<u>\$33,312</u>

For the year ended December 31, 2017, operating lease revenue totaled \$346.9 million, an increase of \$33.3 million compared to the year ended December 31, 2016. The increase was primarily due to (i) an increase of \$59.6 million from aircraft purchased in 2016 and 2017, (ii) an increase of \$8.9 million from end of lease income recognized and (iii) a decrease of \$1.2 million in lease incentive amortization. The increase was partially offset by decreases of (i) \$32.2 million in lease revenue from aircraft sold in 2016 and 2017 and (ii) \$5.7 million from lower lease rates on lease extensions and remarketings.

At December 31, 2017, we had one investment in finance lease, which was reclassified from an operating lease to a finance lease during the fourth quarter of 2016. In 2017, we recognized finance lease revenue of \$0.7 million related to this aircraft. During the year ended December 31, 2016, we had two investments in finance leases, one of which was sold during the third quarter of 2016. We recognized finance lease income of \$2.1 million in 2016 related to these two aircraft.

During the year ended December 31, 2017, we sold one aircraft and recognized a gain on sale of aircraft of \$3.9 million. During the year ended December 31, 2016, we sold 27 aircraft, 26 of which generated a \$27.2 million gain on sale of aircraft. We recorded a gain on debt extinguishment of \$0.6 million with the sale of the remaining aircraft, which was financed by a secured borrowing. The sale proceeds were paid to the lender as full and final discharge of the associated debt.

Depreciation expense during the year ended December 31, 2017 was \$133.2 million, compared to \$120.5 million for the year ended December 31, 2016, an increase of \$12.7 million. The increase was primarily due to depreciation on aircraft acquired in 2016 and 2017 and the reduction of the economic life of certain aircraft. This increase was partially offset by stoppage of depreciation on aircraft sold in 2016 and 2017.

During the year ended December 31, 2017, we recognized aircraft impairment totaling \$22.0 million related to one Airbus A330-200 aircraft that had been leased to Air Berlin. The lease was terminated, and this aircraft was returned to us and redelivered to another airline in January 2018. During the year ended December 31, 2016, we recognized aircraft impairment totaling \$96.1 million. This impairment charge related primarily to three wide-body aircraft nearing the end of their useful lives and are the only aircraft of their type in our portfolio. In addition, we recognized an impairment charge on one narrow-body aircraft which was sold in the third quarter of 2016, with proceeds paid to the lender as full and final discharge of the associated debt.

Interest expense totaled \$127.8 million and \$123.2 million for the years ended December 31, 2017 and 2016, respectively. The increase of \$4.6 million was primarily due to additional secured borrowings and increases in LIBOR. This increase was partially offset by a reduction in interest due to debt repayments, including the redemption of the 2020 Notes.

Selling, general and administrative expenses were \$30.7 million and \$30.1 million for the years ended December 31, 2017 and 2016, respectively. During the year December 31, 2017, we incurred transaction costs of \$1.8 million and unrealized foreign currency exchange losses of \$2.3 million. These increased costs were

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partially offset by a reduction in administrative and base fees paid to BBAM. During the year December 31, 2016, we incurred \$1.1 million of professional fees related to the restatement of our financial statements, \$1.0 million of aircraft acquisition costs that were expensed and unrealized foreign currency exchange gains of \$0.4 million.

Debt extinguishment costs totaled \$23.3 million and \$9.2 million for the years ended December 31, 2017 and 2016, respectively. During the year December 31, 2017, we incurred debt extinguishment costs primarily consisting of (i) \$19.7 million in connection with the redemption of the 2020 Notes and (ii) \$3.0 million in connection with the amendment of the Term Loan in April and November 2017. During the year ended December 31, 2016, we (i) wrote off unamortized loan costs and debt discounts and expensed other fees totaling \$4.8 million in connection with the repayment of debt associated with aircraft sold, (ii) incurred \$2.3 million of debt extinguishment costs in connection with the extension of the Term Loan in October 2016, and (iii) incurred swap breakage fees of \$2.1 million.

For the years ended December 31, 2017 and 2016, we had provision for income taxes of \$11.3 million and a benefit for income taxes of \$7.3 million, respectively. In 2017, we recorded a deferred tax liability of \$1.8 million in connection with undistributed earnings from our Australian subsidiary. A withholding tax of 15.0% is applicable to distributions of earnings from Australia which have not yet been taxed. In 2016, we recognized a deduction for an interest payment made by a subsidiary. We utilized this benefit as group relief to offset income tax on repatriated earnings of a Cayman Islands subsidiary. During the years ended December 31, 2017 and 2016, we recorded net valuation allowances of \$8.4 million and \$7.2 million, respectively.

Consolidated Statements of Income of Fly for the years ended December 31, 2016 and 2015

	Years ended		Increase/ (Decrease)
	2016	2015	
	(Dollars in thousands)		
Revenues			
Operating lease revenue	\$313,582	\$429,691	\$(116,109)
Finance lease revenue	2,066	299	1,767
Equity earnings from unconsolidated subsidiary	530	1,159	(629)
Gain on sale of aircraft	27,195	28,959	(1,764)
Interest and other income	1,666	2,289	(623)
Total revenues	<u>345,039</u>	<u>462,397</u>	<u>(117,358)</u>
Expenses			
Depreciation	120,452	159,732	(39,280)
Aircraft impairment	96,122	66,093	30,029
Interest expense	123,161	145,448	(22,287)
Selling, general and administrative	30,077	33,674	(3,597)
Ineffective, redesignated and terminated derivatives	91	4,134	(4,043)
Loss on modification and extinguishment of debt	9,246	17,491	(8,245)
Maintenance and other costs	2,279	7,628	(5,349)
Total expenses	<u>381,428</u>	<u>434,200</u>	<u>(52,772)</u>
Net income (loss) before provision (benefit) for income taxes	<u>(36,389)</u>	<u>28,197</u>	<u>(64,586)</u>
Provision (benefit) for income taxes	(7,277)	5,399	(12,676)
Net income (loss)	<u>\$ (29,112)</u>	<u>\$ 22,798</u>	<u>\$ (51,910)</u>

As of December 31, 2016, we had 76 aircraft in our portfolio, 75 of which were held for operating lease and one recorded as an investment in finance lease. As of December 31, 2015, we had 93 aircraft in our portfolio, 79 of which were held for operating lease, 13 aircraft held for sale, and one recorded as an investment in finance lease. In 2016, we purchased ten aircraft and sold 27 aircraft.

In the years ended December 31, 2016 and 2015, we recognized revenue from aircraft classified as held for sale, until the date that the aircraft were delivered to the purchasers. Pursuant to the sale contracts governing these

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transactions, rents collected with respect to these aircraft from the sale contract date through the aircraft disposition date reduced the sale proceeds and gain on sale of aircraft, which was partially offset by imputed interest earned for the same period. We ceased to recognize depreciation on these aircraft on the relevant sale contract date.

	Years ended		Increase/ (Decrease)
	2016	2015	
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	\$313,976	\$398,741	\$ (84,765)
End of lease income	8,918	53,760	(44,842)
Amortization of lease incentives	(8,898)	(20,527)	11,629
Amortization of lease premiums, discounts & other.....	(414)	(2,283)	1,869
Total operating lease revenue	<u>\$313,582</u>	<u>\$429,691</u>	<u>\$(116,109)</u>

For the year ended December 31, 2016, operating lease revenue totaled \$313.6 million, a decrease of \$116.1 million compared to the year ended December 31, 2015. The decrease was primarily due to (i) a decrease of \$133.2 million in lease revenue from aircraft sold in 2015 and 2016, (ii) a decrease of \$44.8 million from end of lease income recognized and (iii) a decrease of \$5.8 million from off-lease periods and lower lease rates on lease extensions and remarketings. The decrease was partially offset by (i) an increase of \$52.9 million from aircraft purchased in 2015 and 2016, (ii) a decrease of \$11.6 million in lease incentive amortization, and (iii) a decrease of amortization of lease premiums, net of lease discounts of \$1.4 million.

For the year ended December 31, 2016, finance lease revenue totaled \$2.1 million. At December 31, 2016, we had one investment in finance lease. During the fourth quarter of 2016, an existing operating lease was reclassified as a finance lease, resulting in a gain of \$2.7 million. For the year ended December 31, 2015, finance lease revenue totaled \$0.3 million, which was attributable to one lease recorded as an investment in finance lease. This aircraft was sold during the third quarter of 2016.

During the year ended December 31, 2016, we sold 27 aircraft, 26 of which generated a \$27.2 million gain on sale of aircraft. We recorded a gain on debt extinguishment of \$0.6 million with the sale of the remaining aircraft, which was financed by a secured borrowing. The sale proceeds were paid to the lender as full and final discharge of the associated debt. During the year ended December 31, 2015, we sold 44 aircraft and recognized a gain on sale of aircraft totaling \$29.0 million.

Depreciation expense during the year ended December 31, 2016 was \$120.5 million, compared to \$159.7 million for the year ended December 31, 2015, a decrease of \$39.2 million. The decrease was primarily due to stoppage of depreciation on (i) aircraft classified as held for sale in 2015 and (ii) aircraft sold in 2015 and 2016. These decreases were partially offset by depreciation on aircraft acquired in 2015 and 2016.

During the year ended December 31, 2016, we recognized aircraft impairment totaling \$96.1 million. This impairment charge related primarily to three wide-body aircraft nearing the end of their useful lives and are the only aircraft of their type in our portfolio. In addition, we recognized an impairment charge on one narrow-body aircraft which was sold in the third quarter of 2016, with proceeds paid to the lender in full satisfaction of the associated debt. During the year ended December 31, 2015, we recognized aircraft impairment totaling \$66.1 million related to three wide-body aircraft nearing the end of their economic lives and 11 narrow-body aircraft, ten of which were sold in 2015 and 2016.

Interest expense totaled \$123.2 million and \$145.4 million for the years ended December 31, 2016 and 2015, respectively. The decrease of \$22.2 million was primarily due to (i) a reduction in interest due to debt repayments from aircraft sales and regular amortization, (ii) a reduction in swap interest expense, (iii) re-pricing of the Term Loan in April 2015 and (iv) loan fees and commitment fees paid under the Fly Acquisition II Facility prior to its termination in the first quarter of 2015, partially offset by interest on other secured borrowings in 2016, and loan and commitment fees paid under the Fly Acquisition III Facility.

Selling, general and administrative expenses were \$30.1 million and \$33.7 million for the years ended December 31, 2016 and 2015, respectively. The decrease of \$3.6 million was primarily due to (i) a reduction in

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annual management fees in connection with the amendment to the management agreement with our Manager effective July 1, 2015 and (ii) a reduction in servicing fees paid to BBAM due to a decrease in the number of aircraft in our portfolio. These decreases were partially offset by \$1.1 million of professional fees incurred in 2016 related to the restatement of our financial statements and a reduction in unrealized foreign currency exchange gains caused by the valuation of other aircraft secured borrowings denominated in Euros.

Debt extinguishment costs totaled \$9.2 million and \$17.5 million for the years ended December 31, 2016 and 2015, respectively. During the year December 31, 2016, we (i) wrote off unamortized loan costs and debt discounts and expensed other fees totaling \$4.8 million in connection with the repayment of debt associated with aircraft sold, (ii) incurred \$2.3 million of debt extinguishment costs in connection with the extension of the Term Loan in October 2016, and (iii) incurred swap breakage fees of \$2.1 million. During the year ended December 31, 2015, we wrote off unamortized loan costs and debt discounts totaling \$13.9 million as debt extinguishment costs in connection with the repayment of debt associated with aircraft sold, and incurred \$2.6 million of prepayment and other fees in connection with the (i) termination of the Fly Acquisition II Facility, (ii) re-pricing of the Term Loan, and (iii) repayment of debt associated with aircraft sold. We also incurred swap breakage fees of \$1.0 million.

Maintenance and other costs totaled \$2.3 million and \$7.6 million during the years ended December 31, 2016 and 2015, respectively. The decrease of \$5.3 million was primarily due to a reduction in remarketing activities.

For the years ended December 31, 2016 and 2015, we had a benefit for income taxes of \$7.3 million and provision for income taxes of \$5.4 million, respectively. In 2016, we recognized a deduction for an interest payment made by a subsidiary. We utilized this benefit as group relief to offset income tax on repatriated earnings of a Cayman Islands subsidiary. During the years ended December 31, 2016 and 2015, we recorded net valuation allowances of \$7.2 million and \$3.4 million, respectively.

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 fleet growth. Since the beginning of 2013, we have spent approximately \$3.2 billion to acquire 66 aircraft.

We have pursued opportunistic aircraft sales to rejuvenate our fleet. In 2015, we sold 44 aircraft. We sold an additional 27 aircraft in 2016, generating \$209.3 million of cash, after repayment of the associated debt.

We finance our business with unrestricted cash, cash generated from operating leases, aircraft sales and debt financings. At December 31, 2017, we had \$329.1 million of unrestricted cash. We also had six unencumbered aircraft with an aggregate book value of \$331.0 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 unsecured or non-recourse debt. In addition, we continue to utilize secured, non-recourse indebtedness under our debt facilities and other aircraft secured borrowings.

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 believe that our sources of liquidity will be sufficient to satisfy our liquidity needs through at least the next twelve months.

Our liquidity plans are subject to a number of risks and uncertainties, including those described under Item 3 “Risk Factors” in this report.

Cash Flows of Fly for the years ended December 31, 2017 and 2016

We generated cash from operations of \$179.1 million and \$152.8 million for the years ended December 31, 2017 and 2016, respectively, an increase of \$26.3 million.

Cash used in investing activities was \$430.4 million and \$123.3 million for the years ended December 31, 2017 and 2016, respectively. In 2017, we used \$434.1 million of cash to purchase ten aircraft, and sold one aircraft for

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cash proceeds of \$21.8 million. In 2016, we used \$552.2 million of cash to purchase ten aircraft, and sold 27 aircraft for net cash proceeds of \$430.9 million. Payments for lessor maintenance obligations totaled \$12.6 million and \$2.7 million for the years ended December 31, 2017 and 2016, respectively.

Cash provided by financing activities for the years ended December 31, 2017 and 2016 totaled \$95.7 million and \$131.7 million, respectively. In 2017, we received (i) net proceeds of \$513.5 million from secured borrowings, (ii) net proceeds of \$295.2 million from unsecured borrowings and (iii) net maintenance reserve receipts of \$61.5 million. These were partially offset by (i) repayments on our unsecured borrowings totaling \$375.0 million, (ii) repayments on our secured borrowings totaling \$326.9 million, and (iii) \$57.3 million to repurchase 4,274,569 shares. In 2016, we received (i) net proceeds of \$572.7 million from secured borrowings and (ii) net maintenance reserve receipts of \$60.6 million. These were partially offset by (i) repayments on our secured borrowings totaling \$448.3 million and (ii) \$40.3 million to repurchase 3,414,960 shares.

Cash Flows of Fly for the years ended December 31, 2016 and 2015

We generated cash from operations of \$152.8 million and \$218.5 million for the years ended December 31, 2016 and 2015, respectively, a decrease of \$65.7 million.

Cash used in investing activities was \$123.3 million for the year ended December 31, 2016. Cash provided by investing activities was \$480.5 million for the year ended December 31, 2015. In 2016, we used \$552.2 million of cash to purchase ten aircraft, and sold 27 aircraft for net cash proceeds of \$430.9 million. In 2015, we used \$601.1 million of cash to purchase ten aircraft, including a \$33.6 million investment in a finance lease aircraft, and sold 44 aircraft for net cash proceeds of \$1.1 billion. Payments for lessor maintenance obligations totaled \$2.7 million and \$18.6 million for the years ended December 31, 2016 and 2015, respectively.

Cash provided by financing activities for the year ended December 31, 2016 totaled \$131.7 million. Cash used in financing activities for the year ended December 31, 2015 totaled \$724.4 million. In 2016, we received (i) net proceeds of \$572.7 million from secured borrowings and (ii) net maintenance reserve receipts of \$60.6 million. These were partially offset by (i) repayments on our secured borrowings totaling \$448.3 million and (ii) \$40.3 million to repurchase 3,414,960 shares. In 2015, we (i) made repayments on our secured borrowings totaling \$791.4 million, (ii) used \$81.4 million to repurchase 5,797,673 shares and (iii) paid dividends and dividend equivalents of \$42.4 million. These were partially offset by (i) net proceeds of \$147.3 million from secured borrowings and (ii) net maintenance reserve receipts of \$45.7 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.

Maintenance reserve payments we collect from our lessees are based on passage of time or usage of the aircraft measured by hours flown or cycles operated. Under these leases, we are obligated to make reimbursements to the lessee for expenses incurred for certain planned major maintenance, up to a maximum amount that is typically determined based on maintenance reserves paid by the lessee.

Certain leases also require us to make maintenance contributions for costs associated with certain major maintenance events in excess of any maintenance reserve payments received. Major maintenance includes heavy airframe, off-wing engine, landing gear and auxiliary power unit overhauls and replacements of engine life limited parts. We are not obligated to make maintenance contributions under any lease pursuant to which a lessee default has occurred and is continuing. We also have leases that provide for lease-end maintenance adjustment payments based on the usage of the aircraft during the lease term and its condition upon redelivery. Typically, payments are made by the lessee to us, although in some cases, we have been required to make such payments to the lessee.

We expect that the aggregate maintenance reserve and lease end adjustment payments we receive from lessees will meet the aggregate maintenance contributions and lease end adjustment payments that we will be required to make. In 2017, we received \$75.8 million of maintenance payments from lessees, made maintenance payment disbursements of \$14.3 million and also made payments for lessor maintenance obligations of \$12.6 million.

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Share Repurchases

In July 2016, our board of directors approved a \$75.0 million share repurchase program, which expired in December 2017. In November 2017, our board of directors approved a \$50.0 million share repurchase program expiring in December 2018. Under this program, we may make share repurchases from time to time in the open market or in privately negotiated transactions.

During the year ended December 31, 2017, we repurchased 4,274,569 shares at an average price of \$13.35 per share, or \$57.1 million, before commissions and fees.

Financing

We finance our business with unsecured and secured borrowings. As of December 31, 2017, we were not in default under any of our borrowings.

Unsecured Borrowings

On December 11, 2013, we sold \$300.0 million aggregate principal amount of unsecured 6.75% Senior Notes due 2020 (together with the Additional 2020 Notes (as defined below), the "2020 Notes"). In connection with the issuance, we paid underwriting discounts totaling \$8.5 million.

On October 3, 2014, we sold \$75.0 million aggregate principal amount of unsecured 6.75% Senior Notes due 2020 (the "Additional 2020 Notes") and \$325.0 million aggregate principal amount of 6.375% Senior Notes due 2021 (the "2021 Notes"). The Additional 2020 Notes were issued as additional notes under the 2020 Notes indenture, and were sold at a price equal to 104.75% of the principal amount thereof. The 2021 Notes were issued under an indenture containing substantially similar terms as the indenture governing the 2020 Notes and were sold at par. In connection with these issuances, we paid a net underwriting discount totaling \$3.4 million.

On October 16, 2017, we sold \$300.0 million aggregate principal amount of unsecured 5.250% Senior Notes due 2024 (the "2024 Notes"). The net proceeds to us were approximately \$294.2 million, after deducting the underwriters' discounts and commissions and offering expenses paid by us. We used the net proceeds from the sale of the 2024 Notes, together with cash on hand, to redeem all \$375.0 million of our outstanding 2020 Notes on December 15, 2017. In connection with the redemption, we incurred debt extinguishment costs totaling \$19.7 million.

The 2021 Notes and 2024 Notes are senior unsecured obligations of ours and rank *pari passu* in right of payment with any existing and future senior unsecured indebtedness of ours. The 2021 Notes have a maturity date of October 15, 2021 and the 2024 Notes have a maturity date of October 15, 2024.

Interest Rate. The 2021 Notes have a fixed annual interest rate of 6.375%, which is paid semi-annually on April 15 and October 15 of each year. The 2024 Notes have a fixed annual interest rate of 5.250%, which will be paid semi-annually on April 15 and October 15 of each year, beginning on April 15, 2018.

Optional Redemption.**2021 Notes**

We may redeem the 2021 Notes, in whole or in part, at the redemption prices listed below, plus accrued and unpaid interest to the redemption date.

If redeemed during the 12-month period commencing on October 15 of the years set forth below:	Redemption Price
2017	104.781%
2018	103.188%
2019	101.594%
2020 and thereafter	100.000%

2024 Notes

At any time prior to October 15, 2020, we may redeem up to 35% of the original principal amount of the 2024 Notes with the proceeds of certain equity offerings at a redemption price of 105.250% of the principal amount

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thereof, together with accrued and unpaid interest to, but not including, the date of redemption. On and after October 15, 2020, we may redeem the 2024 Notes, in whole or in part, at the redemption prices listed below, plus accrued and unpaid interest to the redemption date.

If redeemed during the 12-month period commencing on October 15 of the years set forth below:	<u>Redemption Price</u>
2020	102.625%
2021	101.313%
2022 and thereafter.....	100.000%

At any time prior to October 15, 2020, we may also redeem all or a portion of the 2024 Notes at par, plus accrued and unpaid interest to the redemption date and a “make-whole premium” equal to the present value of all future interest payments called for under the indenture.

Default and Remedies. The indentures governing the 2021 Notes and the 2024 Notes contain customary events of default with respect to the notes of each series, 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 us 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) default in any of the aircraft owning entities in respect of obligations in excess of \$50.0 million, which holders of such obligation accelerate or demand repayment of amounts due thereunder, (v) failure by us 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 us or a significant subsidiary. As of December 31, 2017, we were not in default under the indentures governing the 2021 Notes or the 2024 Notes.

Certain Covenants. Pursuant to the indenture governing the 2021 Notes and 2024 Notes, we are subject to restrictive covenants which relate to dividend payments, incurrence of debt and issuance of guarantees, incurrence of liens, repurchases of common shares, investments, disposition of aircraft, consolidation, merger or sale of our company and transactions with affiliates. We are also subject to certain operating covenants, including reporting requirements. Our failure to comply with any of the covenants under the indentures governing the 2021 Notes or 2024 Notes could result in an event of default 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 2021 Notes or 2024 Notes obtain an investment grade rating.

Secured Borrowings

We are subject to restrictive covenants under our 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.

Our loan agreements include events of default that are customary for these types of secured borrowings. Our 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 our loan agreements contain cross-default provisions that could be triggered by a default under another loan agreement.

Securitization Notes

At December 31, 2017, our subsidiary, B&B Air Funding, had \$101.6 million principal amount outstanding on our aircraft lease-backed Class G-1 notes (the “Securitization Notes”), which were secured by nine aircraft. The final maturity date of the Securitization Notes is November 14, 2033.

Interest Rate. The Securitization Notes bear interest at an adjustable interest rate equal to the current one-month LIBOR plus 0.77%. Interest expense also includes amounts payable to the provider of a financial guaranty insurance policy and the liquidity facility provider thereunder, as well as accretion on the Securitization Notes re-issued at a discount. Interest and any principal payments due are payable monthly.

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Payment Terms. All cash collected, including sale proceeds from the aircraft financed by the Securitization Notes, is applied to service the outstanding balance of the Securitization Notes, after the payment of certain expenses and other costs, including interest, interest rate swap payments, and the fees to the policy provider in accordance with those agreements.

Redemption. B&B Air Funding may, on any future payment date, redeem the Securitization Notes in whole or from time to time in part for an amount equal to 100% of the outstanding principal amount, together with accrued and unpaid interest to, but excluding, the date fixed for redemption. Redemption prior to acceleration of the Securitization Notes may be of all or any part of the Securitization Notes. Redemption after acceleration of the Securitization Notes upon default may only be for all of the Securitization Notes.

Collateral. The Securitization Notes are secured by (i) first priority, perfected security interests in and pledges or assignments of equity ownership and beneficial interests in the subsidiaries of B&B Air Funding; (ii) interests in the leases of the associated aircraft; (iii) cash held by the subsidiaries of B&B Air Funding; and (iv) rights under agreements with BBAM, the initial liquidity facility provider, hedge counterparties and the policy provider. Rentals paid under leases are placed in the collections account and paid out according to a priority of payments set forth in the indenture. The Securitization Notes are also secured by a lien or similar interest in any of the aircraft B&B Air Funding currently owns that are registered in the United States or Ireland. B&B Air Funding may not encumber the aircraft it currently owns or incur additional indebtedness except as permitted under the securitization-related documents.

Certain Covenants. B&B Air Funding is subject to operating covenants which relate to, among other things, its operations, disposition of aircraft, lease concentration limits, and restrictions on the modification of aircraft and capital expenditures. A breach of the covenants could result in the acceleration of the Securitization Notes and exercise of remedies available in relation to the collateral, including the sale of aircraft at public or private sale.

Default and Remedies. Following any event of default and any acceleration of the Securitization Notes by the controlling party (initially, the policy provider), the security trustee may, at the direction of the controlling party, exercise such remedies in relation to the collateral as may be available to it under applicable law, including the sale of any of the aircraft at public or private sale. After the occurrence of certain bankruptcy and insolvency related events of default, or any acceleration of the Securitization Notes after the occurrence of any event of default, all cash generated by B&B Air Funding will be used to prepay the Securitization Notes.

Liquidity Facility. In connection with the issuance of the Securitization Notes, B&B Air Funding entered into a revolving credit facility (“Securitization Note Liquidity Facility”) that provides additional liquidity of up to \$60.0 million. Subject to the terms and conditions of the Securitization Note Liquidity Facility, advances may be drawn for the benefit of the Securitization Note holders to cover certain expenses of B&B Air Funding, including maintenance expenses, interest rate swap payments and interest on the Securitization Notes. Advances shall bear interest at one-month LIBOR plus a spread of 1.20%. A commitment fee of 0.40% per annum is due and payable on each payment date based on the unused portion of the Securitization Note Liquidity Facility. As of December 31, 2017, B&B Air Funding had not drawn on the Securitization Note Liquidity Facility.

Our obligations under the Securitization Note Liquidity Facility are secured under the security trust agreement on the same basis as other indebtedness of B&B Air Funding.

Nord LB Facility

As of December 31, 2017, we had \$153.2 million principal amount outstanding under our debt facility with Norddeutsche Landesbank Girozentrale (the “Nord LB Facility”), which was secured by six aircraft. The Nord LB Facility is structured with loans secured by each aircraft individually. The loans are cross-collateralized and contain cross-default provisions. Borrowings are secured by Fly’s equity interests in the aircraft owning and leasing subsidiaries, the related leases, and certain deposits.

Interest Rate. The loans under the Nord LB Facility bear interest at one-month LIBOR plus 3.30% until the final maturity date of November 14, 2018. The blended weighted average interest rate for the Nord LB Facility was 4.47% as of December 31, 2017, excluding the amortization of debt discount and loan cost.

Payment Terms. We apply 95% of lease rentals collected towards interest and principal. If no lease rental payments are collected in the applicable period for any financed aircraft, then no payment is due under the loan associated with that aircraft during such period. Any unpaid interest increases the principal amount of the associated loan.

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In the event we 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 us 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. We 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, we 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.

Collateral. Borrowings are secured by our equity interest in the subsidiaries that own the financed aircraft, the related leases, maintenance reserves and other deposits. The loans are cross-collateralized and contain cross-default provisions.

Certain Covenants. The Nord LB Facility does not contain any financial covenants. However, the borrowers in the Nord LB Facility are subject to certain servicer termination events. BBAM may be terminated as the servicer upon the occurrence of certain events of default under the loan agreement.

Default and Remedies. An event of default with respect to the loan on any aircraft will trigger an event of default on the loans with respect to every other financed aircraft. A default by any of the aircraft owning entities in respect of obligations in excess of \$10.0 million and holders of such obligation accelerate or demand repayment of amounts due thereunder would constitute an event of default.

CBA Facility

As of December 31, 2017, we had \$49.1 million principal amount outstanding under our debt facility with Commonwealth Bank of Australia and CommBank Europe Limited (the "CBA Facility"), which was secured by four aircraft. Fly has guaranteed all payments under the CBA Facility. These loans are cross-collateralized and contain cross-default provisions. The final maturity date of each of the four loans is October 28, 2020.

Interest Rate. Borrowings under the CBA Facility accrue interest at a fixed interest rate, ranging between 4.32% and 7.75%. The weighted average interest rate on all outstanding amounts was 5.53% as of December 31, 2017, excluding the amortization of debt discount loan cost.

Payment Terms. We make scheduled monthly payments of principal and interest on each loan in accordance with a fixed amortization schedule. If, upon the repayment of any loan, the ratio of the remaining principal amount outstanding under the CBA Facility to the aggregate appraised value of the financed aircraft is equal to or greater than 80%, we will be required to pay cash collateral in an amount sufficient to reduce this ratio to less than 80%.

Collateral. Borrowings are secured by our equity interest in the subsidiaries that own the financed aircraft, the aircraft and the related leases.

Certain Covenants. The CBA Facility includes certain operating covenants, including reporting requirements. A breach of the covenants could result in the acceleration of outstanding indebtedness under the CBA Facility, and exercise of remedies available in relation to the collateral.

Term Loan

As of December 31, 2017, we had \$431.3 million principal amount outstanding under our senior secured term loan (the "Term Loan"), which was secured by 30 aircraft. Fly has guaranteed all payments under the Term Loan.

On October 19, 2016, we amended the Term Loan to extend the maturity date from August 2019 to February 2022. In connection with this amendment, we paid a one-time fee of 0.25% on the then outstanding principal amount under the Term Loan to the lenders. We also expensed \$2.3 million as debt extinguishment costs.

On April 28, 2017, we completed an amendment of the Term Loan to (i) reduce the margin from 2.75% to 2.25%, (ii) eliminate the LIBOR floor of 0.75% and (iii) extend the maturity date from February 2022 to

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February 2023. We also upsized the Term Loan by \$50.0 million. On November 1, 2017, we completed another amendment of the Term Loan to further reduce the margin from 2.25% to 2.00%. Until May 2018, the Term Loan can be prepaid in whole or in part for an amount equal to 101% of the outstanding principal amount being repaid. Thereafter, the Term Loan can be prepaid in whole or in part at par. During the year ended December 31, 2017, we incurred debt extinguishment costs totaling \$3.0 million in connection with these amendments.

Interest Rate. The Term Loan bears interest at three-month LIBOR, plus a margin of 2.00%.

Payment Terms. The Term Loan requires quarterly principal payments of \$5.9 million.

Collateral. Borrowings are secured by our equity interests in the aircraft owning and/or leasing subsidiaries, the aircraft and related leases.

Certain Covenants. The Term Loan contains certain concentration limits with respect to types of aircraft which can be financed in the Term Loan, as well as geographic and single lessee concentration limits. These concentration limits apply upon the acquisition, sale, removal or substitution of an aircraft. The Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings.

Under the Term Loan, we must maintain a maximum loan-to-value ratio 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.

Default and Remedies. An event of default under the Term Loan includes any of the aircraft owning entities defaulting in respect of obligations in excess of \$50.0 million and holders of such obligation accelerate or demand repayment of amounts due thereunder.

Magellan Acquisition Limited Facility

On December 8, 2017, our wholly-owned subsidiary entered into a term loan facility with a consortium of lenders (“Magellan Acquisition Limited Facility”) that provides for loans and notes in an aggregate amount of \$331.8 million with a final maturity date of December 8, 2025. We paid an upfront fee of approximately \$3.0 million to the lenders concurrent with the closing.

As of December 31, 2017, we received an aggregate of \$273.7 million to finance seven aircraft, and the remaining \$58.1 million was held in an escrow account to be used to finance two additional aircraft, which were subsequently financed in the first quarter of 2018. The Magellan Acquisition Limited Facility is secured by nine aircraft with an initial loan-to-value ratio of less than 75%. Fly has guaranteed all payments under the facility.

Payment Terms. The facility requires monthly principal payments of \$2.2 million.

Interest. 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 issued under the facility is a fixed rate of 3.93% per annum.

Collateral. Borrowings are secured by our equity interests in the aircraft owning and/or leasing subsidiaries, the aircraft and related leases.

Certain Covenants. The facility contains financial and operating covenants, including a covenant that we maintain a tangible net worth of at least \$325.0 million, as well as customary reporting requirements. A violation of any of these covenants could result in a default under the Magellan Acquisition Limited Facility. In addition, upon the occurrence of certain conditions including a failure 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 accounts pledged to the security trustee.

Upon the sale of an aircraft, the borrower may substitute aircraft into the Magellan Acquisition Limited Facility subject to certain conditions. The substitute aircraft must be equal to or greater than the appraised value of the aircraft being substituted. The borrower must be in compliance with the concentration limits after such substitution.

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

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Fly Acquisition III Facility

In February 2016, we, through a wholly-owned subsidiary, Fly Acquisition III Limited, entered into a revolving \$385.0 million credit facility (the “Fly Acquisition III Facility”) to finance the acquisition of eligible aircraft. Borrowings are secured by the beneficial interests in Fly Acquisition III and each of its subsidiaries, the aircraft and related leases. The Fly Acquisition III Facility has an availability period expiring on February 26, 2019 and a maturity date of February 26, 2022. Fly has guaranteed Fly Acquisition III’s obligations under the facility.

As of December 31, 2017, we had \$86.5 million principal amount outstanding, which was secured by four aircraft.

Commitment Fees. We pay a commitment fee of 0.50% per annum on a monthly basis to each lender on the undrawn amount of its commitment until the termination of the availability period; provided that at any time from and after March 26, 2017 through the end of the availability period, the commitment fee will increase to 0.75% per annum if at least 50% of the total amount of commitments have not been drawn.

Interest. The interest rate under the facility is based on one-month LIBOR plus an applicable margin. The applicable margin is 2.00% through the expiration of the availability period, and will increase to 2.50% from February 27, 2019 through February 26, 2020 and 3.00% from February 27, 2020 through the maturity date of the facility.

Payment Terms. We make scheduled monthly payments of principal on each loan in accordance with a fixed amortization schedule, calculated by dividing each drawdown by the remaining useful life of the associated aircraft.

Certain Covenants. The Fly Acquisition III Facility contains financial and operating covenants, including a covenant that we maintain a tangible net worth of at least \$325.0 million and a specified interest coverage ratio, as well as customary reporting requirements. Violation of any of these covenants could result in an event of default under the facility. Also, upon the occurrence of certain conditions, including a failure by us to maintain a minimum liquidity of at least \$25.0 million, Fly Acquisition III will be required to deposit maintenance reserves and security deposits received from lessees into accounts pledged to the security trustee.

Default and Remedies. An event of default under the Fly Acquisition III Facility includes a default in respect of our recourse obligations in excess of \$50.0 million and holders of such obligation accelerate or demand repayment of amounts due thereunder.

Other Aircraft Secured Borrowings

We have entered into other aircraft secured borrowings to finance the acquisition of aircraft, one of which is denominated in Euros. As of December 31, 2017, we had \$905.5 million principal amount of other aircraft secured borrowings outstanding, which was secured by 19 aircraft. Of this amount, \$473.6 million was recourse to us.

These borrowings are structured as individual loans secured by pledges of our 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 these loans range from September 2019 to June 2028.

Capital Expenditures

During the year ended December 31, 2017, we purchased nine narrow-body aircraft and one wide-body aircraft for an aggregate of \$456.0 million. During the year ended December 31, 2016, we purchased seven narrow-body aircraft and three wide-body aircraft for an aggregate of \$559.3 million. During the year ended December 31, 2015, we purchased seven narrow-body aircraft and three wide-body aircraft for an aggregate of \$615.1 million.

In addition to aircraft acquisitions, we expect to make capital expenditures from time to time in connection with improvements to our aircraft. These expenditures include the cost of major overhauls and modifications. In general, the costs of operating an aircraft, including capital expenditures, increase with the age of the aircraft. As of December 31, 2017, the weighted average age of our aircraft portfolio was 6.4 years.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Inflation

The effects of inflation on our operating expenses have been minimal. We do not consider inflation to be a significant risk to direct expenses in the current economic environment.

Research and Development, Patents and Licenses, etc.

Not applicable.

Off-Balance Sheet Arrangements

Not applicable.

Contractual Obligations

Our long-term contractual obligations as of December 31, 2017 consisted of the following (in thousands):

	2018	2019	2020	2021	2022	Thereafter	Total
Principal payments:							
Principal payment under the 2021 Notes	\$ —	\$ —	\$ —	\$325,000	\$ —	\$ —	\$ 325,000
Principal payment under the 2024 Notes	—	—	—	—	—	300,000	300,000
Principal payments under the Securitization Notes ⁽¹⁾	10,497	16,208	3,447	12,047	12,337	47,015	101,551
Principal payments under the Nord LB Facility ⁽²⁾	153,176	—	—	—	—	—	153,176
Principal payments under the CBA Facility	7,816	8,172	33,092	—	—	—	49,080
Principal payments under the Term Loan ⁽³⁾	23,504	22,404	22,404	22,404	22,404	318,151	431,271
Principal payments under the Magellan Acquisition Limited Facility	26,542	26,542	26,542	26,542	26,542	199,058	331,768
Principal payments under the Fly Acquisition III Facility	7,182	7,182	7,182	7,182	7,182	50,610	86,520
Principal payments under Other Aircraft Secured Borrowings	81,197	88,722	94,517	84,322	105,971	450,796	905,525
Total principal payments	309,914	169,230	187,184	477,497	174,436	1,365,630	2,683,891
Interest payments:							
Interest payments under the 2021 Notes and 2024 Notes	36,469	36,469	36,469	32,152	15,750	28,219	185,528
Interest payments under secured borrowings ⁽⁴⁾	66,750	54,524	49,311	42,350	38,015	59,244	310,194
Total interest payments	103,219	90,993	85,780	74,502	53,765	87,463	495,722
Payments to BBAM and its affiliates under our management agreement ⁽⁵⁾							
	7,307	7,307	7,307	7,307	7,307	54,799	91,334
Payments to BBAM and its affiliates under our administrative services and servicing agreements ⁽⁶⁾							
	13,256	12,734	11,155	9,722	8,292	28,491	83,650
Total	433,696	280,264	291,426	569,028	243,800	1,536,383	3,354,597

(1) Principal payments under the Securitization Notes are determined monthly based on revenues collected and costs and other liabilities incurred prior to the relevant payment date. Future principal payment amounts are estimated based upon existing leases and current re-leasing assumptions. The final maturity of the Securitization Notes is November 14, 2033.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

- (2) Amounts reflect estimated principal payments through maturity date of November 14, 2018.
- (3) In February 2018, we made an additional principal payment of \$1.1 million.
- (4) For variable rate borrowings based on LIBOR plus the applicable margin, LIBOR is assumed to remain at the current rate in effect at year end through the term of the loan.
- (5) Assumes an automatic extension for one additional term of five years to July 1, 2030. Also assumes the net book value of aircraft at December 31, 2017 and Consumer Price Index rates in effect as of December 31, 2017 remain constant in future periods.
- (6) Amounts in the table reflect the application of these servicing fees to our aircraft at December 31, 2017.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table presents information about our directors and executive officers. The business address of each of our directors and executive officers listed below is West Pier Business Campus, Dun Laoghaire, County Dublin, A96 N6T7, Ireland. Our telephone number at that address is +353 1 231-1900.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Colm Barrington	72	Chief Executive Officer and Director
Julie Ruehl	52	Chief Financial Officer
Joseph M. Donovan	63	Director and Chairman
Erik G. Braathen	62	Director
Eugene McCague	59	Director
Robert S. Tomczak	56	Director
Susan M. Walton	57	Director
Steven Zissis	58	Director

Colm Barrington has been our chief executive officer and a member of our board of directors since May 2007. Mr. Barrington has over 40 years of experience in the global aviation industry, having started his aviation career in 1967 at Ireland's national airline, Aer Lingus. In 1979, he joined GPA Group plc where he held various senior positions, including chief operating officer. In 1993, Mr. Barrington oversaw the successful integration of GPA Group plc and GE Capital Aviation Services (GECAS). In 1994, he joined Babcock & Brown Limited working in aircraft and lease management and arranging cross border lease financings of commercial aircraft. In September 2015, Mr. Barrington retired after seven years as the non-executive Chairman of the Board of Directors of Aer Lingus plc, following the sale of Aer Lingus to International Consolidated Airlines Group (IAG). Mr. Barrington is a non-executive director of IFG Group plc and Hibernia REIT plc, and has recently joined the Board of Directors of Finnair plc as non-executive Vice Chairman. Mr. Barrington received a BA and an MA in Economics from University College Dublin and a public administration degree from the Institute of Public Administration, also in Dublin.

Julie Ruehl has been our chief financial officer since August 2017. Prior to joining FLY, Ms. Ruehl previously served as the Vice President and Chief Accounting Officer for Big Heart Pet Brands and for its predecessor, Del Monte Corporation. Prior to that she was in a senior financial position with Sanmina Corporation, a global provider of electronics manufacturing services, and previously served as an Audit Partner at Arthur Andersen LLP. Ms. Ruehl graduated cum laude from Louisiana State University with a bachelor of science degree in Accounting.

Joseph M. Donovan was appointed Chairman in April 2010 and has been a member of our board of directors since June 2007. Prior to his retirement in January 2007, Mr. Donovan was chairman of Credit Suisse's Asset-Backed Securities and Debt Financing Group, which he led for nearly seven years. Prior thereto, Mr. Donovan was a managing director and head of Asset Finance at Prudential Securities (1998-2000) and Smith Barney (1995-1997). Mr. Donovan began his banking career at The First Boston Corporation in 1983, ultimately becoming a managing director at CS First Boston, where he served as Chief Operating Officer of the Investment Banking Department from 1992 to 1995. Mr. Donovan is a director of STORE Capital Corporation. Mr. Donovan received his MBA from The Wharton School and has a degree in Accountancy from the University of Notre Dame.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Erik G. Braathen has been a member of our board of directors since June 2007. Mr. Braathen has been the chief executive of Ojada AS, a privately owned investment company, since 1999. Prior to joining Ojada AS, Mr. Braathen was the chief executive officer of Braathens ASA where he gained extensive experience in the airline industry from 1986 to 1999. Mr. Braathen serves as the Deputy of Chairman of Protector Insurance ASA and is a member of the boards of directors of Northsea PSV AS and Cenzia AS. Mr. Braathen is Chairman of the Board of Directors of Holmen Fondsforvaltning, Sayonara AS, Ojada AS, Okana AS and Onida AS. Mr. Braathen has a Master of International Management from AGSIM, Phoenix Arizona, and a Bachelor of Arts & Economics from the University of Washington, Seattle, Washington.

Eugene McCague has been a member of our board of directors since November 2014. Mr. McCague was a partner of Arthur Cox, a leading Irish law firm, from 1988 to his retirement from the firm in June 2017. He served as managing partner of Arthur Cox from 1999 to 2003, and as its chairman from 2006 to 2013. Mr. McCague is the chair of the Governing Authority of University College, Dublin and has served on the boards of a number of not-for-profit organizations, and as President of the Dublin Chamber of Commerce. Mr. McCague is a non-executive director of ICON plc. Mr. McCague holds a Bachelor of Civil Law degree and a Diploma in European Law from University College, Dublin.

Robert S. Tomczak has been a member of our board of directors since April 2010. Mr. Tomczak is a Senior Vice President and the Chief Financial Officer of BBAM LP and leads BBAM's accounting, finance and contract management teams and has over 20 years of experience in the aircraft leasing industry. From 1987 to 2010, Mr. Tomczak was a Finance Director at Babcock & Brown. Prior to joining Babcock & Brown in 1987, Mr. Tomczak worked for Arthur Andersen & Co. He graduated from California State University East Bay with a degree in Finance and Accounting.

Susan M. Walton has been a member of our board of directors since June 2007. Ms. Walton is currently the Chief Executive Officer of the Pestalozzi International Village Trust, a charity registered in England and Chief Executive Officer of Pestalozzi Enterprises Limited. Until September 2010, Ms. Walton was a Sub-Regional Director of the environmental charity Groundwork London. Prior thereto, Ms. Walton was the Chief Executive of Hampshire & Isle of Wight Wildlife Trust ("HWT"), a leading wildlife conservation charity in England, where she was responsible for biodiversity projects in two counties and developing partnerships with key stakeholder groups. Prior to joining HWT in 2006, she served as General Manager — Structured Finance and Export Credit, for Rolls-Royce Capital Limited for nine years. Ms. Walton was also a Principal at Babcock & Brown from 1989 to 1997 where she was responsible for producing and implementing Babcock & Brown's annual European Aerospace marketing plan. Ms. Walton is a trustee for the Sussex Wildlife Trust, a trustee for the Sussex East Area Meeting of Quakers and a member of the Corporation of Sussex Coast College Hastings. Ms. Walton holds a degree in Environmental Conservation from Birkbeck College, University of London.

Steven Zissis was previously our chairman and has been a member of our board of directors since June 2007. Mr. Zissis is the President and Chief Executive Officer of BBAM LP. Mr. Zissis was the Head of Aircraft Operating Leasing at Babcock & Brown and has over 20 years of experience in the aviation industry. Prior to joining Babcock & Brown in 1990, Mr. Zissis was a vice president of Citibank, where he was also a founder and manager of the Portfolio Acquisition and Divestiture team. Mr. Zissis graduated from Rhodes College with a degree in Finance and International Studies.

Compensation of Directors

Each independent member of our board of directors receives an annual cash retainer of \$125,000 payable in equal quarterly installments. Our chairman receives an additional \$60,000 per year. Each independent director who is a chairman of a committee of the board of directors receives an additional \$10,000 per year. Our Manager-appointed directors receive no additional compensation for their service as directors.

We paid to our directors aggregate cash compensation of \$0.6 million for services rendered in 2017. We do not have a retirement plan for our directors.

Executive Compensation

We do not have any employees. Pursuant to the management agreement we have with our Manager, we have the dedicated services of our Manager's chief executive officer and chief financial officer, who serve as our chief executive officer and chief financial officer by appointment of our board of directors but who remain employees

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

of BBAM LP. The services performed by our chief executive officer and chief financial officer are provided at the cost of our Manager or an affiliate of our Manager. Our Manager or an affiliate of our Manager, in consultation with the compensation committee of our board of directors, determines and pays the compensation of our chief executive officer and chief financial officer. We do not provide retirement benefits to any officer or employee.

We have a 2010 Omnibus Incentive Plan (“2010 Plan”) permitting the issuance of up to 1,500,000 share grants in the form of (i) stock appreciation rights (“SARs”); (ii) restricted stock units (“RSUs”); (iii) nonqualified stock options; and (iv) other stock-based awards. We have issued all shares available under the 2010 Plan.

SARs entitle the holder to receive any increase in value between the grant date price of Fly’s ADSs and their value on the exercise date. RSUs entitle the holder to receive a number of Fly’s ADSs equal to the number of RSUs awarded upon vesting. All awards are fully vested. The SARs and RSUs granted in 2011 and 2012 vested in three equal installments on the first, second and third anniversary of the grant date. The Company satisfies SAR and RSU exercises with newly issued ADSs.

The holder of a SAR or RSU grant is also entitled to dividend equivalent rights on each SAR and RSU that has been granted. For each dividend equivalent right, the holder shall have the right to receive a cash amount equal to the per share dividend paid by the Company during the period between the grant date and the earlier of the (i) award exercise date or vesting date, (ii) termination date or (iii) expiration date. Dividend equivalent rights expire at the same time and in the same proportion that the SARs and RSUs are either exercised, canceled, forfeited or expired. Dividend equivalent rights are payable to the holder only when the SAR or RSU on which the dividend equivalent right applies has vested.

Board of Directors

Our board of directors currently consists of seven members. Our bye-laws provide that the board of directors is to consist of a minimum of two and a maximum of 15 directors as the board of directors may from time to time determine. Pursuant to our management agreement and our bye-laws, so long as the Manager holds any of our manager shares, our Manager has the right to appoint the whole number of directors on our board of directors that is nearest to but not more than 3/7ths of the number of directors on our board of directors. These directors are not required to stand for election by shareholders.

A majority of our directors are “independent” as defined under the applicable rules of the New York Stock Exchange. In accordance with our bye-laws, the independent directors are elected at each annual general meeting of shareholders and shall hold office until the next annual general meeting following his or her election or until his or her successor is elected or appointed or their office is otherwise vacated.

Committees of the Board

The standing committees of our board of directors consist of an audit committee, a compensation committee and a nominating and corporate governance committee. These committees are described below. Our board of directors may also establish various other committees to assist it in its responsibilities.

Audit Committee

Our Audit Committee is concerned primarily with the accuracy and effectiveness of the audits of our financial statements by our independent auditors. Its duties include:

- selecting independent auditors for approval by our shareholders;
- reviewing the scope of the audit to be conducted by our independent auditors, as well as the results of their audit;
- approving audit and non-audit services provided to us by the independent auditors;
- reviewing the organization and scope of our internal system of audit, financial and disclosure controls;
- overseeing internal controls and risk management;
- overseeing our financial reporting activities, including our annual report, and the accounting standards and principles followed;

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

- reviewing and approving related-party transactions and preparing reports for the board of directors on such related-party transactions;
- conducting other reviews relating to compliance with applicable laws and our policies, including reviewing at least annually our decision to enter into swaps, and our hedging policy; and
- overseeing our internal audit function.

Each of the members of the Audit Committee is an “independent” director as defined under the applicable rules of the New York Stock Exchange. Mr. Donovan and Mr. Braathen have served on the Audit Committee since June 2007. Mr. McCague has served on the Audit Committee since November 2014. Mr. Donovan serves as chairperson.

Compensation Committee

Our Compensation Committee will be consulted by our Manager regarding the remuneration of our chief executive and chief financial officers and will be responsible for determining the compensation of our independent directors. Each of the members of the Compensation Committee is an “independent” director as defined under the applicable rules of the New York Stock Exchange. Mr. Braathen and Ms. Walton have served on the Compensation Committee since June 2007. Mr. McCague has served on the Compensation Committee since November 2014. Mr. Braathen serves as chairperson.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee’s responsibilities include the selection of potential candidates for our board of directors and the development and annual review of our governance principles. This committee also makes recommendations to our board of directors concerning the structure and membership of the other board committees. Each of the members of the Nominating and Corporate Governance Committee is an “independent” director as defined under the applicable rules of the New York Stock Exchange. Ms. Walton and Mr. Braathen have served on the Nominating and Corporate Governance Committee since June 2007. Mr. McCague has served on the Nominating and Corporate Governance Committee since November 2014. Ms. Walton serves as chairperson.

Our Management

Pursuant to a management agreement, we have appointed Fly Leasing Management Co. Limited, a wholly owned subsidiary of BBAM LP, as our Manager to provide management services to us. In discharging its duties under the management agreement, our Manager uses the resources provided to it by BBAM LP and its affiliates. These resources include the dedicated services of Mr. Colm Barrington and Ms. Julie Ruehl, who serve as our chief executive officer and chief financial officer, respectively, but who also remain employees of BBAM LP, the dedicated services of other members of our Manager’s core management team, and the non-exclusive services of other personnel employed by BBAM LP.

Our chief executive officer and chief financial officer manage our day-to-day operations and affairs on a permanent and wholly dedicated basis. Our board of directors, chief executive officer and chief financial officer have responsibility for overall corporate strategy, acquisitions, dispositions, financing and investor relations.

Share Ownership

None of our directors or executive officers individually hold more than 1% of our outstanding common shares.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The table below sets forth certain information regarding the beneficial ownership of our ADSs by each person known by us to be a beneficial owner of more than 5% of our ADSs as of March 9, 2018:

Name	Shares Beneficially Owned	
	Number	Percent
Donald Smith & Co., Inc. ⁽¹⁾	2,814,483	10.1%
Onex Corporation ⁽²⁾	2,443,476	8.7%
Summit Aviation Partners LLC ⁽³⁾	1,708,156	6.1%

- (1) The information above and in this footnote is based on information taken from the Schedule 13G filed by Donald Smith & Co., Inc., Donald Smith Long/Short Equities Fund, L.P. and Jon Hartsel with the SEC on February 12, 2018. Donald Smith & Co., Inc. has sole voting power over 2,629,749 ADSs and sole dispositive power over 2,814,483 ADSs. Donald Smith Long/Short Equities Fund, L.P. has sole voting power over 8,086 ADSs and sole dispositive power over 2,814,483 ADSs. Jon Hartsel has sole voting power over 3,500 ADSs and sole dispositive power over 2,814,483 ADSs.
- (2) The information above and in this footnote is based on information taken from the Schedule 13G/A filed by Onex Corporation, Onex Partners III GP LP, Onex Partners GP Inc., Onex US Principals LP, Onex American Holdings GP LLC, Onex American Holdings II LLC, Onex Partners III PV LP, Onex Partners III Select LP, Onex Partners III LP, New PCo II Investments Ltd., and Gerald W. Schwartz (collectively, the "Onex Reporting Persons") with the SEC on April 3, 2017. Onex Corporation has shared voting and dispositive power over 2,427,732 ADSs. Gerald W. Schwartz has shared voting and dispositive power over 2,443,476 ADSs.
- (3) The information above and in this footnote is based on information taken from the Schedule 13D/A filed by Steven Zissis, the Zissis Family Trust and Summit Aviation Partners LLC with the SEC on March 14, 2016, and from information independently provided to us by Mr. Zissis. Steven Zissis and the Zissis Family Trust have shared voting and dispositive power over 1,708,156 ADSs. Summit Aviation Partners LLC has shared voting and dispositive power over 1,610,717 ADSs.

All ADS holders have the same voting rights.

As of February 28, 2018, 3,195,066 of our ADSs were held by 16 holders of record in the United States, not including ADSs held of record by Depository Trust Company, or DTC. As of February 28, 2018, DTC was the holder of record of 24,788,286 ADSs. To the best of our knowledge, 1,438,913 ADSs were beneficially owned by holders with U.S. addresses.

We are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control.

Manager Shares

Our Manager owns 100 manager shares that are entitled to director appointment rights and the right to vote on amendments to the provision of our bye-laws relating to termination of our management agreement with them. Manager shares will not convert into common shares. Upon a termination of our management agreement, the manager shares will cease to have any appointment and voting rights and, to the extent permitted under Section 42 of Companies Act 1981 (Bermuda), will be automatically redeemed for their par value. Manager shares are not entitled to receive any dividends and, other than with respect to director appointment rights, holder of manager shares have no voting rights.

Related Party Transactions

We have entered into agreements with BBAM LP and its affiliates that effect the transactions relating to our ongoing operations and business. Although the pricing and other terms of these agreements were reviewed by our management and the independent directors of our board of directors, they were determined by entities affiliated with BBAM LP. As a result, provisions of these agreements may be less favorable to us than they might have been had they been the result of transactions among unaffiliated third parties.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

On June 19, 2015, we amended our management agreement with the Manager.

On July 27, 2016, we further amended our management agreement with the Manager to make clarifying changes to certain definitions related to the calculation of the Management Expense Amount payable by us to the Manager. See “*Management Agreement.*”

On February 1, 2017, B&B Air Funding amended its servicing agreement with respect to aircraft financed by the Securitization Notes. See “*Servicing Agreements — B&B Air Funding — Servicing Agreement.*” On February 1, 2017, we also amended the management agreement with the Manager to accommodate the changes to the servicing and administrative fees relating to the aircraft financed by the Securitization Notes. See “*Management Agreement.*”

MANAGEMENT AGREEMENT

General

We have a management agreement with our Manager (the “Management Agreement”). In discharging its duties under the Management Agreement, our Manager uses the resources provided to it by BBAM LP. These resources include the dedicated services of Colm Barrington and Julie Ruehl, who serve as our chief executive officer and chief financial officer, respectively, but also remain employees of BBAM LP, the dedicated services of other members of our Manager’s core management team and the non-exclusive services of other personnel employed by BBAM LP.

Our Manager’s core management team consists of the Manager’s chief executive officer, chief financial officer and that level of dedicated or shared support personnel, such as corporate counsel, company secretary, financial controller and other accounting staff and risk and compliance personnel, as our Manager reasonably determines is necessary to provide the management and administrative services described below.

Services

Our Manager’s duties and responsibilities under the Management Agreement include the provision of the services described below. The Management Agreement requires our Manager to manage our business and affairs in conformity with the policies and investment guidelines that are approved and monitored by our board of directors. Our Manager may delegate the provision of all or any part of the services to any person affiliated or associated with BBAM.

Management and Administrative Services. Our Manager provides us with the following management and administrative services:

- managing our portfolio of aircraft and other aviation assets and the administration of our cash balances;
- if requested by our board, making available a member of the core management team of our Manager as our nominee on the board of directors of any of our subsidiaries (provided that each such member must be agreed between us and our Manager);
- assisting with the implementation of our board’s decisions;
- providing us suitably qualified and experienced persons to perform the management and administrative services for us and our subsidiaries, including persons to be appointed by our board to serve as our dedicated chief executive and chief financial officers (who shall remain employees of, and be remunerated by, our Manager or an affiliate of our Manager while serving in such capacities);
- performing or procuring the performance of all reasonable accounting, tax, corporate secretarial, information technology, reporting and compliance services for us and our subsidiaries, including the preparation and maintenance of our accounts and such financial statements and other reports and filings as we are required to make with any governmental agency (including the SEC) or stock exchange;
- supervising financial audits of us by an external auditor as required;
- managing our relations with our investors and the public, including:
 - preparing our annual reports and any notices of meeting, papers, reports and agendas relating to meetings of our shareholders; and

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

- assisting in the resolution of any complaints by or disputes with our investors and any litigation involving us (other than litigation in which our interests are adverse to those of our Manager or BBAM); and
- using commercially reasonable efforts to cause us to comply with all applicable laws.

Origination and Disposition Services. Our Manager also provides us with the following origination and disposition services:

- sourcing opportunities relating to aircraft and other aviation assets, including using its commercially reasonable efforts to notify us of potential aviation asset investment opportunities that come to the attention of our Manager and which our Manager acting reasonably believes may be of interest to us as investments;
- in relation to identified potential opportunities to purchase or sell aircraft and other aviation assets, investigating, researching, evaluating, advising and making recommendations on or facilitating such opportunities;
- with respect to prospective purchases and sales of aircraft and other aviation assets, conducting negotiations with sellers and purchasers and their agents, representatives and financial advisors; and
- otherwise providing advice and assistance to us in relation to the evaluation or pursuit of aviation asset investment or disposition opportunities as we may reasonably request from time to time.

We are under no obligation to invest in or to otherwise pursue any aviation asset investment or disposal opportunity identified to us by our Manager pursuant to the Management Agreement. Neither BBAM nor any of its affiliates or associates are restricted from pursuing, or offering to a third party, including any party managed by, or otherwise affiliated or associated with BBAM, or are required to establish any aviation asset investment protocol in relation to prioritization of, any aviation asset investment or disposal opportunity identified to us by our Manager pursuant to the Management Agreement.

Ancillary Management and Administrative Services. Our Manager also provides us with ancillary management and administrative services upon such terms as may be agreed from time to time between us and our Manager, which may require, among other things if requested by our board of directors:

- the expansion of our Manager's core management team with additional personnel as may be required by developments or changes in the commercial aircraft leasing industry (whether regulatory, economic or otherwise) or the compliance or reporting environment for publicly listed companies in the United States (whether as a result of changes to securities laws or regulations, listing requirements or accounting principles or otherwise); and
- making available individuals (other than members of our Manager's core management team) as our nominees on the boards of directors of any of our subsidiaries.

Servicing

For so long as our Manager's appointment is not terminated, we agree to engage BBAM as the exclusive Servicer for any additional aircraft that we acquire in the future on terms substantially similar to those set forth in the servicing agreement for B&B Air Funding or the servicing agreement between our other subsidiaries and BBAM or on such other terms as we and BBAM may agree.

Competitors. In the Management Agreement, we agree not to sell any of our subsidiaries receiving services from BBAM pursuant to a servicing agreement to a competitor of BBAM, or to any party that does not agree in a manner reasonably acceptable to BBAM to be bound by the provisions of the applicable servicing agreement. In addition, we agree not to permit competitively sensitive information to be provided to any competitor of BBAM even if such competitor is a shareholder, and to screen any of our officers, directors, agents, advisors or consultants that are involved in any other business activities that are competitive with BBAM or an affiliate from competitively sensitive information.

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Compliance with Our Strategy, Policy and Directions

In performing the services, our Manager is required to comply with our written policies and directions provided to our Manager from time to time by our board of directors unless doing so would contravene any law or the express terms of the Management Agreement.

Notwithstanding the above, we may not make any decision, take any action or omit to take any action in relation to the acquisition, disposition or management of any aircraft or other aviation assets, unless:

- that matter has been the subject of a recommendation by our Manager; or
- the failure to make that decision, take that action or omit to take that action would breach the fiduciary duties of our directors or any law.

In addition, we may not direct our Manager (unless the direction is otherwise permitted under the Management Agreement) to make any decision, take any action or omit to take any action in relation to the acquisition, disposition or management of any aircraft or other aviation asset, and our Manager is not obliged to comply with any such direction if given by us, unless:

- that matter has been the subject of a recommendation by our Manager; or
- the failure to make that decision, take that action or omit to take that action would breach the fiduciary duties of our directors or any law.

Notwithstanding the foregoing, we may direct our Manager to review a proposed decision, action or omission to take an action in relation to the acquisition, disposition or management of any aircraft or other aviation asset and require that within a reasonable period of time our Manager either make or decline to make a recommendation with respect thereto.

The Manager shall also ensure that the members of the Compensation Committee of the Board of Directors of Fly are aware of the proposed salaries, bonuses, equity grants and other compensation arrangements for the chief executive officer, chief financial officer and, at the reasonable request of the Compensation Committee, other senior BBAM employees who devote substantial time to the Company (“Senior Executives”), and allow the Compensation Committee to participate in the discussion of such proposed arrangements for each Senior Executive, before such proposed arrangements are finalized by the Manager or its affiliates.

Appointment of Our Chief Executive Officer and Chief Financial Officer

Although our chief executive officer and chief financial officer are employees of our Manager (or an affiliate of our Manager), they serve us in such corporate capacities by appointment by our board of directors. The Management Agreement acknowledges that our board may terminate our chief executive officer or chief financial officer without our Manager’s consent. The Management Agreement provides that if there is a vacancy in such position for any reason, then our Manager will recommend a candidate to serve as replacement chief executive officer or chief financial officer. If our board of directors does not appoint the initial candidate proposed by our Manager to fill such vacancy, then our Manager will be required to recommend additional candidates until our board appoints a candidate recommended by our Manager for such vacancy.

Restrictions and Duties

Our Manager has agreed that it will use reasonable care and diligence and act honestly and in good faith at all times in the performance of the services under the Management Agreement. We refer to the foregoing standard as the “standard of care” required under the Management Agreement.

Under the Management Agreement, our Manager may not, without our board’s prior consent:

- (1) carry out any transaction with an affiliate of our Manager on our behalf, it being understood that BBAM has been appointed as the exclusive Servicer for our portfolio of aircraft, and that our Manager may delegate the provision of all or any part of the services under the Management Agreement to any person affiliated or associated with BBAM;
- (2) carry out any aviation asset investment or disposition transaction, or sequence of related aviation asset investment or disposition transactions with the same person or group of persons under common control, for us if the aggregate purchase price to be paid or the gross proceeds to be received by us in connection therewith would exceed \$200 million;

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

- (3) carry out any aviation asset investment or disposition transaction if the sum of all the purchase prices to be paid or of all the gross proceeds to be received by us in connection with all such transactions during any quarter would exceed \$500 million;
- (4) appoint or retain any third-party service provider to assist our Manager in providing management and administrative services if:
 - the amount to be paid by our Manager and reimbursed by us or paid by us to the third party with respect to any particular matter, or series of related matters, is reasonably likely to exceed \$1 million; or
 - as a result of the appointment or retention, the amount to be paid by our Manager and reimbursed by us or paid by us to all such third-party service providers appointed or retained in any rolling 12-month period is reasonably likely to exceed \$5 million;
- (5) appoint or retain any third-party service provider to assist our Manager in providing ancillary management and administrative or the origination and disposition services if:
 - the amount to be paid by our Manager and reimbursed by us or paid by us to the third party with respect to any particular matter, or series of related matters, is reasonably likely to exceed \$1 million; or
 - as a result of the appointment or retention, the amount to be paid by our Manager and reimbursed by us or paid by us to all such third-party service providers appointed or retained in any rolling 12-month period is reasonably likely to exceed \$7.5 million; or
- (6) hold any cash or other assets of ours, provided that our Manager may cause our cash and other assets to be held in our name or any custodian for us nominated or approved by us.

The thresholds discussed in clauses (4) and (5) above are reviewed regularly by us and our Manager and may be increased by our board of directors (but shall not be decreased) having regard to changes in the value of money, changes in our market capitalization and any other principles agreed between us and our Manager. The thresholds discussed in clauses (2) and (3) may be increased or decreased by our board of directors in its sole discretion at any time by notice to our Manager. Amounts relating to transactions and third-party service providers entered into, appointed or retained by BBAM on our behalf pursuant to our servicing agreements or administrative agency agreements are not included in determining whether the thresholds discussed under this heading have been met or exceeded. Acquisitions of series of aircraft from non-affiliated persons are deemed not to be related matters for purposes of this provision.

Relationship of Management Agreement and Servicing Agreements

To the extent that BBAM is entitled to exercise any authority, enter into any transaction or take any action on our behalf pursuant to any of our servicing agreements or administrative agency agreements, such servicing agreement or administrative agency agreement shall govern such exercise of authority, transaction or authority in the event of a conflict between the Management Agreement and such servicing agreement or administrative agency agreement.

Board Appointees

Pursuant to the Management Agreement and our bye-laws, for so long as our Manager holds any of our manager shares, our Manager has the right to appoint the whole number of directors on our board of directors that is nearest to but not more than 3/7ths of the number of directors on our board of directors. Our Manager's appointees on our board of directors are not required to stand for election by our shareholders other than by our Manager.

Our Manager's board appointees do not receive any cash compensation from us (other than out-of-pocket expenses) and do not have any special voting rights. The appointees of our Manager shall not participate in discussions regarding, or vote on, any related-party transaction in which any affiliate of our Manager has an interest. Our independent directors are responsible for approving any such related-party transactions.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Fees and Expenses

Pursuant to the Management Agreement, we pay our Manager the fees and pay or reimburse our Manager for the expenses described below.

Management and Administrative Services

Base and Rent Fees. With respect to aircraft financed by the Securitization Notes, until December 31, 2016, BBAM was entitled to receive (i) a base fee of \$150,000 per month, subject to certain adjustments, and (ii) a rent fee equal to 1.0% of the aggregate amount of rents due and 1.0% of the aggregate amount of rents actually collected.

Effective January 1, 2017, the servicing agreement between B&B Air Funding and BBAM relating to aircraft financed by the Securitization Notes was amended, thereby (i) amending the rent fee to 3.5% of the aggregate amount of rents actually collected, plus \$1,000 per aircraft per month and (ii) eliminating the base fee of \$150,000 per month, and the management agreement was amended to accommodate these changes.

Origination and Disposition Fees and Change of Control Fees. We generally pay our Manager a fee for each acquisition or sale of aircraft or other aviation assets equal to 1.5% of the gross acquisition cost in respect of acquisitions or the aggregate gross proceeds in respect of dispositions. From time to time, we and our Manager have agreed to modify origination and disposition proceeds in connection with the purchase or sale of aircraft portfolios. Pursuant to the June 2015 amendment to the management agreement, we agreed to reduce the disposition fee payable to our Manager in respect of the ECAF-I Transaction to 1.2% of the aggregate gross proceeds for such aircraft, to be given effect as agreed by us and the Manager.

We also pay our Manager a fee of 1.5% of the aggregate gross consideration received in respect of any change of control of our company, which includes the acquisition of more than 50% of our common shares or the acquisition of all or substantially all of our assets.

In 2017, we paid our Manager origination fees of \$6.8 million in connection with the purchase of ten aircraft. In 2016, we paid our Manager origination fees of \$8.4 million in connection with the purchase of ten aircraft. In 2015, we paid our Manager origination fees of \$9.2 million in connection with the purchase of ten aircraft.

Administrative Agency Fees. We pay to our Manager an administrative agency fee equal to \$750,000 per annum for each aircraft securitization financing (the amount of the administrative agency fee for each aircraft securitization financing we establish will be subject to adjustment as set forth below under “— Fees and Expenses — Adjusting the Base Fees and Administrative Agency Fees”).

Effective January 1, 2017, the administrative agency fee payable with respect to the B&B Air Funding Securitization was reduced, through a rebate, to \$20,000 per month, subject to an annual CPI adjustment.

In 2017, 2016 and 2015, we paid the Manager administrative agency fees totaling \$0.2 million, \$0.9 million and \$0.8 million, respectively, which amounts were credited toward servicing fees paid pursuant to the servicing agreement between B&B Air Funding and BBAM.

Adjusting the Base Fees and Administrative Agency Fees. The amount of the base fee payable and the amount of the administrative agency fee payable for each aircraft securitization financing we establish will be increased (but not decreased) annually by the percentage movement (if any) in the CPI index applicable for the previous calendar year.

Ancillary Management and Administrative Services.

We may pay to our Manager such additional fees for any ancillary management and administrative services provided by our Manager to us from time to time as we and our Manager agree to before the ancillary management and administrative services are provided. We did not pay any ancillary management and administrative services fee to our Manager in 2017, 2016 or 2015.

Credit for Servicing Fees Paid

Base fees and rent fees paid to BBAM under our servicing agreements and administrative services fees paid to our Manager under the administrative services agreements are credited toward (and thereby reduce) the base and rent fees payable to our Manager as described above under “— Fees and Expenses — Management and

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Administrative Services — Base and Fees” and “— Fees and Expenses — Administrative Agency Fees.” Similarly, sales fees paid to BBAM under our servicing agreements in respect of aircraft dispositions are credited toward (and thereby reduce) the fee payable to our Manager in connection with dispositions as described above under “— Fees and Expenses — Origination and Disposition Services.” See “Servicing Agreements — Servicing Fees.”

Break Fees

Our Manager is entitled to one-third of the value of any break, termination or other similar fees received by us (with such value to be reduced by any third-party costs incurred by or on behalf of us or by our Manager on behalf of us in the transaction to which the fee relates) in connection with any investment or proposed investment to be made by us in any aircraft or other aviation assets. We did not pay any break fees to our Manager in 2017, 2016 or 2015.

Expenses of the Manager

We pay an annual management fee to the 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 us. Effective as of July 1, 2015, the annual management fee was reduced from \$10.7 million to \$5.7 million. The management fee is adjusted each calendar year by (i) 0.3% of the change in the book value of our 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 our aircraft portfolio in excess of \$2.0 billion, with a minimum annual management fee of \$5.0 million. The management fee is subject to an annual adjustment tied to the Consumer Price Index applicable to the prior calendar year. For each of the years ended December 31, 2017 and 2016, we incurred management fees of \$6.3 million. For the year ended December 31, 2015, we incurred management fees of \$8.2 million.

We pay or reimburse our Manager:

- for all our costs paid for us by our Manager (other than remuneration and certain expenses in relation to our Manager’s core management team and our Manager’s corporate overhead), including the following items which are not covered by the management expense amount:
 - directors’ fees for the independent directors on our board of directors and our subsidiaries,
 - directors’ and officers’ insurance for our and our subsidiaries’ directors and officers,
 - travel expenses of the directors (including flights, accommodation, taxis, entertainment and meals while traveling) to attend any meeting of the board of our Company,
 - registration and listing fees in connection with the listing of our shares on the NYSE and registering the shares under the Securities Act,
 - fees and expenses relating to any equity or debt financings we enter into in the future,
 - fees and expenses of the depositary for our ADSs,
 - costs and expenses related to insuring our aircraft and other aviation assets, including all fees and expenses of insurance advisors and brokers,
 - costs incurred in connection with organizing and hosting our annual meetings or other general meetings of our Company,
 - costs of production and distribution of any of our security holder communications, including notices of meetings, annual and other reports, press releases, and any prospectus, disclosure statement, offering memorandum or other form of offering document,
 - website development and maintenance,
 - travel expenses of the core management team and other personnel of BBAM and its affiliates (including flights, accommodation, taxis, entertainment and meals while traveling) related to sourcing, negotiating and conducting transactions on our behalf and attending any meeting of the board or our Company,
 - external legal counsel,

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

- fees of third party consultants, accounting firms and other professionals,
- external auditor's fees, and
- internal auditor's fees.
- for all taxes, costs, charges and expenses properly incurred by our Manager in connection with:
 - the provision of ancillary management and administrative services, and
 - the engagement of professional advisors, attorneys, appraisers, specialist consultants and other experts as requested by us from time to time; or which our Manager considers reasonably necessary in providing the services and discharging its duties and other functions under the Management Agreement, including, without limitation, the fees and expenses of professional advisors relating to the purchase and sale of aircraft and other aviation assets.

Term and Termination

The term of the Management Agreement expires on July 1, 2025, and shall be automatically extended for one additional term of five years unless terminated by either party upon 12 months' notice or terminated earlier as set forth below.

If the Management Agreement is not renewed after July 1, 2025, we will pay the Manager a non-renewal fee on the termination date in an amount equal to (i) \$6.0 million plus (ii) so long as the Management Expense Amount does not exceed \$12.0 million, 50% of the excess (if any) of the Management Expense Amount over \$6.0 million.

We may terminate our Manager's appointment immediately upon written notice if but only if:

- BBAM LP ceases to hold (directly or indirectly) more than 50% of the voting equity of, and economic interest in our Manager;
- our Manager becomes subject to bankruptcy or insolvency proceedings that are not discharged within 75 days, unless our Manager is withdrawn and replaced within 90 days of the initiation of such bankruptcy or insolvency proceedings with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the Management Agreement;
- at least 75% of our independent directors and holders of 75% or more of all of our outstanding common shares (measured by vote) determine by resolution that there has been unsatisfactory performance by our Manager that is materially detrimental to us;
- our Manager materially breaches the Management Agreement and fails to remedy such breach within 90 days of receiving written notice from us requiring it to do so, or such breach results in liability to us and is attributable to our Manager's gross negligence, fraud or dishonesty, or willful misconduct in respect of the obligation to apply the standard of care;
- any license, permit or authorization held by our Manager which is necessary for it to perform the services and duties under the Management Agreement is materially breached, suspended or revoked, or otherwise made subject to conditions which, in the reasonable opinion of our board of directors, would prevent our Manager from performing the services and the situation is not remedied within 90 days;
- our Manager voluntarily commences or files any petition seeking bankruptcy, insolvency or receivership relief; consents to the institution of, or fails to contest the filing of any bankruptcy or insolvency filing; files an answer admitting the material allegations filed against it in any such proceeding; or makes a general assignment for the benefit of its creditors, unless our Manager is withdrawn and replaced within 15 days with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the Management Agreement; or
- an order is made for the winding up of our Manager, unless our Manager is withdrawn and replaced within 15 days with an affiliate or associate of BBAM that is able to make correctly the representations and warranties set out in the Management Agreement.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Our Manager may terminate the Management Agreement immediately upon written notice if:

- we fail to make any payment due under the Management Agreement to our Manager within 15 days after the same becomes due;
- we otherwise materially breach the Management Agreement and fail to remedy the breach within 90 days of receiving written notice from our Manager requiring us to do so; or
- if the directors in office on December 28, 2012 and any successor to any such director who was nominated or selected by a majority of the current directors and our Manager appointed directors, cease to constitute at least a majority of the board (excluding directors appointed by our Manager). (See “Board Appointees”.)

If our Manager terminates the Management Agreement upon the occurrence of any of the above, we will pay our Manager a fee as follows (i) during the first five year term, an amount equal to three times the aggregate Management Expense Amount in respect of the last complete fiscal year prior to the termination date; (ii) during the second five year term, an amount an amount equal to two times the aggregate Management Expense Amount in respect of the last complete fiscal year prior to the termination date; (iii) during the third five year term, an amount an amount equal to the aggregate Management Expense Amount in respect of the last complete fiscal year prior to the termination date.

Upon the termination of the Management Agreement, we will redeem all of the manager shares for their nominal value.

Conflicts of Interest

Nothing in the Management Agreement restricts BBAM or any of its affiliate or associates from:

- dealing or conducting business with us, our Manager, any affiliate or associate of BBAM or any shareholder of ours;
- being interested in any contract or transaction with us, our Manager, any affiliate or associate of BBAM or any shareholder of ours;
- acting in the same or similar capacity in relation to any other corporation or enterprise;
- holding or dealing in any of our shares or other securities or interests therein; or
- co-investing with us.

Acting in Interests of Shareholders

Without limiting the clause set out above, in performing the services under the Management Agreement, our Manager shall act in the best interests of our shareholders. If there is a conflict between our shareholders’ interests and our Manager’s interests, our Manager shall give priority to our shareholders’ interests.

Indemnification and Limitation of Liability

We assume liability for, and have agreed to indemnify our Manager and any person to whom our Manager delegates its obligations in compliance with the Management Agreement, and their respective members, shareholders, managers, directors, officers, employees and agents, on an after-tax basis against, any losses and liabilities (collectively, “Losses”) that arise out of or in connection with the doing or failing to do anything in connection with the Management Agreement or on account of any bona fide investment decision made by the indemnified person, except insofar as any such loss is finally adjudicated to have been caused directly by the indemnified person from gross negligence, fraud or dishonesty, or willful misconduct in respect of the obligation to apply the standard of care under the Management Agreement. Our Manager and each other indemnified person is not liable to us for any Losses suffered or incurred by us arising out of or in connection with the indemnified person doing or failing to do anything in connection with the Management Agreement or on account of any bona fide investment decision made by the indemnified person, except insofar as any such Loss is finally adjudicated to have been caused directly by the gross negligence, fraud or dishonesty of, or willful misconduct in respect of the obligation to apply the standard of care under the Management Agreement by the indemnified person.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Independent Advice

For the avoidance of doubt, nothing in the Management Agreement limits the right of the members of our board of directors to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at our expense on any matter connected with the discharge of their responsibilities, in accordance with the procedures and subject to the conditions set out in our corporate governance principles from time to time.

SERVICING AGREEMENTS

Our subsidiaries have entered into servicing agreements with BBAM relating to the aircraft owned by them. The principal services provided by BBAM pursuant to these servicing agreements relate to:

- lease marketing and remarketing, including lease negotiation;
- collecting rental payments and other amounts due under leases, collecting maintenance payments where applicable, lease compliance and enforcement and delivery and accepting redelivery of aircraft under lease;
- implementing aircraft dispositions;
- monitoring the performance of maintenance obligations of lessees under the leases;
- procuring legal and other professional services with respect to the lease, sale or financing of the aircraft, any amendment or modification of any lease, the enforcement of our rights under any lease, disputes that arise as to any aircraft or for any other purpose that BBAM reasonably determines is necessary in connection with the performance of its services;
- periodic reporting of operational information relating to the aircraft, including providing certain reports to lenders and other third parties; and
- certain aviation insurance related services.

B&B Air Funding – Servicing Agreement

Pursuant to the servicing agreement between B&B Air Funding and BBAM, BBAM is entitled to receive servicing fees. With respect to aircraft financed by the Securitization Notes until December 31, 2016, BBAM was entitled to receive (i) a base fee of \$150,000 per month, subject to certain adjustments, (ii) a rent fee equal to 1.0% of the aggregate amount of rents due and 1.0% of the aggregate amount of rents actually collected and (iii) a sales fee of 1.5% of the aggregate gross proceeds in respect of any aircraft sold.

Effective January 1, 2017, the servicing agreement between B&B Air Funding and BBAM relating to aircraft financed by the Securitization Notes was amended, thereby (i) amending the rent fee to 3.5% of the aggregate amount of rents actually collected, plus \$1,000 per aircraft per month and (ii) eliminating the base fee of \$150,000 per month.

B&B Air Funding has entered into an administrative services agreement with our Manager to act as its administrative agent and to perform various administrative services, including maintaining its books and records, procuring and supervising legal counsel, accounting, tax and other advisers. In consideration for such services, until December 31, 2016, B&B Air Funding paid the administrative agent an annual fee of \$750,000. Effective January 1, 2017, the administrative agency fee has been reduced, through a rebate, to \$20,000 per month. In each case, the administrative fee is subject to an annual CPI adjustment, and B&B Air Funding is obligated to reimburse its Manager for its expenses.

For the year ended December 31, 2017, BBAM received rent and servicing fees pursuant to the B&B Air Funding servicing agreement totaling \$0.9 million. For the years ended December 31, 2016 and 2015, BBAM received base, rent and servicing fees pursuant to the B&B Air Funding servicing agreement totaling \$2.4 million and \$3.2 million, respectively. In addition, for each of the years ended December 31, 2016 and 2015, BBAM received \$0.2 million for the annual CPI adjustment made to such fees pursuant to the management agreement. BBAM also received administrative fees totaling \$0.2 million, \$0.9 million and \$0.8 million during the years ended December 31, 2017, 2016 and 2015, respectively.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

For the year ended December 31, 2017, B&B Air Funding incurred no disposition fees. For the year ended December 31, 2016, B&B Air Funding incurred disposition fees of \$2.0 million in connection with the sale of nine aircraft. For the year ended December 31, 2015, B&B Air Funding incurred disposition fees of \$4.5 million in connection with the sale of 17 aircraft.

The agreement may be terminated in the case of certain events, including:

- Bankruptcy or insolvency of BBAM LP;
- BBAM LP ceasing to own, directly or indirectly, at least 50% of the Servicer;
- Summit ceasing to own, directly or indirectly, at least 33.33% of the partnership interests in BBAM LP; provided that a sale that results in such ownership being at a level below 33.33% shall not constitute a servicer termination event if the sale is to a publicly listed entity or other person with a net worth of at least \$100 million; and
- during any one year period commencing each April 29, 50% or more of the Servicer's key finance and legal team or technical and marketing team ceasing to be employed by BBAM LP and are not replaced with employees with reasonably comparable experience within 90 days.

If any of the above servicer termination events occur, B&B Air Funding, with the prior consent of its policy provider (or the policy provider alone, if an event of default under the indenture governing the Securitization Notes has occurred and is continuing) and with notice to each credit rating agency, may substitute BBAM with a replacement servicer. A servicer termination event under the Servicing Agreement does not give rise to an event of default under the indenture governing the Securitization Notes.

All Other Aircraft Acquired – Servicing Agreements

With respect to all other aircraft, BBAM is 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 month per aircraft. Under the Term Loan, the Magellan Acquisition Limited Facility and the Fly Acquisition III Facility, BBAM is entitled to an administrative fee of \$10,000 per month. In addition, BBAM is entitled to receive a sales fee of 1.5% of the gross consideration collected for any aircraft sold.

For the years ended December 31, 2017, 2016 and 2015, BBAM received servicing and administrative fees totaling \$12.0 million, \$11.3 million and \$13.2 million, respectively.

For the years ended December 31, 2017, 2016 and 2015, we incurred disposition fees of \$0.3 million, \$5.5 million and \$11.1 million, respectively, in connection with the sale of aircraft.

These servicing agreements can generally be terminated by us in the case of a material breach by the servicer that is not cured within 30 days of written notice, the bankruptcy or insolvency of the servicer or if the servicer ceases to be actively involved in the aircraft leasing business. Some servicing agreements require the consent of the lender providing financing for the relevant aircraft prior to termination. It is our intention to enter into substantially similar servicing agreements with respect to all future aircraft we acquire.

ITEM 8. FINANCIAL INFORMATION**Consolidated statements and other financial information**

See Item 18 below for information regarding our consolidated financial statements and additional information required to be disclosed under this Item. No significant changes have occurred since the date of the annual financial statements included in this Annual Report.

Legal Proceedings

We are not currently a party to any litigation or other legal proceeding that may have a material adverse impact on our business or operations. However, we are and may continue to be subject to various claims and legal actions arising in the ordinary course of business.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Dividends

The table below shows the quarterly dividends we have paid and the total cash requirement for each dividend payment.

<u>Dividend payment date</u>	<u>Dividends paid per share</u>	<u>Total cash outlay</u>
November 20, 2015.....	\$0.25	\$10.3 million
August 20, 2015	\$0.25	\$10.4 million
May 20, 2015.....	\$0.25	\$10.4 million
February 20, 2015	\$0.25	\$10.4 million

No dividends were paid in 2017 or 2016.

The declaration and payment of future dividends to holders of our common shares will be at the discretion of our board of directors and will depend on many factors, including our financial condition, cash flows, legal requirements and other factors as our board of directors deems relevant.

In addition, as a Bermuda company, our ability to pay dividends is subject to certain restrictions imposed by Bermuda law.

ITEM 9. THE OFFER AND LISTING

Our ADSs, each representing one common share, are traded on the New York Stock Exchange under the symbol “FLY.”

The following table sets forth the annual high and low market prices for our ADSs on the New York Stock Exchange:

	<u>High</u>	<u>Low</u>
2013	\$17.37	\$12.51
2014	16.59	10.86
2015	16.29	11.77
2016	14.45	9.54
2017	14.65	11.91

The following table sets forth the quarterly high and low market prices for our ADSs on the New York Stock Exchange for the two most recent financial years:

	<u>High</u>	<u>Low</u>
2016		
Quarter ending March 31, 2016	\$13.85	\$10.63
Quarter ending June 30, 2016.....	12.65	9.71
Quarter ending September 30, 2016.....	12.47	9.54
Quarter ending December 31, 2016	14.45	11.53
2017		
Quarter ending March 31, 2017	14.40	12.50
Quarter ending June 30, 2017.....	13.82	11.91
Quarter ending September 30, 2017.....	14.65	13.01
Quarter ending December 31, 2017	14.58	12.91

The following table sets forth the monthly high and low market prices for our ADSs on the New York Stock Exchange for the most recent six months:

	<u>High</u>	<u>Low</u>
2017		
September 2017.....	\$14.65	\$13.32
October 2017.....	14.58	13.62
November 2017.....	14.35	13.20
December 2017	14.05	12.91
2018		
January 2018	13.50	12.81
February 2018	13.13	11.54

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

ITEM 10. ADDITIONAL INFORMATION**Share Capital**

Not applicable.

Memorandum and Articles of Association

Pursuant to the instructions to Form 20-F, the information called for by this section of Item 10 is contained in our Registration Statement on Form F-1, as filed with the SEC on September 12, 2007, as subsequently amended, under the heading “Description of Share Capital,” and is hereby incorporated by reference.

Material Contracts

The following is a list of material contracts, other than contracts entered into in the ordinary course of business, to which we or any of our subsidiaries is a party, preceding the date of this Annual Report:

- 1) Deposit Agreement between Deutsche Bank Trust Company Americas and Babcock & Brown Air Limited. See Item 5 “Liquidity and Capital Resources—Financing— Term Loan.”
- 2) Servicing Agreement, dated as of October 2, 2007, among Babcock & Brown Aircraft Management LLC, Babcock & Brown Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. See Item 7 “Related Party Transactions — Servicing Agreement.”
- 3) Administrative Services Agreement, dated as of October 2, 2007, among Deutsche Bank Trust Company Americas, AMBAC Assurance Corporation, Babcock & Brown Air Management Co. Limited and Babcock & Brown Air Funding I Limited. See Item 7 “Related Party Transactions — Servicing Agreement.”
- 4) Trust Indenture, dated as of October 2, 2007, among Deutsche Bank Trust Company Americas, BNP Paribas, AMBAC Assurance Corporation and Babcock & Brown Air Funding I Limited. See Item 5 “Liquidity and Capital Resources — Financing — Securitization.”
- 5) Security Trust Agreement, dated as of October 2, 2007, between Deutsche Bank Trust Company Americas, and Babcock & Brown Air Funding I Limited. See Item 5 “Liquidity and Capital Resources—Financing— Securitization Notes.”
- 6) Cash Management Agreement between Deutsche Bank Trust Company Americas and Babcock & Brown Air Funding I Limited. See Item 5 “Liquidity and Capital Resources—Financing— Securitization Notes.”
- 7) Form of Director Service Agreement between Babcock & Brown Air Limited and each director thereof. See Item 6. “Directors, Senior Management and Employees.”
- 8) Amendment No. 1 to Servicing Agreement, dated as of April 29, 2010, among Babcock & Brown Aircraft Management LLC, Babcock & Brown Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. See Item 7 “Related Party Transactions — Servicing Agreement.”
- 9) Fly Leasing Limited Omnibus Incentive Plan.
- 10) Form of Stock Appreciation Right Award Agreement.
- 11) Form of Restricted Stock Unit Award Agreement.
- 12) Form of Loan Agreement among Hobart Aviation Holdings Limited, Norddeutsche Landesbank Girozentrale and each borrower thereof. See Item 5 “Liquidity and Capital Resources – Financing – Nord LB Facility.”
- 13) Form of Servicing Agreement among BBAM US LP, BBAM Aviation Services Limited and each company thereof. See Item 7 “Related Party Transactions — Servicing Agreement.”
- 14) Securities Purchase Agreement dated November 30, 2012, by and among Fly Leasing Limited, Summit Aviation Partners LLC and such persons identified therein. See Item 7, “Major Shareholders and Related Party Transactions.”
- 15) Purchase Agreement dated November 30, 2012 by and among BBAM Limited Partnership, Summit Aviation Partners LLC, Fly-BBAM Holdings Ltd., Summit Aviation Management Co., Ltd. and such persons identified therein. See Item 7, “Major Shareholders and Related Party Transactions.”

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

- 16) First Amendment to Purchase Amendment dated December 28, 2012 by and among Fly Leasing Limited, Summit Aviation Partners LLC and such persons identified therein. See Item 7, “Major Shareholders and Related Party Transactions.”
- 17) Amended and Restated Fly Leasing Limited Management Agreement dated as of December 28, 2012, between Fly Leasing Limited and Fly Leasing Management Co. Limited. See Item 7 “Related Party Transactions — Management Agreement.”
- 18) Registration Rights Agreement dated as of December 28, 2012, by and among Fly Leasing Limited and each shareholder identified therein. See Item 7, “Major Shareholders and Related Party Transactions.”
- 19) Amended and Restated Servicing Agreement, dated as of January 24, 2013, by and among BBAM US LP, BBAM Aviation Services Limited and Fly Leasing Limited. See Item 7 “Related Party Transactions — Servicing Agreement.”
- 20) Amended and Restated Term Loan Credit Agreement, dated as of November 21, 2013, among Fly Funding II S.à r.l., Fly Leasing Limited, Fly Peridot Holdings Limited, Babcock & Brown Air Acquisition I Limited, each other Guarantor Party referred to therein, the Lenders identified therein, Citibank, N.A., and Wells Fargo Bank Northwest, National Association. See Item 5 “Liquidity and Capital Resources – Financing – Term Loan.”
- 21) Indenture dated December 11, 2013, between Fly Leasing Limited and Wells Fargo Bank, National Association. See Item 5 “Liquidity and Capital Resources—Financing—Unsecured Borrowing.”
- 22) First Supplemental Indenture, dated December 11, 2013, between Fly Leasing Limited and Wells Fargo Bank, National Association. See Item 5 “Liquidity and Capital Resources—Financing—Unsecured Borrowing.”
- 23) Second Supplemental Indenture, dated as of October 3, 2014, between Fly Leasing Limited and Wells Fargo Bank, National Association. See Item 5 “Liquidity and Capital Resources—Financing—Unsecured Borrowing.”
- 24) Amendment No. 1 to Trust Indenture, dated as of October 24, 2014, by and among Babcock & Brown Air Funding I Limited, Deutsche Bank Trust Company Americas, BNP Paribas and AMBAC Assurance Corporation. See Item 5 “Liquidity and Capital Resources—Financing— Securitization Notes.”
- 25) Amendment No. 2 to Servicing Agreement, dated as of October 24, 2014, by and among BBAM Aircraft Management LP, BBAM Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. See Item 7 “Related Party Transactions — Servicing Agreement.”
- 26) Amendment to Credit Agreement, dated as of April 22, 2015, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent. See Item 5 “Liquidity and Capital Resources—Financing—Term Loan.”
- 27) First Amendment to Amended and Restated Fly Leasing Limited Management Agreement, dated June 19, 2015, between Fly Leasing Limited and Fly Leasing Management Co. Limited. See Item 7 “Related Party Transactions — Management Agreement.”
- 28) Servicing Agreement dated as of February 26, 2016, among BBAM US LP, BBAM Aviation Services Limited and Fly Acquisition III Limited. See Item 7 “Related Party Transactions — Servicing Agreement.”
- 29) Facility Agreement [Fly 2016A Warehouse] dated as of February 26, 2016 among Fly Acquisition III Limited, the Subsidiary Guarantors party thereto, the Lenders party thereto, Commonwealth Bank of Australia, New York Branch, as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. See Item 5 “Liquidity and Capital Resources—Financing—Fly Acquisition III.”
- 30) Note Purchase Agreement [Fly 2016A Warehouse] dated as of February 26, 2016 among Fly Acquisition III Limited, the Purchasers party thereto, Commonwealth Bank of Australia, New York Branch, as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. See Item 5 “Liquidity and Capital Resources—Financing—Fly Acquisition III.”

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- 31) Credit Agreement [Fly 2016A Warehouse] dated as of February 26, 2016 among Fly Acquisition III Limited, the Banks party thereto, Commonwealth Bank of Australia, New York Branch, as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. See Item 5 “Liquidity and Capital Resources—Financing—Fly Acquisition III.”
- 32) Guaranty [Fly 2016A Warehouse] dated February 26, 2016 by Fly Leasing Limited. See Item 5 “Liquidity and Capital Resources—Financing—Fly Acquisition III.”
- 33) Security Agreement [Fly 2016A Warehouse] dated February 26, 2016 among Fly Acquisition III Limited, the Grantors party thereto, and Wells Fargo Bank, National Association as Security Trustee. See Item 5 “Liquidity and Capital Resources—Financing—Fly Acquisition III.”
- 34) Aircraft Mortgage and Security Agreement dated as of August 9, 2012, among Fly Funding II S.a.r.l., Fly Leasing Limited, Fly Peridot Holdings Limited, Babcock & Brown Air Acquisition I Limited, The Initial Intermediate Lessees, The Initial Lessor Subsidiaries, The Additional Grantors Referred to Therein and Wells Fargo Bank Northwest, National Association. See Item 5 “Liquidity and Capital Resources—Financing—Term Loan.”
- 35) Second Amendment to Credit Agreement, dated as of October 19, 2016, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent. See Item 5 “Liquidity and Capital Resources—Financing—Term Loan.”
- 36) Second Amendment to Amended and Restated Fly Leasing Limited Management Agreement, dated July 27, 2016, between Fly Leasing Limited and Fly Leasing Management Co. Limited. See Item 7 “Related Party Transactions — Management Agreement.”
- 37) Amendment No. 3 to Servicing Agreement, dated as of February 1, 2017, by and among BBAM Aircraft Management LP, BBAM Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. See Item 7 “Related Party Transactions — Servicing Agreement.”
- 38) Third Amendment to Amended and Restated Fly Leasing Limited Management Agreement, dated as of February 1, 2017, between Fly Leasing Limited and Fly Leasing Management Co. Limited. See Item 7 “Related Party Transactions — Management Agreement.”
- 39) Fee Rebate Side Letter, dated as of February 1, 2017, by and among Babcock & Brown Air Funding I Limited, Fly Leasing Management Co. Limited, and AMBAC Assurance Corporation. See Item 7 “Related Party Transactions — Management Agreement.”
- 40) Third Supplemental Indenture dated as of October 16, 2017, between Fly Leasing Limited and Wells Fargo Bank, National Association. See Item 5 “Liquidity and Capital Resources—Financing—Unsecured Borrowing.”
- 41) Servicing Agreement dated as of December 8, 2017, among BBAM US LP, BBAM Aviation Services Limited and Magellan Acquisition Limited. See Item 7 “Related Party Transactions — Management Agreement.”
- 42) Third Amendment to Credit Agreement, dated as of April 28, 2017, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent. See Item 5 “Liquidity and Capital Resources—Financing—Term Loan.”
- 43) Fourth Amendment to Credit Agreement, dated as of November 1, 2017, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent. See Item 5 “Liquidity and Capital Resources—Financing—Term Loan.”
- 44) Facility Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Subsidiary Guarantors party thereto, the Lenders party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. See Item 5 “Liquidity and Capital Resources—Financing—Magellan Acquisition Limited.”

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- 45) Note Purchase Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Purchasers party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. See Item 5 “Liquidity and Capital Resources—Financing—Magellan Acquisition Limited.”
- 46) Credit Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Banks party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. See Item 5 “Liquidity and Capital Resources—Financing—Magellan Acquisition Limited.”
- 47) Security Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Grantors party thereto, and Wells Fargo Bank, National Association, as Security Trustee. See Item 5 “Liquidity and Capital Resources—Financing—Magellan Acquisition Limited.”
- 48) Guaranty [Fly 2017A Term Loan] dated December 8, 2017 by Fly Leasing Limited. See Item 5 “Liquidity and Capital Resources—Financing—Fly Acquisition III.”

Documents on Display

Documents concerning us that are referred to herein may be inspected at our principal executive headquarters at West Pier Business Campus, Dun Laoghaire, County Dublin, A96 N6T7, Ireland. You may read and copy these documents, including the related exhibits and schedules, and any documents we file with the SEC without charge at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Copies of these documents are also available at the SEC’s website, <http://www.sec.gov>. Copies of the material may be obtained by mail from the public reference branch of the SEC at the address listed above at rates specified by the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our internet address is www.flyleasing.com. Investors and others should note that we announce material information to investors through the investor relations page on our website, SEC filings, press releases, public conference calls and webcasts. We expect to update investor presentations and similar materials on a regular basis and will continue to post these materials to our investor relations website. We encourage investors, the media and others to review the information we post from time to time on our website. The information contained on or connected to our website is not incorporated by reference into this Annual Report on Form 20-F and should not be considered part of this or any other report filed with the SEC.

Exchange Controls

We are not aware of any governmental laws, decrees or regulations, including foreign exchange controls, in Bermuda that restrict the export or import of capital, including the availability of cash and cash equivalents for our use, or that affect the remittance of dividends, interest or other payments to non-resident holders of our securities.

We are not aware of any limitation of non-resident or foreign owners to hold or vote our securities imposed by the laws of Bermuda of our memorandum of association or bye-laws.

Taxation**Irish Tax Considerations**

The following discussion reflects the material Irish tax consequences applicable to both Irish and Non-Irish Holders (as defined below) of the acquisition, ownership and disposition of our shares. This discussion is based on Irish tax law, statutes, treaties, regulations, tax briefings, rulings and decisions all as of the date of this Annual Report. Taxation laws are subject to change, from time to time, and no representation is or can be made as to whether such laws will change, to what impact, if any, such changes will have on the summary contained in this Annual Report. Proposed amendments may not be enacted as proposed, and legislative or judicial changes, as well as changes in administrative practice, may modify or change statements expressed herein.

This summary is of a general nature only. It does not constitute legal or tax advice nor does it discuss all aspects of Irish taxation that may be relevant to any particular holder of our shares. The Irish tax treatment of a holder of our shares may vary depending upon such holder’s particular situation, and holders or prospective purchasers of our shares are advised to consult their own tax advisors as to the Irish or other tax consequences of the purchase, ownership and disposition of our shares.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

For the purposes of this summary of Irish tax considerations:

- An “Irish Holder” is a holder of our shares that (1) beneficially owns our shares by virtue of holding the related ADSs evidenced by the relevant American Depositary Receipt or ADR; (2) in the case of individual holders, is resident or ordinarily resident in Ireland under Irish taxation laws; and (3) in the case of a holder that is a company, is resident in Ireland under Irish taxation laws and is not also a resident of any other country under any double taxation agreement entered into by Ireland.
- A “Non-Irish Holder” is a holder of our shares that is not an Irish Holder and has never been an Irish Holder.
- A “US Holder” is a holder of our shares that (1) beneficially owns our shares by virtue of holding the related ADSs evidenced by the relevant ADR; (2) is a resident of the United States for the purposes of the Ireland/United States Double Taxation Convention; (3) in the case of an individual holder, is not also resident or ordinarily resident in Ireland for Irish tax purposes; (4) in the case of a corporate holder, is not resident in Ireland for Irish tax purposes and is not ultimately controlled by persons resident in Ireland; and (5) is not engaged in any trade or business and does not perform independent personal services through a permanent establishment or fixed base in Ireland.
- “Relevant Territory” is defined as a country with which Ireland has a double tax treaty (which includes the United States), a country with which Ireland has signed a double taxation treaty which will come into force once all ratification procedures have been completed, or a member state of the European Union other than Ireland.

Irish Dividend Withholding Tax

Dividends that we pay on our shares (including deemed distributions) are generally subject to a 20% dividend withholding tax, or DWT. DWT may not apply where an exemption is permitted by Irish tax legislation or a double taxation treaty and where all necessary documentation has been submitted to the ADS depository prior to the payment of the dividend.

Irish Holders. Individual Irish Holders are generally subject to DWT on any dividend payments that we make. Irish tax resident individual shareholders should be entitled to a tax credit for the amount of DWT suffered on the dividend against their Irish income tax charge on the dividend income. Irish tax resident or ordinary resident individual shareholders that are entitled to receive dividends without DWT (for example certain incapacitated individuals) must submit the necessary documentation to the ADS depository prior to the payment of the dividend.

Corporate Irish Holders will generally be entitled to claim an exemption from DWT by delivering a declaration to us in the form prescribed by the Irish Revenue Commissioners.

Non-Irish Holders. Shareholders who are individuals resident in a Relevant Territory and who are not resident or ordinarily resident in Ireland may receive dividends free from DWT where the shareholder has provided the ADS depository with the relevant declaration and residency certificate required by Irish legislation.

Corporate shareholders that are not resident in Ireland and

- who are ultimately controlled, whether directly or indirectly, by persons resident in a Relevant Territory and who are not ultimately controlled, whether directly or indirectly, by persons not resident in a Relevant Territory; or
- who are resident in a Relevant Territory and not controlled directly or indirectly by Irish residents; or
- whose principal class of shares or the principal class of shares of whose 75% or greater parents are substantially and regularly traded on a recognized stock exchange in a Relevant Territory; or which are wholly owned by two or more companies, each of whose principal class of shares are substantially and regularly traded on a recognized stock exchange in a Relevant Territory or on such other stock exchange as may be approved by the Minister for Finance.

may receive dividends free from DWT where they provide the ADS depository with the relevant documentation required by Irish law before the record date for the dividend.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Income Tax

Irish Holders. Individual Irish Holders are subject to income tax on the gross amount of any dividend (*i.e.*, the amount of the dividend received plus any DWT withheld), at their marginal rate of tax (currently either 20% or 40% depending on the individual's circumstances). Individual Irish Holders will be able to claim a credit against their resulting income tax liability in respect of any DWT. Individual Irish Holders may, depending on their circumstances, be subject to Pay Related Social Insurance (PRSI) and to the Universal Social Charge with effect from 1 January 2011.

For the year ended 2017, the Universal Social Charge will apply to all income where an individual has income in excess of €13,000. The Universal Social Charge applies at four different rates¹ for 2017 as follows:

- 0.5% on the first €12,012;
- 2.5% on the next €6,760;
- 5% on the next €51,272 and
- 8% on the aggregate income in excess of €70,044.

Currently, individual Irish Holders may also, depending on their circumstances, be subject to Pay Related Social Insurance (PRSI) contributions of up to 4% in respect of dividend income.

There is also a surcharge of 3% on individuals in receipt of non-PAYE income that exceeds €100,000 in a year.

Corporate Irish Holders generally will not be subject to Irish tax in respect of dividends received.

Non-Irish Holders. Non-Irish Holders will not have an Irish income tax liability on dividends from us if the shareholder is neither resident nor ordinarily resident in Ireland and is:

- an individual resident in a Relevant Territory and who are not resident or ordinarily resident in Ireland; or
- a corporation that is resident in a Relevant Territory and not controlled directly or indirectly by Irish residents; or
- a corporation that is ultimately controlled, whether directly or indirectly, by persons resident in a Relevant Territory and who are not ultimately controlled, whether directly or indirectly, by persons not resident in a Relevant Territory; or
- a corporation whose principal class of shares (or whose 75% or greater parent's principal class of shares) are substantially and regularly traded on a recognized stock exchange in a Relevant Territory or on such other stock exchange as may be approved by the Minister for Finance; or
- a corporation that is wholly owned by two or more corporations each of whose principal class of shares are substantially and regularly traded on a recognized stock exchange in a Relevant Territory or on such other stock exchange as may be approved by the Minister for Finance; or
- otherwise entitled to an exemption from DWT.

If a Non-Irish Holder is not so exempted, such a shareholder will be liable for Irish income tax (currently 20%) on dividends received from us, but may be entitled to a credit for DWT withheld.

Taxation of Capital Gains

Irish Holders. Irish Holders that acquire shares will generally be considered, for Irish tax purposes, to have acquired their shares at a base cost equal to the amount paid for shares. On subsequent dispositions, shares acquired at an earlier time will generally be deemed, for Irish tax purposes, to be disposed of on a "first in first out" basis before shares acquired at a later time. Irish Holders that dispose of their shares will generally be subject to Irish capital gains tax (CGT) to the extent that the proceeds realized from such disposition exceed the base cost of the common shares or ADSs disposed of and any incidental expenses. Disposals made on or after 6 December 2012 are subject to CGT at 33%. Unutilized capital losses from other sources generally can be used to reduce gains realized on the disposal of our shares.

An annual exemption allows individuals to realize chargeable gains of up to €1,270 in each tax year without giving rise to CGT. This exemption is specific to the individual (it is not available to corporate holders) and

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

cannot be transferred between spouses. Irish Holders are required, under Ireland's self-assessment system, to file a tax return reporting any chargeable gains arising to them in a particular tax year. When disposal proceeds are received in a currency other than euro they must be translated into euro amounts to calculate the amount of any chargeable gain or loss. Similarly, acquisition costs denominated in a currency other than the euro must be translated at the date of acquisition to euro amounts. Irish Holders that realize a loss on the disposition of our shares generally will be entitled to offset such allowable losses against capital gains realized from other sources in determining their CGT liability in a year. Allowable losses which remain unrelieved in a year generally may be carried forward indefinitely for CGT purposes and applied against capital gains in future years. Transfers between spouses will not give rise to any chargeable gain or loss for CGT purposes.

Non-Irish Holders. A person who is not resident or ordinarily resident in Ireland is not subject to Irish capital gains tax on the disposal of our shares unless at or before the time when the chargeable gain arose, such shares are used, held or acquired for the purposes of a trade carried on by such a shareholder through a branch or agency in Ireland.

Irish Capital Acquisitions Tax

A gift or inheritance of our shares will be within the charge to capital acquisitions tax (CAT) where the donor/deceased or the beneficiary is resident or ordinarily resident in Ireland at the date of the gift/inheritance or to the extent that the property of which the gift or inheritance consists is situated in Ireland at the relevant date.

Special rules with regard to residence apply where an individual is not domiciled in Ireland. CAT is charged at a flat rate of 33% for gifts or inheritances taken on or after 6 December 2012 and there are various thresholds before the tax becomes applicable. Gifts and inheritances between spouses are not subject to capital acquisitions tax.

The Estate Tax Convention between Ireland and the United States generally provides for Irish CAT paid on inheritances in Ireland to be credited, in whole or in part, against tax payable in the United States, in the case where an inheritance of shares is subject to both Irish CAT and US federal estate tax. The Estate Tax Convention does not apply to Irish CAT paid on gifts.

Irish Stamp Duty

No Irish stamp or capital duty shall apply to the issuance of the common shares. Transfers of the common shares would not ordinarily be subject to Irish stamp duty, unless the transfer was related to Irish property or any matter or thing done or to be done in Ireland. In such cases a 1% stamp duty charge will arise for the transferee based on the transfer consideration for (or, if higher, the market value of) the shares.

Transfers of ADSs are exempt from Irish stamp duty when the ADSs are dealt in on the New York Stock Exchange, NASDAQ National Market or any recognized stock exchange in the United States or Canada and the transfer does not relate to Irish property or any matter or thing done or to be done in Ireland.

Irish Corporation Tax

In general, Irish tax resident companies pay corporation tax at the rate of 12.5% on trading income and 25% on non-trading income. Fly and its Irish tax resident subsidiaries intend to conduct business so that they carry on a trading business for Irish tax purposes. Non-trading income, including certain categories of interest income, will be subject to corporation tax at the rate of 25%.

U.S. Federal Income Tax Considerations

The following is a general discussion of the U.S. federal income taxation of us and of certain U.S. federal income tax consequences of acquiring, holding or disposing of the shares by U.S. Holders (as defined below) and information reporting and backup withholding rules applicable to both U.S. and Non-U.S. Holders (as defined below). It is based upon the U.S. Internal Revenue Code of 1986, as amended (the "Code"), issued and proposed income tax regulations ("Treasury Regulations") promulgated thereunder, legislative history, and judicial and administrative interpretations thereof, all as in effect on the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect). In addition, the application and interpretation of certain aspects of the passive foreign investment company ("PFIC") rules, referred to below, require the issuance of regulations which in many instances have not been promulgated and which may have

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retroactive effect. There can be no assurance that any of these regulations will be enacted or promulgated, and if so, the form they will take or the effect that they may have on this discussion. This discussion is not binding on the U.S. Internal Revenue Service (“IRS”) or the courts. This summary does not address any aspect of U.S. federal non-income tax laws, such as U.S. federal estate and gift tax laws, and does not purport to address all of the U.S. federal income tax consequences applicable to us or to all categories of investors, some of whom may be subject to special rules including, without limitation, dealers in securities, commodities, or non-U.S. currencies, financial institutions or “financial services entities,” insurance companies, holders of shares held as part of a “straddle,” “hedge,” “constructive sale,” “conversion transaction,” or other integrated transaction for U.S. federal income tax purposes, U.S. persons whose “functional currency” is not the U.S. dollar, persons who have elected “mark-to-market” accounting, persons who have not acquired their shares upon their original issuance, or in exchange for consideration other than cash, persons who hold their shares through a partnership or other entity which is a pass-through entity for U.S. federal income tax purposes, persons for whom a share is not a capital asset, and persons holding, directly indirectly or constructively, 10% or more of our shares by voting power or value. The tax consequences of an investment in our shares will depend not only on the nature of our operations and the then-applicable U.S. federal tax principles, but also on certain factual determinations that cannot be made at this time, and upon a particular investor’s individual circumstances. No rulings have been or will be sought from the IRS regarding any matter discussed herein.

For purposes of this discussion, a “U.S. Holder” is (1) a citizen or resident of the United States; (2) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (4) a trust which (a) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person. A “Non-U.S. Holder” is a beneficial owner of our shares that is not a U.S. Holder and who, in addition, is not (1) a partnership or other fiscally transparent entity; (2) an individual present in the United States for 183 days or more in a taxable year who meets certain other conditions; or (3) subject to rules applicable to certain expatriates or former long-term residents of the United States. This summary does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase the shares. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the United States. Investors should consult their own tax advisors regarding the application of the U.S. federal tax rules, including the recently enacted legislation known as the Tax Cuts and Jobs Act, to their particular circumstances as well as the state, local, non-U.S. and other tax consequences to them of the acquisition, ownership and disposition of our shares. For U.S. tax purposes holders of our ADSs are treated as if they hold the underlying common shares represented by the ADSs.

Taxation of U.S. Holders of Shares

We expect that we will be treated as a PFIC for U.S. federal income tax purposes for the current taxable year and for the foreseeable future and that U.S. Holders of shares will be subject to the PFIC rules, as summarized below. However, no assurance can be given that we (or any of our subsidiaries) will or will not be considered a PFIC in the current or future years. The determination whether or not we are a PFIC is a factual determination that is made annually (after the close of each taxable year) based on the types of income we earn and the value of our assets, and because certain aspects of the PFIC rules are not entirely certain, there can be no assurance that we are or are not a PFIC or that the IRS will agree with our conclusion regarding our PFIC status. If we (or any of our subsidiaries) are currently or were to become a PFIC, U.S. Holders of shares would be subject to special rules and a variety of potentially adverse tax consequences under the Code.

Tax Consequences of PFIC Status. The Code provides special rules regarding certain distributions received by U.S. persons with respect to, and sales, exchanges and other dispositions, including pledges, of shares of stock in a PFIC. We will be treated as a PFIC if (i) 75% or more of our gross income is passive income or (ii) at least 50% of our assets are held for the production of, or produce, passive income in a taxable year, based on a quarterly average and generally by value, including our pro rata share of the gross income or assets of any company, U.S. or non-U.S., in which we are considered to own directly or indirectly 25% or more of the shares by value. Passive income for this purpose generally includes, among other things, dividends, interest, rents, royalties, gains from commodities and securities transactions, and gains from assets that produce passive income.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Assuming we are a PFIC, our dividends will not qualify for the reduced rate of U.S. federal income tax that applies to qualified dividends paid to non-corporate U.S. Holders. Thus, dividends (as determined for U.S. federal income tax purposes) will be taxed at the rate applicable to ordinary income of the U.S. Holder.

Assuming we are a PFIC, U.S. Holders of our shares will be subject to different taxation rules with respect to an investment in our shares depending on whether they elect to treat us as a qualified electing fund, or a QEF, with respect to their investment in our shares. If a U.S. Holder makes a QEF election in the first taxable year in which the U.S. Holder owns our shares (assuming we continue to provide shareholders with the annual information necessary to do so), then such U.S. Holder will be required for each taxable year to include in income a pro rata share of our ordinary earnings as ordinary income and a pro rata share of our net capital gain as long-term capital gain, subject to a separate voluntary election to defer payment of taxes, which deferral is subject to an interest charge. If a QEF election is made, U.S. Holders will not be taxed again on our distributions, which will be treated as return of capital for U.S. federal income tax purposes. Instead, distributions will reduce the U.S. Holder's basis in our shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of a capital asset.

U.S. Holders may, instead of making a QEF election, make a "mark-to-market" election, recognizing as ordinary income or loss each year an amount equal to the difference, as of the close of the taxable year, between the fair market value of the shares and the U.S. Holder's adjusted tax basis in the shares. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. If the mark-to-market election were made, then the rules set forth below would not apply for periods covered by the election. The U.S. Holder's basis in the shares will be adjusted to reflect the amounts included or deducted pursuant to the election. A mark-to-market election is only available if our shares meet trading volume requirements on qualifying exchange.

Because we are a PFIC, if a U.S. Holder does not make a QEF election or mark-to-market election, then the following special rules will apply:

- Excess distributions by us to a U.S. Holder would be taxed in a special way. "Excess distributions" are amounts received by a U.S. Holder with respect to our shares in any taxable year that exceed 125% of the average distributions received by such U.S. Holder from us in the shorter of either the three previous years or such U.S. Holder's holding period for shares before the present taxable year. Excess distributions must be allocated ratably to each day that a U.S. Holder has held our shares. A U.S. Holder must include amounts allocated to the current taxable year in its gross income as ordinary income for that year. A U.S. Holder must pay tax on amounts allocated to each prior taxable year in which we were a PFIC at the highest rate in effect for that year on ordinary income and the tax is subject to an interest charge at the rate applicable to deficiencies for income tax. The preferential U.S. federal income tax rates for dividends and long-term capital gain of individual U.S. Holders (as well as certain trusts and estates) would not apply, and special rates would apply for calculating the amount of the foreign tax credit with respect to excess distributions.
- The entire amount of gain realized by a U.S. Holder upon the sale or other disposition of shares will also be treated as an excess distribution and will be subject to tax as described above.
- The tax basis in shares that were acquired from a decedent who was a U.S. Holder would not receive a step-up to fair market value as of the date of the decedent's death but would instead be equal to the decedent's basis, if lower than fair market value.

If a corporation is a PFIC for any taxable year during which a U.S. Holder holds shares in the corporation, then the corporation generally will continue to be treated as a PFIC with respect to such shares, even if the corporation no longer satisfies either the passive income or passive assets test described above, unless the U.S. Holder terminates this deemed PFIC status by electing to recognize gain, which will be taxed under the excess distribution rules as if such shares had been sold on the last day of the last taxable year for which the corporation was a PFIC.

The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621 to a timely filed U.S. federal

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

income tax return or, if not required to file an income tax return, by filing such form with the IRS. Even if a QEF election is not made, a shareholder in a PFIC who is a U.S. Holder must file a completed IRS Form 8621 every year. We have provided and intend to continue to provide U.S. Holders with all necessary information to enable them to make QEF elections as described above.

It is also possible that one or more of our subsidiaries is or will become a PFIC. Such determination is made annually at the end of each taxable year and is dependent upon a number of factors, some of which are beyond our control, including the amount and nature of a subsidiary's income, as well as the market valuation and nature of a subsidiary's assets. In such case, assuming a U.S. Holder does not receive from such subsidiary the information that the U.S. Holder needs to make a QEF election with respect to a subsidiary, a U.S. Holder generally will be deemed to own a portion of the shares of such lower-tier PFIC and may incur liability for a deferred tax and interest charge if we receive a distribution from, or dispose of all or part of our interest in, or the U.S. Holder otherwise is deemed to have disposed of an interest in, the lower-tier PFIC (including through a sale of our shares). There is no assurance that we will have timely knowledge of the status of any such lower-tier PFIC, or that we will cause the lower-tier PFIC to provide the required information for a U.S. Holder to make or maintain a QEF election with respect to the lower-tier PFIC. In addition, a mark-to-market election generally would not be available with respect to such a lower-tier PFIC. U.S. Holders are advised to consult with their tax advisors regarding the tax issues raised by lower-tier PFICs.

You should consult your tax advisor about the PFIC rules, including the advisability of making a QEF election or mark-to-market election.

In addition, a U.S. Holder that is an individual (and, under proposed regulations, an entity that meets certain requirements), may be subject to certain reporting obligations with respect to shares and if the aggregate value of these and certain other "specified foreign financial assets" exceeds \$50,000. If required, this disclosure is made by filing Form 8938 with the IRS. Significant penalties can apply if holders are required to make this disclosure and fail to do so. In addition, a U.S. Holder should consider the possible obligation to file annually FinCEN Report 114 (Report of Foreign Bank and Financial Accounts) as a result of holding shares. Holders are thus encouraged to consult their U.S. tax advisors with respect to these and other reporting requirements that may apply to their acquisition of shares.

Taxation of the Disposition of Shares. Subject to the next paragraph, a U.S. Holder that has made a QEF election for the first year of its holding period will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder's basis in the shares, which is usually the cost of such shares (as adjusted to take into account any QEF inclusion, which increases the basis of such shares, and any distribution, which decreases the basis of such shares) and the amount realized on a sale or other taxable disposition of the shares. If, as anticipated, the shares are publicly traded, a disposition of shares will be considered to occur on the "trade date," regardless of the U.S. Holder's method of accounting. If a QEF election has been made, then subject to the next paragraph, capital gain from the sale, exchange or other taxable disposition of shares held more than one year is long-term capital gain and generally is eligible for preferential tax rates (currently at a maximum 20% rate) for non-corporate U.S. Holders.

In the event any of our subsidiaries is treated as a PFIC and a QEF election is not made for such subsidiary, a U.S. Holder may incur liability for a deferred tax (imposed at ordinary rates) and an interest charge in respect of such subsidiary upon a disposition by such U.S. Holder of some or all of our shares, in the same manner as if we had sold or disposed of some or all of the shares of such subsidiary. U.S. Holders should consult with their tax advisors regarding the consequences to them of a sale or other disposition of our shares in a case where we have a subsidiary with respect to which a QEF election is not made.

On December 22, 2017, H.R.1, known as the "Tax Cuts and Jobs Act," was signed into law. The Tax Cuts and Jobs Act (the "TCJA") amends the Internal Revenue Code to reduce tax rates and modify credits, and deductions for individuals and businesses. We have considered the provisions of the TCJA and believe that they do not alter the U.S. tax treatment as identified above.

Medicare Tax

Certain U.S. Holders who are individuals, estates or trusts are required to pay a 3.8% Medicare surtax on all or part of that U.S. Holder's "net investment income", which includes, among other items, dividends on, and capital gains from the sale or other taxable disposition of, the shares, subject to certain limitations and

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exceptions. Prospective investors should consult their own tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the shares.

Information Reporting and Backup Withholding for U.S. Holders

Dividend payments made within the United States with respect to the shares, and proceeds from the sale, exchange or redemption of shares, may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. Generally, a U.S. Holder will provide such certification on IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's tax liability, and a U.S. Holder may obtain a refund of any excess amount withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS.

Information Reporting and Backup Withholding for Non-U. S. Holders

Information reporting to the United States and backup withholding to the IRS generally would not be required for dividends paid on our shares or proceeds received upon the sale, exchange or redemption of our shares to Non-U.S. Holders who hold or sell our shares through the non-U.S. office of a non-U.S. related broker or financial institution. Information reporting and backup withholding may apply if shares are held by a Non-U.S. Holder through a U.S., or U.S.-related, broker or financial institution, or the U.S. office of a non-U.S. broker or financial institution and the Non-U.S. Holder fails to establish an exemption from information reporting and backup withholding by certifying such holder's status on IRS Form W-8BEN, W-8BEN-E, W-EECI or W-8IMY, as applicable.

The IRS may make information reported to you and the IRS available under the provisions of an applicable income tax treaty to the tax authorities in the country in which you reside. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, if any, provided the required information is timely furnished by you to the IRS. You should consult your own tax advisors regarding the filing of a U.S. tax return for claiming a refund of any such backup withholding. Non-U.S. Holders should consult their tax advisors regarding the application of these rules.

Taxation of Fly and Our Subsidiaries

Although Fly's income is primarily subject to corporate tax in Ireland, part of our income is also subject to taxation in France, Labuan, Singapore and Australia.

In 2011, Fly made a 57.41% investment in Fly-Z/C LP, a US partnership incorporated in Delaware. The partnership wholly owns an Irish company, Fly-Z/C Aircraft Limited. Fly-Z/C LP and Fly-Z/C Aircraft Limited are not expected to have a U.S. trade or business subject to tax on effectively connected income or a U.S. permanent establishment subject to tax on business profits under Article 7. Effectively connected taxable income means the taxable income of the partnership which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States.

Each year we have qualified for the benefits of the U.S. and Ireland tax treaty Irish Treaty, and we expect Fly-Z/C Aircraft Limited to be a qualified resident under the Irish treaty. No assurances can be given, however, that we will continue to qualify for the benefits of the Irish Treaty or that we will not in the future be treated as maintaining a permanent establishment in the United States or having income that is effectively connected with the conduct of a trade or business in the United States. In order for us and our subsidiaries to be eligible for the benefits of the Irish Treaty for a particular fiscal year, we must each satisfy the requirements of Article 23 (Limitation on Benefits) of the Irish Treaty for that fiscal year. We will be eligible for the benefits of the Irish Treaty if the principal class of our shares is substantially and regularly traded on one or more recognized stock exchanges. Our shares will be considered substantially and regularly traded on one or more recognized stock exchanges in a fiscal year if (1) trades in such shares are effected on such stock exchanges in more than de minimis quantities during every quarter; and (2) the aggregate number of shares traded on such stock exchanges during the previous fiscal year is at least 6% of the average number of shares outstanding during that taxable year. We satisfied this requirement for each of the years since our inception. If our shares cease to be treated as

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

regularly traded, then we may no longer be eligible for the benefits of the Irish Treaty. Our subsidiaries that are Irish tax-resident will be eligible for benefits under the Irish Treaty if we hold, directly or indirectly, 50% or more of the vote and value of the subsidiary and we meet the regularly traded test described above.

If we or any subsidiary were not entitled to the benefits of the Irish Treaty, any income that we or that subsidiary earns that is treated as effectively connected with a trade or business in the United States, either directly or through agents, would be subject to tax in the United States at a rate of 35%. In addition, we or that subsidiary would be subject to the U.S. federal branch profits tax at a rate of 30% on its effectively connected earnings and profits, considered distributed from the U.S. business. In addition, if we did not qualify for Irish Treaty benefits, certain U.S. source rental income not connected with a U.S. trade or business could be subject to withholding tax of 30% and certain U.S. source gross transportation income could be subject to a 4% gross transportation tax if an exemption did not apply.

Bermuda Tax Considerations

We are incorporated under the laws of Bermuda. At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or by our shareholders in respect of our shares. We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Interest Rate Risk**

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. Interest rate risk is highly sensitive due to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our lease agreements and our floating rate debt obligations. As of December 31, 2017, we had 82 lease agreements associated with our flight equipment held for operating lease, 70 of which require the payment of a fixed rent amount during the lease term, and the remaining 12 require a floating rent amount based on LIBOR. Our floating rate indebtedness requires payments based on a variable interest rate index such as LIBOR. Therefore, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding proportional increase in rents or cash flow from our leases.

We have entered into interest rate swap contracts to mitigate the interest rate fluctuation risk associated with our debt. We expect that these interest rate swap contracts will significantly reduce the additional interest expense that would be caused by an increase in variable interest rates.

Sensitivity Analysis

The following discussion about the potential effects of changes in interest rates is based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts on our financial condition and results of operations. A sensitivity analysis is constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential impacts on our financial instruments and our variable rate leases. It does not include a variety of other potential factors that could affect our business as a result of changes in interest rates.

Assuming we do not hedge our exposure to interest rate fluctuations, a hypothetical 100 basis-point increase or decrease in our variable interest rates would have increased or decreased our interest expense by \$16.5 million, and would have increased or decreased our revenues by \$7.2 million and \$6.1 million, respectively, on an annualized basis.

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The fair value of our interest rate swap contracts is affected by changes in interest rates and credit risk of the parties to the swap. We determine the fair value of our 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 Fly's credit risk in valuing derivative liabilities. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads, and measures of volatility. Changes in the fair value of a derivative that is designated and qualifies as an effective cash flow hedge are recorded in accumulated other comprehensive income, net of tax, until earnings are affected by the variability of cash flows of the hedged item. Any derivative gains and losses that are not effective in hedging the variability of expected cash flows of the hedged item or that do not qualify for hedge accounting treatment are recognized directly into income. As of December 31, 2017, the fair value of our interest rate swap derivative liabilities, excluding accrued interest, was \$7.0 million. A 100 basis-point increase in the interest rate would reduce the fair value of our derivative liabilities by approximately \$9.0 million. A 100 basis-point decrease in the interest rate would increase the fair value of our derivative liabilities by approximately \$8.8 million. As of December 31, 2017, the fair market value of our interest rate swap derivative assets, excluding accrued interest, was \$2.6 million. A 100 basis-point increase in the interest rate would increase the fair market value of our derivative assets by approximately \$4.1 million. A 100 basis-point decrease in the interest rate would reduce the fair market value of our derivative assets by approximately \$4.2 million.

Foreign Currency Exchange Risk

We receive substantially all of our revenue in U.S. Dollars. As of December 31, 2017, we have one lease pursuant to which we receive a portion of the rent amount in Euros. A 10% increase or decrease in the Euro to U.S. Dollar exchange rate on the Euro denominated rent at December 31, 2017 would have resulted in a \$0.9 million unrealized foreign exchange loss or gain. Subsequent to December 31, 2017, we entered into a cross currency swap contract to mitigate our exposure to foreign currency exchange fluctuations in conjunction with leases in which a portion or all of the lease rentals are denominated in a currency other than U.S. Dollars.

As of December 31, 2017, we had one outstanding secured borrowing denominated in Euros. During the year ended December 31, 2017, we recorded an unrealized foreign currency exchange loss of \$2.3 million, resulting primarily from the impact to this borrowing of a decrease in value of the U.S. Dollar relative to the Euro. A 10% increase or decrease in the Euro to U.S. Dollar exchange rate on the Euro denominated borrowing at December 31, 2017 would have resulted in a \$2.2 million unrealized foreign exchange loss or gain. During the year ended December 31, 2016, we recorded an unrealized foreign currency exchange gain of \$0.4 million, resulting from an increase of the U.S. Dollar value relative to the Euro.

We pay substantially all of our expenses in U.S. Dollars. However, we incur some of our expenses in other currencies, primarily the Euro. Changes in the value of the U.S. Dollar relative to the Euro and other currencies may increase the U.S. Dollar cost to us to pay such expenses. The portion of our business conducted in other currencies could increase in the future, which could expand our exposure to losses arising from currency fluctuations. Volatility in foreign exchange rates could have a material impact on our results of operations.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**American Depositary Shares***Fees and Expenses*

We pay all fees, charges and expenses of the depositary, Deutsche Bank Trust Company Americas (the "Depositary") and any agent of the Depositary pursuant to agreements from time to time between us and the Depositary, except that if a holder elects to withdraw the common shares underlying their American Depositary Receipts, or ADRs, from the Depositary they will be required to pay the Depositary a fee of up to US\$5.00 per 100 ADSs surrendered or any portion thereof, together with expenses incurred by the Depositary and any taxes or charges, such as stamp taxes or stock transfer taxes or fees, in connection with the withdrawal.

We will not receive any portion of the fee payable to the Depositary upon a withdrawal of shares from the Depositary. The Depositary will not make any payments to us, and we will not receive any portion of any fees collected by the Depositary.

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Dividends and Other Distributions

The Depositary has agreed to pay holders of ADRs the cash dividends or other distributions it or the custodian receives on common shares or other deposited securities, less any fees for withholding taxes, duties and other governmental charges. Dividends on our shares are subject to deduction of Irish withholding taxes, unless an exemption to withholding is available. U.S. holders of ADSs (including U.S. citizens or residents) are entitled to claim a refund of Irish withholding taxes on dividends. Unless a U.S. holder of ADSs otherwise specifies, a customary fee of \$0.005 per ADS will be deducted from each dividend paid to such holder so that such dividend may be paid gross of Irish withholding taxes.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

PART II**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES**(a) Disclosure Controls and Procedures**

As of December 31, 2017, an evaluation was conducted under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management of Fly Leasing Limited is responsible for establishing and maintaining adequate internal control over financial reporting for our company. With the participation of our Chief Executive Officer and our Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 using the framework and criteria established in Internal Control — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

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Our independent auditor, Deloitte & Touche LLP, a registered public accounting firm, has issued their report which is included below.

(c) Report of the Independent Registered Public Accounting Firm

To the shareholders and the Board of Directors of
Fly Leasing Limited

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Fly Leasing Limited and subsidiaries (the “Company”) as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2017, of the Company and our report dated March 13, 2018 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

San Francisco, CA
March 13, 2018

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board has determined that Joseph M. Donovan, the Chairman of our Audit Committee of the Board of Directors, qualifies as an audit committee financial expert and is “independent” as defined under the applicable rules of the New York Stock Exchange. See Item 6 — Directors, Senior Management and Employees.

ITEM 16B. CODE OF ETHICS

We have adopted our (i) Board Governance Document, (ii) Code of Business Conduct and Ethics and (iii) Supplemental Code of Ethics for the Chief Executive Officer and Senior Officers. These documents, along with the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee charters are available under “Corporate Governance” in the “About Fly Leasing” section of our website (www.flyleasing.com).

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our principal accountants for the years ended December 31, 2017 and 2016 were Deloitte & Touche LLP.

The table below summarizes the fees for professional services rendered by Deloitte & Touche LLP for the audit of our annual financial statements for the years ended December 31, 2017 and 2016, respectively, and fees billed for other services rendered (in thousands):

	Years ended			
	2017		2016	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Audit fees	\$1,803	73%	\$1,798	90%
Tax fees	304	11%	175	9%
All other fees	269	16%	20	1%
Total	<u>\$2,376</u>	<u>100%</u>	<u>\$1,993</u>	<u>100%</u>

The Audit Committee pre-approves all audit and non-audit services provided to the Company by its auditors.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**Issuer Purchases of Equity Securities**

The following table summarizes the repurchase of our common shares during the year ended December 31, 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Repurchased Plan	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs
January 1-31, 2017	—	\$ —	—	\$66.7 million
February 2-28, 2017	—	\$ —	—	\$66.7 million
March 1-31, 2017	99,524	\$12.95	99,524	\$65.4 million
April 1-30, 2017	371,316	\$12.88	371,316	\$60.6 million
May 1-31, 2017	651,819	\$12.84	651,819	\$52.2 million
June 1-30, 2017	958,812	\$13.30	958,812	\$39.4 million
July 1-31, 2017	649,714	\$13.75	649,714	\$30.5 million
August 1-31, 2017	572,866	\$13.40	572,866	\$22.8 million
September 1-30, 2017	254,584	\$13.75	254,584	\$19.3 million
October 1-31, 2017	114,284	\$13.88	114,284	\$17.7 million
November 1-30, 2017	366,591	\$13.66	366,591	\$12.7 million
December 1-31, 2017	235,059	\$13.53	235,059	\$— ⁽¹⁾

- (1) In November 2017, our board of directors approved a \$50.0 million share repurchase program expiring in December 2018, to replace our program which expired in December 2017. Under this program, we may make share repurchases from time to time in the open market or in privately negotiated transactions.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The New York Stock Exchange requires companies with listed shares to comply with its corporate governance standards. As a foreign private issuer, we are not required to comply with all of the rules that apply to listed U.S. companies. Nevertheless, we have generally chosen to comply with the New York Stock Exchange's corporate governance rules as though we were a U.S. company. Accordingly, we do not believe there are any significant differences between our corporate governance practices and those that would typically apply to a U.S. domestic issuer under the New York Stock Exchange corporate governance rules.

However, we intend to follow the practices of our home country, Bermuda, in connection with certain matters, including shareholder approval requirements. Under Bermuda law, we are not required to obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity-based compensation plans, certain transactions other than a public offering involving issuances of a 20% or greater interest in our company and certain acquisitions of the stock or assets of another company.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (*CONT'D*)

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18 below for information regarding our financial statements and additional information required to be disclosed under this Item.

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Report of Independent Registered Public Accounting Firm

To the shareholders and the Board of Directors of
Fly Leasing Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fly Leasing Limited and subsidiaries (the “Company”) as of December 31, 2017, and 2016, the related consolidated statements of income (loss), comprehensive income (loss), shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 18 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2018, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Francisco, CA
March 13, 2018

We have served as the Company’s auditor since 2015.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Fly Leasing Limited

Consolidated Balance Sheets

AT DECEMBER 31, 2017 AND 2016

(Dollars in thousands, except par value data)

	December 31,	
	2017	2016
Assets		
Cash and cash equivalents	\$ 329,105	\$ 517,964
Restricted cash and cash equivalents	127,710	94,123
Rent receivables	2,059	419
Investment in unconsolidated subsidiary	8,196	7,700
Investment in finance lease, net	13,946	15,095
Flight equipment held for operating lease, net	2,961,744	2,693,821
Maintenance rights, net	131,299	101,969
Deferred tax asset, net	9,943	7,445
Fair value of derivative assets	2,643	1,905
Other assets, net	8,970	6,568
Total assets	<u>\$3,595,615</u>	<u>\$3,447,009</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 18,305	\$ 13,786
Rentals received in advance	14,968	13,123
Payable to related parties	2,084	5,042
Security deposits	49,689	42,495
Maintenance payment liability	244,151	182,571
Unsecured borrowings, net	615,922	691,390
Secured borrowings, net	2,029,675	1,831,985
Deferred tax liability, net	30,112	19,847
Fair value of derivative liabilities	7,344	13,281
Other liabilities	39,656	40,254
Total liabilities	<u>3,051,906</u>	<u>2,853,774</u>
Shareholders' equity		
Common shares, \$0.001 par value; 499,999,900 shares authorized; 27,983,352 and 32,256,440 shares issued and outstanding at December 31, 2017 and 2016, respectively	28	32
Manager shares, \$0.001 par value; 100 shares authorized, issued and outstanding	—	—
Additional paid-in capital	479,637	536,922
Retained earnings	68,624	66,026
Accumulated other comprehensive loss, net	(4,580)	(9,745)
Total shareholders' equity	<u>543,709</u>	<u>593,235</u>
Total liabilities and shareholders' equity	<u>\$3,595,615</u>	<u>\$3,447,009</u>

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Fly Leasing Limited

Consolidated Statements of Income (Loss)

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Dollars in thousands, except per share data)

	Years ended		
	2017	2016	2015
Revenues			
Operating lease revenue	\$ 346,894	\$ 313,582	\$ 429,691
Finance lease revenue	731	2,066	299
Equity earnings from unconsolidated subsidiary	496	530	1,159
Gain on sale of aircraft	3,926	27,195	28,959
Interest and other income	1,204	1,666	2,289
Total revenues	353,251	345,039	462,397
Expenses			
Depreciation	133,227	120,452	159,732
Aircraft impairment	22,000	96,122	66,093
Interest expense	127,782	123,161	145,448
Selling, general and administrative	30,671	30,077	33,674
Ineffective, dedesignated and terminated derivatives	(192)	91	4,134
Loss on modification and extinguishment of debt	23,309	9,246	17,491
Maintenance and other costs	2,524	2,279	7,628
Total expenses	339,321	381,428	434,200
Net income (loss) before provision (benefit) for income taxes	13,930	(36,389)	28,197
Provision (benefit) for income taxes	11,332	(7,277)	5,399
Net income (loss)	\$ 2,598	\$ (29,112)	\$ 22,798
Weighted average number of shares:			
Basic	30,307,357	33,239,001	41,222,690
Diluted	30,353,425	33,239,001	41,315,149
Earnings (loss) per share:			
Basic	\$ 0.09	\$ (0.88)	\$ 0.52
Diluted	\$ 0.09	\$ (0.88)	\$ 0.52
Dividends declared and paid per share	\$ —	\$ —	\$ 1.00

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Fly Leasing Limited

Consolidated Statements of Comprehensive Income (Loss)

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Dollars in thousands)

	Years ended		
	2017	2016	2015
Net income (loss)	\$2,598	\$(29,112)	\$22,798
Other components of comprehensive income (loss), net of tax:			
Change in fair value of derivatives, net of deferred tax ⁽¹⁾	3,926	5,036	158
Reclassification from other comprehensive loss into earnings due to termination of derivative liabilities, net of deferred tax ⁽²⁾	—	(10)	(130)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax ⁽³⁾	1,239	729	1,563
Comprehensive income (loss)	<u>\$7,763</u>	<u>\$(23,357)</u>	<u>\$24,389</u>

- (1) The associated deferred tax expense was \$0.6 million, \$0.7 million and \$0.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.
- (2) The associated deferred tax benefit was \$1,000 and \$19,000 for the years ended December 31, 2016 and 2015, respectively.
- (3) The associated deferred tax expense was \$0.2 million, \$0.1 million and \$0.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Fly Leasing Limited

Consolidated Statements of Shareholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

(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, 2014	100	\$—	41,432,998	\$41	\$658,522	\$114,782	\$(17,091)	\$756,254
Dividends to shareholders	—	—	—	—	—	(41,388)	—	(41,388)
Dividend equivalents	—	—	—	—	—	(1,054)	—	(1,054)
Shares issued in connection with vested share grants	—	—	36,075	—	—	—	—	—
Shares repurchased pursuant to share repurchase program	—	—	(421,329)	—	(5,529)	—	—	(5,529)
Shares repurchased pursuant to tender offer	—	—	(5,376,344)	(5)	(75,898)	—	—	(75,903)
Share-based compensation	—	—	—	—	195	—	—	195
Net income	—	—	—	—	—	22,798	—	22,798
Net change in the fair value of derivatives, net of deferred tax of \$0.3 million ⁽¹⁾	—	—	—	—	—	—	158	158
Reclassification from other comprehensive loss into earnings due to termination of derivative liabilities, net of deferred tax of \$19,000 ⁽¹⁾	—	—	—	—	—	—	(130)	(130)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of \$0.2 million ⁽¹⁾	—	—	—	—	—	—	1,563	1,563
Balance December 31, 2015	100	\$—	35,671,400	\$36	\$577,290	\$ 95,138	\$(15,500)	\$656,964
Shares repurchased	—	—	(3,414,960)	(4)	(40,368)	—	—	(40,372)
Net loss	—	—	—	—	—	(29,112)	—	(29,112)
Net change in the fair value of derivatives, net of deferred tax of \$0.7 million ⁽¹⁾	—	—	—	—	—	—	5,036	5,036
Reclassification from other comprehensive loss into earnings due to termination of derivative liabilities, net of deferred tax of \$1,000 ⁽¹⁾	—	—	—	—	—	—	(10)	(10)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of \$0.1 million ⁽¹⁾	—	—	—	—	—	—	729	729
Balance December 31, 2016	100	\$—	32,256,440	\$32	\$536,922	\$ 66,026	\$(9,745)	\$593,235
Shares issued in connection with SARs exercised	—	—	1,481	—	—	—	—	—
Shares repurchased	—	—	(4,274,569)	(4)	(57,285)	—	—	(57,289)
Net income	—	—	—	—	—	2,598	—	2,598
Net change in the fair value of derivatives, net of deferred tax of \$0.6 million ⁽¹⁾	—	—	—	—	—	—	3,926	3,926
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of \$0.2 million ⁽¹⁾	—	—	—	—	—	—	1,239	1,239
Balance December 31, 2017	100	\$—	27,983,352	\$28	\$479,637	\$ 68,624	\$(4,580)	\$543,709

(1) See Note 12 to Notes to Consolidated Financial Statements

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Fly Leasing Limited

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Dollars in thousands)

	Years ended		
	2017	2016	2015
Cash Flows from Operating Activities			
Net income (loss)	\$ 2,598	\$ (29,112)	\$ 22,798
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Equity earnings from unconsolidated subsidiary	(496)	(530)	(1,159)
Finance lease revenue	(731)	(2,066)	(299)
Gain on sale of aircraft	(3,926)	(27,195)	(28,959)
Depreciation	133,227	120,452	159,732
Aircraft impairment	22,000	96,122	66,093
Amortization of debt discounts and debt issuance costs	7,955	9,375	11,922
Amortization of lease incentives	7,668	8,898	20,527
Amortization of lease premiums, discounts and other	412	388	2,046
Amortization of GAAM acquisition fair value adjustments	1,223	1,621	3,650
Loss on modification and extinguishment of debt	23,309	9,246	17,491
Share-based compensation	—	—	195
Unrealized foreign exchange (gain) loss	2,305	(437)	(1,247)
Provision (benefit) for deferred income taxes	5,178	(9,158)	4,919
(Gain) loss on derivative instruments	(478)	76	4,134
Security deposits and maintenance payment liability recognized into earnings	(16,268)	(3,450)	(48,658)
Security deposits and maintenance payment claims applied towards operating lease revenue	—	(684)	—
Cash receipts from maintenance rights	—	9,513	—
Maintenance rights recognized into earnings	465	—	—
Changes in operating assets and liabilities:			
Rent receivables	(4,251)	(1,034)	6,814
Other assets	(2,599)	(1,134)	137
Payable to related parties	(10,126)	(17,163)	(19,407)
Accounts payable, accrued liabilities and other liabilities	11,588	(10,964)	(2,183)
Net cash flows provided by operating activities	179,053	152,764	218,546
Cash Flows from Investing Activities			
Investment in unconsolidated subsidiary	—	—	(2,009)
Rent received from finance lease	1,880	2,970	424
Investment in finance lease	—	—	(33,596)
Purchase of flight equipment	(434,122)	(552,166)	(567,523)
Proceeds from sale of aircraft, net	21,750	430,867	1,110,046
Payments for aircraft improvement	(7,357)	(2,230)	(8,196)
Payments for lessor maintenance obligations	(12,564)	(2,712)	(18,609)
Net cash flows (used in) provided by investing activities	(430,413)	(123,271)	480,537

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Fly Leasing Limited

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Dollars in thousands) (continued)

	Years ended		
	2017	2016	2015
Cash Flows from Financing Activities			
Security deposits received	7,196	920	13,914
Security deposits returned	(3,554)	(7,438)	(7,788)
Maintenance payment liability receipts	75,765	71,514	84,491
Maintenance payment liability disbursements	(14,303)	(10,951)	(38,768)
Net swap termination payments	—	(709)	(3,737)
Debt modification and extinguishment costs	(17,396)	(3,153)	(3,623)
Debt issuance costs	(1,464)	(2,552)	(933)
Proceeds from unsecured borrowings	295,150	—	—
Repayment of unsecured borrowings	(375,000)	—	—
Proceeds from secured borrowings	513,459	572,719	147,276
Repayment of secured borrowings	(326,909)	(448,346)	(791,385)
Shares repurchased	(57,286)	(40,257)	(81,432)
Dividends paid	—	—	(41,388)
Dividend equivalents	—	—	(1,054)
Net cash flows provided by (used in) financing activities	95,658	131,747	(724,427)
Effect of exchange rate changes on unrestricted and restricted cash and cash equivalents	430	(84)	(424)
Net increase (decrease) in unrestricted and restricted cash and cash equivalents	(155,272)	161,156	(25,768)
Unrestricted and restricted cash and cash equivalents at beginning of period	612,087	450,931	476,699
Unrestricted and restricted cash and cash equivalents at end of period	\$ 456,815	\$ 612,087	\$ 450,931
Reconciliation to Consolidated Balance Sheets:			
Cash and cash equivalents	\$ 329,105	\$ 517,964	\$ 275,998
Restricted cash and cash equivalents	127,710	94,123	174,933
Unrestricted and restricted cash and cash equivalents	\$ 456,815	\$ 612,087	\$ 450,931

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Fly Leasing Limited

Notes to Consolidated Financial Statements
For the year ended December 31, 2017

1. ORGANIZATION

Fly Leasing Limited (“Fly”) 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. 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 the Company 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.

In accordance with the Company’s amended and restated bye-laws, Fly issued 100 shares (“Manager Shares”) with a par value of \$0.001 to Fly Leasing Management Co. Limited (the “Manager”) for no consideration. Subject to the provisions of the Company’s amended and restated bye-laws, the Manager Shares have the right to appoint the nearest whole number of directors to the Company which is not more than 3/7th of the number of directors comprising the board of directors. The Manager Shares are not entitled to receive any dividends, are not convertible into common shares and, except as provided for in the Company’s amended and restated bye-laws, have no voting rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**BASIS OF PREPARATION**

Fly is a holding company that conducts its business through its subsidiaries. The Company directly or indirectly owns all of the common shares of its consolidated 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, Fly will consolidate a Variable Interest Entity (“VIE”). Fly is deemed the primary beneficiary when it has both the power to direct the activities of the VIE that most significantly impact the economic performance of such VIE, and it bears the significant risk of loss and participates in gains of the VIE. All intercompany transactions and balances have been eliminated. The consolidated financial statements are stated in U.S. Dollars, which is the principal operating currency of the Company.

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

Certain amounts in prior period consolidated financial statements have been reclassified to conform to the current period presentation. In 2017, the Company adopted ASU 2016-15 and ASU 2016-18, *Statement of Cash Flows (Topic 230)*. Such reclassifications had no impact on consolidated net income or shareholders’ equity. (See “New Accounting Pronouncements” below.)

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 flight equipment, deferred tax assets, liabilities and reserves. To the extent available, the Company utilizes industry specific resources, third-party appraisers and other materials to support management’s estimates, particularly with respect to flight equipment. Actual results could differ from those estimates.

RISKS AND UNCERTAINTIES

The Company encounters several types of risk during the course of its business, including credit and 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.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

RESTRICTED CASH AND CASH EQUIVALENTS

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

RENT RECEIVABLES

Rent receivables represent unpaid lessee obligations under existing lease contracts. Any allowance for doubtful accounts is established on a specific identification basis and is maintained at a level believed by management to be adequate to absorb probable losses associated with rent receivables. The assessment of credit risk is primarily based on the extent to which amounts outstanding exceed the value of security held, the financial strength and condition of a debtor and the current economic and regulatory conditions of the debtor's operating environment. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows and consideration of current factors and economic trends impacting the lessees and their credit worthiness, all of which may be susceptible to significant change. Uncollectible rent receivables are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is recorded based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. As of December 31, 2017 and 2016, the Company had no allowance for doubtful accounts.

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

INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

Fly has a 57.4% interest in Fly-Z/C Aircraft Holdings LP ("Fly-Z/C LP"). Fly accounts for its interest in the unconsolidated subsidiary using the equity method as the Company does not control the entity. Under the equity method, the Company's investment is initially recorded at cost and the carrying amount is affected by its share of the unconsolidated subsidiary's undistributed earnings and losses, and distributions of dividends and capital.

The Company periodically reviews the carrying amount of its investment in the unconsolidated subsidiary, or whenever events or changes in circumstances indicate that a decline in value may have occurred. If its investment is determined to be impaired on an other-than-temporary basis, a loss equal to the difference between the fair value of the investment and its carrying value is recorded in the period of identification.

INVESTMENT IN FINANCE LEASE

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

FLIGHT EQUIPMENT HELD FOR SALE

Flight equipment is classified as held for sale when the Company commits to and commences a plan of sale that is reasonably expected to be completed within one year and satisfies certain other held for sale criteria. Flight equipment held for sale is recorded at the lesser of carrying value or fair value, less estimated cost to sell. The

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Company continues to recognize rent from aircraft held for sale until the date the aircraft is sold. An impairment loss is recorded for an asset or asset group held for sale when the carrying value of the asset or asset group exceeds its fair value, less estimated cost to sell. Aircraft classified as held for sale is not depreciated.

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

FLIGHT EQUIPMENT HELD FOR OPERATING LEASE

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

- Flight equipment where original manufacturer's prices are not relevant due to plane modifications and conversions.
- Flight equipment that is out of production and may have a shorter useful life or lower residual value due to obsolescence.
- The remaining life of a converted freighter is determined based on the date of conversion, in which case, the total useful life may extend beyond 25 years from the date of manufacture.
- Flight equipment that management believes will be disposed of prior to the end of its estimated useful life.

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

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

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

IMPAIRMENT OF FLIGHT EQUIPMENT

The Company evaluates flight equipment for impairment when circumstances indicate that the carrying amounts of such assets may not be recoverable. The Company's evaluation of impairment indicators include, but are not limited to, recent transactions for similar aircraft, adverse changes in market conditions for specific aircraft types, third party appraisals of aircraft, published values for similar aircraft, any occurrence of adverse changes in the aviation industry and the overall market conditions that could impact the fair value of the Company's aircraft. The review for recoverability includes an assessment of the estimated future cash flows associated with the use of an asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, the Company will assess whether the carrying values of the flight equipment exceed the fair values and an impairment loss is required. The undiscounted cash flows consist of cash flows from currently contracted leases, future projected lease rates, transition costs, estimated down time and estimated residual or scrap values for an aircraft. The Company will also record an impairment charge if the expected sale proceeds of an aircraft are less than its carrying value. The impairment loss is measured as the excess of the carrying amount of the impaired asset over its fair value.

Future cash flows are assumed to occur under current market conditions and assume adequate time for a sale between a willing and able buyer and a willing seller. Expected future lease rates are based on all relevant

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

information available, including the existing lease, current contracted rates for similar aircraft, appraisal data and industry trends. Residual value assumptions generally reflect an aircraft's salvage value, except where more recent industry information indicates a different value is appropriate.

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

MAINTENANCE RIGHTS

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

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

EOL Leases

Under EOL Leases, the lessee is obligated to comply with certain return conditions which require the lessee to perform lease end maintenance work or make cash compensation payments at the end of the lease to bring the aircraft into a specified maintenance condition.

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

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

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

MR Leases

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Maintenance right assets in MR Leases represent the right to receive an aircraft in an improved condition relative to the actual condition on the acquisition date. The aircraft is improved by the performance of qualified major maintenance paid for by the lessee who is reimbursed by the Company from the periodic maintenance payments that it receives. Maintenance right assets, net will be recorded as a separate line item on the Company's balance sheet.

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

There are no maintenance right liabilities for MR Leases.

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

OTHER ASSETS

Other assets consist primarily of unamortized lease premiums, initial direct lease costs and other miscellaneous receivables. Lease premiums are amortized into operating lease income over the lease term.

SECURITY DEPOSITS

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

MAINTENANCE PAYMENT LIABILITY

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

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

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

The Company may also incur maintenance expenses on off-lease aircraft. Scheduled major maintenance or overhaul activities and costs for certain high-value components that are paid by the Company are capitalized and depreciated over the period until the next overhaul is required. Payments made by the Company for minor maintenance, repairs and re-leasing of aircraft are expensed as incurred.

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

REVENUE RECOGNITION

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. Where revenue amounts do not meet these recognition criteria, recognition is delayed until the criteria are met.

- *Operating lease revenue.* The Company receives lease revenue from flight equipment under operating leases. Rental income from aircraft is recognized on a straight-line basis over the initial term of the respective lease. The operating lease agreements generally do not provide for purchase options, however, the leases may allow the lessee to exercise an option to extend the lease for an additional term. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when collection is not reasonably assured.
- *End of lease income.* The amount of end of lease income the Company recognizes in any reporting period is inherently volatile and depends upon a number of factors, including the timing of both scheduled and unscheduled lease expiries and the timing of maintenance performed on the aircraft by the lessee, among others.
- *Lease incentives.* The Company's leases may contain provisions which require it to contribute a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. The Company accounts for these expected payments as lease incentives, which are amortized as a reduction of lease revenue over the life of the lease.
- *Finance lease income.* Revenue from finance lease is recognized using the interest method to produce a level yield over the life of the finance lease.

SHARE-BASED COMPENSATION

The Company has a 2010 Omnibus Incentive Plan ("2010 Plan") permitting the issuance of up to 1,500,000 share grants in the form of (i) stock appreciation rights ("SARs"); (ii) restricted stock units ("RSUs"); (iii) nonqualified stock options; and (iv) other stock-based awards. The Company has issued all shares available under the 2010 Plan.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Compensation expense associated with grants to employees were valued at the grant date and amortized on a straight-line basis over the service period. Grants to non-employees were initially measured at grant date, and then re-measured at each interim reporting period until the awards vested. Determining the appropriate fair value model and calculation of the fair value of stock-based awards required judgment, including estimating stock price volatility, forfeitures and expected grant life.

INCOME TAXES

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

The Company recognizes an uncertain tax benefit only to the extent that it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The Company has elected to classify any interest on unpaid income taxes and penalties as a component of the provision for income taxes. No interest on unpaid income taxes and penalties were incurred during each of the years ended December 31, 2017, 2016 and 2015.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers. Under the guidance, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the guidance requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance specifically notes that lease contracts are a scope exception. The guidance is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. The Company adopted the guidance effective January 1, 2018. The adoption will not have a significant impact on the consolidated financial statements and the related footnotes because lease revenue, which comprises the majority of the Company's revenue, is excluded from the scope of this guidance.

In February 2016, FASB issued its new lease guidance, ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) on the commencement date: (i) lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. FASB has decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any finance lease that does not transfer control of the underlying asset to the lessee. In addition, the new guidance will require lessors to capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. Any other costs incurred, including allocated indirect costs, will no longer be capitalized and instead will be expensed as incurred. As of December 31, 2017, the Company had approximately \$2.0 million of unamortized lease costs. The guidance will be effective for annual reporting periods, including interim periods, beginning after December 15, 2018, and early adoption will be permitted. The new guidance must be adopted using the modified retrospective method. The Company is progressing in its assessment of the impact of ASC 842 and is concurrently gathering business requirements for the implementation of ASC 842. The Company plans to adopt the guidance effective January 1, 2019.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. The guidance requires application using a retrospective transition method. The Company early adopted the guidance effective December 31, 2017. The adoption of the guidance requires the classification of cash payments for debt prepayments or extinguishment costs (including third-party costs, premiums paid, and other fees paid to lenders) as financing activities in the Company's statement of cash flows. The adoption changes the Company's net cash provided by operating activities, with a corresponding change in its net cash provided by or used in financing activities.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

In October 2016, FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires the recognition of current and deferred income taxes for intra-entity asset transfers, other than inventory, when the transfer occurs. Historically, the income tax consequence was not recognized until the asset was sold to a third party. The guidance is effective for annual reporting periods, including interim periods, beginning after December 15, 2017, and early adoption is permitted. The Company adopted the guidance effective January 1, 2018. The adoption of the guidance will not have a material impact on its consolidated financial condition, results of operations and cash flows.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*. ASU 2016-18 provides guidance on the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to show the changes in total of cash, cash equivalents, restricted cash and restricted cash equivalents. As a result, entities will no longer present transfers between cash and cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. Instead, restricted cash and cash equivalents is included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statement of cash flows. The guidance requires application using a retrospective transition method to each period presented. The guidance is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. The Company early adopted the guidance effective December 31, 2017. Prior to the adoption of the guidance, the Company presented the change in restricted cash and cash equivalents as cash provided by or used in financing activities as required by GAAP. The adoption of the new guidance eliminates the change in restricted cash and cash equivalents line item in financing activities and changes net cash flows provided by or used in financing activities by the same amount.

In August 2017, FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815)*. ASU 2017-12 is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. Under the guidance, if a cash flow hedge is highly effective, all changes in the fair value of the derivative hedging instrument will be recorded in other comprehensive income and reclassified to earnings when the hedged item impacts earnings. After initial qualification, the new guidance permits a qualitative effectiveness assessment for certain hedges instead of a quantitative test, such as a regression analysis, if the company can reasonably support an expectation of high effectiveness throughout the term of the hedge. An initial quantitative test to establish that the hedge relationship is highly effective is still required. Additional disclosures include cumulative basis adjustments for fair value hedges and the effect of hedging on individual income statement line items. The guidance will be effective for annual reporting periods, including interim periods beginning after December 15, 2018, and early adoption will be permitted. The Company plans to adopt the guidance effective January 1, 2019.

3. SUPPLEMENTAL DISCLOSURE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended		
	2017	2016	2015
	(Dollars in thousands)		
Cash paid during the year for:			
Interest	\$113,710	\$110,351	\$132,780
Taxes	2,155	460	384
Noncash Activities:			
Security deposits applied to maintenance payment liability, rent receivables, other assets and rentals received in advance	2,045	—	3,292
Maintenance payment liability applied to rent receivables and rentals received in advance	68	—	2,523
Other liabilities applied to maintenance payment liability and rent receivables	676	2,550	240
Noncash investing activities:			
Aircraft improvement	192	5,245	1,587
Noncash activities in connection with purchase of aircraft	3,979	6,388	19,382
Noncash activities in connection with sale of aircraft	—	78,722	93,819

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

4. INVESTMENT IN FINANCE LEASE

At December 31, 2017 and 2016, the Company had one investment in finance lease, which was reclassified from an operating lease to a finance lease during the fourth quarter of 2016. As a result of this reclassification, the Company recognized a gain of \$2.7 million during the year ended December 31, 2016. The implicit interest rate in this finance lease was 5%. During the years ended December 31, 2017, 2016 and 2015, the Company recognized finance lease revenue totaling \$0.7 million, \$2.1 million and \$0.3 million, respectively.

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

	December 31, 2017	December 31, 2016
Total minimum lease payments receivable	\$13,200	\$15,080
Estimated unguaranteed residual value of leased asset	4,227	4,227
Unearned finance income.	<u>(3,481)</u>	<u>(4,212)</u>
Net Investment in Finance Lease	<u>\$13,946</u>	<u>\$15,095</u>

During the year ended December 31, 2016, the Company sold its other investment in a finance lease and recognized a \$4.2 million gain on sale of aircraft.

Presented below are the contracted future minimum rental payments due under non-cancellable finance lease, as of December 31, 2017.

<u>Year ending December 31,</u>	<u>(Dollars in thousands)</u>
2018	\$ 1,800
2019	1,800
2020	1,800
2021	1,800
2022	1,800
Thereafter	<u>4,200</u>
Future minimum rental payments under finance lease.	<u>\$13,200</u>

5. FLIGHT EQUIPMENT HELD FOR SALE

In 2015, the Company agreed to sell 45 aircraft in two portfolio sales (the "Sale Transactions"). The Company delivered 32 of these aircraft to the purchasers and recognized a gain on sale of aircraft of \$33.0 million in 2015. The Company delivered the remaining 13 aircraft and recognized a gain on sale of aircraft of \$5.0 million in 2016.

During the third quarter of 2017, the Company reclassified one aircraft to held for sale as the lessee of this narrow-body aircraft notified the Company of its election to purchase this aircraft. This aircraft was sold for a gain on sale of aircraft of \$3.9 million in the fourth quarter of 2017.

At December 31, 2017 and 2016, the Company had no flight equipment held for sale.

6. FLIGHT EQUIPMENT HELD FOR OPERATING LEASE

As of December 31, 2017, the Company had 84 aircraft held for operating lease, of which 82 aircraft were on lease to 43 lessees in 27 countries, and two aircraft were off-lease. As of December 31, 2016, the Company had 75 aircraft held for operating lease, on lease to 41 lessees in 26 countries.

During the year ended December 31, 2017, the Company purchased ten aircraft held for operating lease, and capitalized \$438.1 million. During the year ended December 31, 2016, the Company purchased ten aircraft held for operating lease, and capitalized \$545.8 million.

Other than the one aircraft re-classified as flight equipment held for sale (see Note 5), the Company did not sell any aircraft during the year ended December 31, 2017. During the year ended December 31, 2016, the Company sold 13 aircraft held for operating lease, 12 of which generated a \$15.2 million gain on sale of aircraft. The

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Company recorded a gain on debt extinguishment of \$0.6 million with the sale of the last aircraft, which was financed by a secured borrowing. The sale proceeds were paid to the lender as full and final discharge of the associated debt. During the year ended December 31, 2015, the Company sold 12 aircraft held for operating lease and recognized a loss on sale of aircraft of \$4.0 million.

In 2017, the Company had two aircraft on lease to Air Berlin, including one Airbus A321-200 aircraft (manufactured in 2015) and one Airbus A330-200 aircraft (manufactured in 2001). In August 2017, Air Berlin commenced insolvency proceedings in Germany and the United States. As a result of these insolvency proceedings, the Company assessed both aircraft leased to Air Berlin for impairment. During the year ended December 31, 2017, the Company recognized aircraft impairment of \$22.0 million related to the Airbus A330-200 aircraft. The lease was terminated, and this aircraft was returned to the Company and redelivered to another airline in January 2018. The Company did not recognize aircraft impairment on the Airbus A321-200 aircraft.

During the year ended December 31, 2016, the Company recognized aircraft impairment of \$96.1 million related to one narrow-body aircraft and three wide-body aircraft. The Company sold the narrow-body aircraft in the third quarter of 2016, with proceeds paid to the lender in full satisfaction of the associated debt. During the year ended December 31, 2015, the Company recognized aircraft impairment of \$66.1 million. The impairment charge related to three wide-body aircraft nearing the end of their economic lives and 11 narrow-body aircraft, ten of which were sold in 2015 and 2016.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cost.....	\$3,574,202	\$3,180,160
Accumulated depreciation	<u>(612,458)</u>	<u>(486,339)</u>
Flight equipment held for operating lease, net.....	<u>\$2,961,744</u>	<u>\$2,693,821</u>

The Company capitalized \$7.4 million and \$5.7 million of major maintenance expenditures for the years ended December 31, 2017 and 2016, respectively.

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

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

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

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
Europe:				
Spain.....	\$ 175,593	6%	\$ 57,845	2%
Turkey	135,764	5%	142,787	5%
United Kingdom.....	128,116	4%	143,560	5%
Germany.....	—	—	98,483	4%
Russia.....	16,332	—	17,582	1%
Other.....	<u>235,013</u>	<u>8%</u>	<u>179,155</u>	<u>7%</u>
Europe — Total	<u>690,818</u>	<u>23%</u>	<u>639,412</u>	<u>24%</u>
Asia and South Pacific:				
India	601,072	20%	574,853	21%
Philippines	268,504	9%	279,031	10%
Indonesia	204,840	7%	62,921	2%
China	186,083	6%	194,774	7%
Other.....	<u>152,371</u>	<u>5%</u>	<u>153,323</u>	<u>7%</u>
Asia and South Pacific — Total	<u>1,412,870</u>	<u>47%</u>	<u>1,264,902</u>	<u>47%</u>
Mexico, South and Central America:				
Chile.....	83,097	3%	86,251	3%
Other.....	<u>79,177</u>	<u>3%</u>	<u>83,368</u>	<u>3%</u>
Mexico, South and Central America — Total	<u>162,274</u>	<u>6%</u>	<u>169,619</u>	<u>6%</u>
North America:				
United States	147,580	5%	156,472	6%
Other.....	<u>52,182</u>	<u>2%</u>	<u>55,044</u>	<u>2%</u>
North America — Total.....	<u>199,762</u>	<u>7%</u>	<u>211,516</u>	<u>8%</u>
Middle East and Africa:				
Ethiopia	322,896	11%	332,817	12%
Other.....	<u>116,273</u>	<u>4%</u>	<u>75,555</u>	<u>3%</u>
Middle East and Africa — Total	<u>439,169</u>	<u>15%</u>	<u>408,372</u>	<u>15%</u>
Off-Lease — Total	<u>56,851</u>	<u>2%</u>	<u>—</u>	<u>—</u>
Total flight equipment held for operating lease, net.....	<u>\$2,961,744</u>	<u>100%</u>	<u>\$2,693,821</u>	<u>100%</u>

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

The distribution of operating lease revenue by geographic region for the years ended December 31, 2017, 2016 and 2015 is as follows (dollars in thousands):

	Years ended					
	2017		2016		2015	
Europe:						
Spain	\$ 11,199	3%	\$ 5,361	2%	\$ 9,191	2%
Turkey	17,103	5%	24,593	8%	29,847	7%
United Kingdom	29,182	8%	34,498	11%	50,742	12%
Germany	26,457	8%	13,836	4%	18,201	4%
Russia	1,927	1%	3,141	1%	24,095	6%
Other	27,253	8%	25,253	8%	46,480	11%
Europe — Total	113,121	33%	106,682	34%	178,556	42%
Asia and South Pacific:						
India	64,381	18%	39,640	13%	19,572	4%
Philippines	29,825	9%	29,129	9%	38,677	9%
Indonesia	16,308	5%	8,320	3%	7,915	2%
China	22,611	6%	23,882	8%	37,943	9%
Other	19,263	6%	18,967	5%	31,141	7%
Asia and South Pacific — Total	152,388	44%	119,938	38%	135,248	31%
Mexico, South and Central America:						
Chile	8,939	3%	8,939	3%	24,336	6%
Other	8,626	2%	8,768	3%	16,732	4%
Mexico, South and Central America — Total	17,565	5%	17,707	6%	41,068	10%
North America:						
United States	17,647	5%	24,591	8%	37,316	9%
Other	6,237	2%	6,223	2%	6,380	1%
North America — Total	23,884	7%	30,814	10%	43,696	10%
Middle East and Africa:						
Ethiopia	30,018	9%	30,084	10%	22,808	5%
Other	9,918	2%	8,357	2%	8,315	2%
Middle East and Africa — Total	39,936	11%	38,441	12%	31,123	7%
Total Operating Lease Revenue	\$346,894	100%	\$313,582	100%	\$429,691	100%

For the year ended December 31, 2017, the Company had one customer (Air India) that accounted for 11% of total operating lease revenue. No customer accounted for 10% or more of total operating lease revenue for the year ended December 31, 2016 or 2015.

The Company places a lessee on non-accrual status when it has determined that it is not probable that the economic benefits of the lease will be received by the Company, principally due to (i) the lessees' failure to pay rent and overhaul payments and (ii) the Company's evaluation of the lessees' payment history.

Following the Air Berlin insolvency proceedings in August 2017, the Company had placed Air Berlin on non-accrual status and recognized revenue from the two aircraft leased to Air Berlin only as cash was received, including the application of any security deposits and letters of credit. Air Berlin returned both aircraft to the Company and the Company recognized \$16.6 million of end of lease income from this lessee during the fourth quarter of 2017.

At December 31, 2017 and 2016, no lessees were on non-accrual status. At December 31, 2015, the Company had two lessees on non-accrual status.

For the years ended December 31, 2017, 2016 and 2015, the Company recognized end of lease income totaling \$17.8 million, \$8.9 million and \$53.8 million, respectively.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

As of December 31, 2017 and 2016, the weighted average remaining lease term of the Company's aircraft held for operating lease was 6.3 years and 6.8 years, respectively.

Presented below are the contracted future minimum rental payments due under non-cancellable operating leases, as of December 31, 2017. For leases that have floating rental rates, the future minimum rental payments due assume that the rental payment due as of December 31, 2017 is held constant for the duration of the lease.

<u>Year ending December 31,</u>	<u>(Dollars in thousands)</u>
2018	\$ 355,172
2019	320,670
2020	280,506
2021	245,208
2022	209,542
Thereafter	<u>734,445</u>
Future minimum rental payments under operating leases	<u>\$2,145,543</u>

For the years ended December 31, 2017, 2016 and 2015, amortization of lease incentives recorded as a reduction of operating lease revenue totaled \$7.7 million, \$8.9 million and \$20.5 million, respectively. At December 31, 2017, lease incentive amortization for the next five years and thereafter is as follows (dollars in thousands):

<u>Year ending December 31,</u>	
2018	\$ 9,137
2019	8,449
2020	5,849
2021	3,594
2022	2,218
Thereafter	<u>1,044</u>
Future amortization of lease incentives	<u>\$30,291</u>

7. MAINTENANCE RIGHTS

Changes in maintenance right assets, net of maintenance right liabilities, during the years ended December 31, 2017 and 2016 were as follows (dollars in thousands):

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Maintenance rights, net beginning balance	\$101,969	\$ 94,493
Acquisitions	25,033	28,412
Capitalized to aircraft improvements	(192)	(5,245)
Maintenance rights recognized into earnings	(465)	—
Cash receipts from maintenance rights	—	(9,513)
Maintenance rights associated with aircraft sold	<u>4,954</u>	<u>(6,178)</u>
Maintenance rights, net at end of year	<u>\$131,299</u>	<u>\$101,969</u>

8. INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

The Company has a 57.4% limited partnership interest in Fly-Z/C LP. Summit Aviation Partners LLC ("Summit") has a 10.2% interest in the joint venture. A subsidiary of BBAM Limited Partnership ("BBAM LP") is the general partner of the joint venture. The joint venture owns two aircraft. For each of the years ended December 31, 2017 and 2016, the Company recognized \$0.5 million in equity earnings from its investment in Fly-Z/C LP. For the year ended December 31, 2015, the Company recognized \$1.2 million in equity earnings from its investment in Fly-Z/C LP. During the year ended December 31, 2015, the Company contributed \$2.0 million into Fly-Z/C LP. During the years ended December 31, 2017, 2016 and 2015, respectively, the Company received no distributions.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

9. OTHER ASSETS

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

	December 31, 2017	December 31, 2016
Lease costs, net	\$2,045	\$1,730
Value added tax and general sales tax receivables, net.	2,915	2,994
Other assets	4,010	1,844
Total other assets	<u>\$8,970</u>	<u>\$6,568</u>

10. UNSECURED BORROWINGS

	Balance as of	
	December 31, 2017	December 31, 2016
	(Dollars in thousands)	
Outstanding principal balance:		
2020 Notes	\$ —	\$375,000
2021 Notes	325,000	325,000
2024 Notes	<u>300,000</u>	<u>—</u>
Total outstanding principal balance	625,000	700,000
Unamortized debt discounts and loan costs	<u>(9,078)</u>	<u>(8,610)</u>
Unsecured borrowings, net	<u>\$615,922</u>	<u>\$691,390</u>

On December 11, 2013, the Company sold \$300.0 million aggregate principal amount of unsecured 6.75% Senior Notes due 2020 (together with the Additional 2020 Notes (as defined below), the "2020 Notes"). In connection with the issuance, the Company paid an underwriting discount totaling \$8.5 million.

On October 3, 2014, the Company sold \$75.0 million aggregate principal amount of unsecured 6.75% Senior Notes due 2020 (the "Additional 2020 Notes") and \$325.0 million aggregate principal amount of 6.375% Senior Notes due 2021 (the "2021 Notes"). The Additional 2020 Notes were issued as additional notes under the 2020 Notes indenture and were sold at a price equal to 104.75% of the principal amount thereof. The 2021 Notes were issued under an indenture containing substantially similar terms as the indenture governing the 2020 Notes and were sold at par. In connection with these issuances, the Company paid a net underwriting discount totaling \$3.4 million.

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 net proceeds to the Company were approximately \$294.2 million, after deducting the underwriters' discounts and commissions and offering expenses paid by the Company. The Company used the net proceeds from the sale of the 2024 Notes, together with cash on hand, to redeem all \$375.0 million of its outstanding 2020 Notes on December 15, 2017. In connection with the redemption, the Company incurred debt extinguishment costs totaling \$19.7 million.

The 2021 Notes and 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. The 2021 Notes have a maturity date of October 15, 2021 and the 2024 Notes have a maturity date of October 15, 2024.

Interest on the 2021 Notes is payable semi-annually on April 15 and October 15 of each year. Interest on the 2024 Notes is payable semi-annually on April 15 and October 15 of each year, beginning on April 15, 2018. As of December 31, 2017 and 2016, accrued interest on unsecured borrowings totaled \$7.7 million and \$5.5 million, respectively.

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2021 Notes

The Company may redeem the 2021 Notes, in whole or in part, at the redemption prices listed below, plus accrued and unpaid interest to the redemption date.

If redeemed during the 12-month period commencing on October 15 of the years set forth below:	Redemption Price
2017	104.781%
2018	103.188%
2019	101.594%
2020 and thereafter	100.000%

2024 Notes

At any time prior to October 15, 2020, the Company may redeem up to 35% of the original principal amount of the 2024 Notes with the proceeds of certain equity offerings at a redemption price of 105.250% of the principal amount thereof, together with accrued and unpaid interest to, but not including, the date of redemption. On and after October 15, 2020, the Company may redeem the 2024 Notes, in whole or in part, at the redemption prices listed below, plus accrued and unpaid interest to the redemption date.

If redeemed during the 12-month period commencing on October 15 of the years set forth below:	Redemption Price
2020	102.625%
2021	101.313%
2022 and thereafter	100.000%

At any time prior to October 15, 2020, the Company may also redeem all or a portion of the 2024 Notes at par, plus accrued and unpaid interest to the redemption date and a “make-whole premium” equal to the present value of all future interest payments called for under the indenture.

Pursuant to the indentures governing the 2021 Notes and 2024 Notes, the Company is subject to restrictive covenants which relate to dividend payments, incurrence of debt and issuance of guarantees, incurrence of liens, repurchases of common shares, investments, disposition of aircraft, consolidation, merger or sale of 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 the indentures governing the 2021 Notes or 2024 Notes could result in an event of default 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 2021 Notes or 2024 Notes obtain an investment grade rating.

The indentures governing the 2021 Notes and the 2024 Notes contain customary events of default with respect to the notes of each series, 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) default in any of the aircraft owning entities in respect of obligations in excess of \$50.0 million, which holders of such obligation accelerate or demand repayment of amounts due thereunder, (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 us or a significant subsidiary. As of December 31, 2017, the Company was not in default under the indentures governing the 2021 Notes or the 2024 Notes.

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11. SECURED BORROWINGS

The Company's secured borrowings balance, net as of December 31, 2017 and 2016 are presented below (dollars in thousands):

	Outstanding principal balance as of December 31,		Weighted average interest rate ⁽¹⁾ as of December 31,		Maturity date
	2017	2016	2017	2016	
Securitization Notes	\$ 101,551	\$ 139,741	3.06%	3.36%	November 2033
Nord LB Facility	153,176	171,509	4.47%	4.14%	November 2018
CBA Facility	49,080	56,146	5.53%	5.45%	October 2020
Term Loan	431,271	404,016	4.25%	4.41%	February 2023
Magellan Acquisition					
Limited Facility	331,768	—	3.15%	—	December 2025
Fly Acquisition III Facility . .	86,520	113,045	3.41%	2.88%	February 2022
Other Aircraft Secured					
Borrowings	905,525	980,967	3.83%	3.50%	September 2019 – June 2028
Unamortized debt discounts and loan costs	(29,216)	(33,439)			
Total	\$2,029,675	\$1,831,985			

(1) Represents the contractual interest rates and effect of derivative instruments and excludes the amortization of debt discounts and debt issuance costs.

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

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

As of December 31, 2017 and 2016, accrued interest on secured borrowings totaled \$6.6 million and \$5.2 million, respectively. As of December 31, 2017, the Company was not in default under any of its secured borrowings.

Securitization Notes

At December 31, 2017, Fly's subsidiary, B&B Air Funding, had \$101.6 million principal amount outstanding on its aircraft lease-backed Class G-1 notes (the "Securitization Notes"), which were secured by nine aircraft. The final maturity date of the Securitization Notes is November 14, 2033.

The Securitization Notes bear interest at an adjustable interest rate equal to the current one-month LIBOR plus 0.77%. Interest expense also includes amounts payable to the provider of a financial guaranty insurance policy and the liquidity facility provider thereunder, as well as accretion on the Securitization Notes re-issued at a discount. Interest and any principal payments due are payable monthly.

All cash collected, including sale proceeds from the aircraft financed by the Securitization Notes, is applied to service the outstanding balance of the Securitization Notes, after the payment of certain expenses and other costs, including interest, interest rate swap payments, and the fees to the policy provider in accordance with those agreements.

B&B Air Funding may, on any future payment date, redeem the Securitization Notes in whole or from time to time in part for an amount equal to 100% of the outstanding principal amount, together with accrued and unpaid

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interest to, but excluding, the date fixed for redemption. Redemption prior to acceleration of the Securitization Notes may be of all or any part of the Securitization Notes. Redemption after acceleration of the Securitization Notes upon default may only be for all of the Securitization Notes.

The Securitization Notes are secured by (i) first priority, perfected security interests in and pledges or assignments of equity ownership and beneficial interests in the subsidiaries of B&B Air Funding; (ii) interests in the leases of the associated aircraft; (iii) cash held by the subsidiaries of B&B Air Funding; and (iv) rights under agreements with BBAM, the initial liquidity facility provider, hedge counterparties and the policy provider. Rentals paid under leases are placed in the collections account and paid out according to a priority of payments set forth in the indenture. The Securitization Notes are also secured by a lien or similar interest in any of the aircraft B&B Air Funding currently owns that are registered in the United States or Ireland. B&B Air Funding may not encumber the aircraft it currently owns or incur additional indebtedness except as permitted under the securitization-related documents.

B&B Air Funding is subject to operating covenants which relate to, among other things, its operations, disposition of aircraft, lease concentration limits, and restrictions on the modification of aircraft and capital expenditures. A breach of the covenants could result in the acceleration of the Securitization Notes and exercise of remedies available in relation to the collateral, including the sale of aircraft at public or private sale.

In connection with the issuance of the Securitization Notes, B&B Air Funding entered into a revolving credit facility (“Securitization Note Liquidity Facility”) that provides additional liquidity of up to \$60.0 million. Subject to the terms and conditions of the Securitization Note Liquidity Facility, advances may be drawn for the benefit of the Securitization Note holders to cover certain expenses of B&B Air Funding, including maintenance expenses, interest rate swap payments and interest on the Securitization Notes. Advances shall bear interest at one-month LIBOR plus a spread of 1.20%. A commitment fee of 0.40% per annum is due and payable on each payment date based on the unused portion of the Securitization Note Liquidity Facility. As of each of December 31, 2017 and 2016, B&B Air Funding had not drawn on the Securitization Note Liquidity Facility.

The financial guaranty insurance policy (the “Policy”) issued by the Policy Provider supports the payment of interest due on the Notes and the payment of the outstanding principal balance of the Securitization Notes on the final maturity date and, under certain circumstances, prior thereto. A downgrade of the policy provider’s credit rating or its failure to meet its obligations under the Policy will not have a direct impact on B&B Air Funding’s obligations or rights under the Securitization Notes.

Nord LB Facility

As of December 31, 2017, the Company had \$153.2 million principal amount outstanding under its debt facility with Norddeutsche Landesbank Girozentrale (the “Nord LB Facility”), which was secured by six aircraft. The Nord LB Facility is structured with loans secured by each aircraft individually. The loans are cross-collateralized and contain cross-default provisions. Borrowings are secured by Fly’s equity interests in the aircraft owning and leasing subsidiaries, the related leases, and certain deposits.

The loans under the Nord LB Facility bear interest at one-month LIBOR plus 3.30% until the final maturity date of November 14, 2018.

Under the terms of the Nord LB Facility, the Company applies 95% of lease rentals collected towards interest and principal. If no lease rental payments are collected in the applicable period for any financed aircraft, then no payment is due under the loan associated with that aircraft during such period. Any unpaid interest increases the principal amount of the associated loan.

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

Upon termination or expiration of a lease other than by sale, no payments are due with respect to the outstanding loan associated with that aircraft until the earlier of (i) six months from such termination or expiration and (ii) the date on which the aircraft is re-leased. Interest during this period increases the outstanding balance under the facility. The Company must pay interest with respect to any aircraft that remains off-lease after six months,

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and if such aircraft continues to be off-lease after twelve months, the Company must pay debt service equal to 85% of the lease rate under the prior lease agreement. The lenders may require payment in full or foreclose on an aircraft that remains off-lease after 24 months but may not foreclose on any other aircraft in the facility.

If the Company earns a 10% return on its equity investment after full repayment of the facility, the Company will pay Nord LB a fee equal to 10% of returns in excess of 10%, up to a maximum of \$5.0 million.

An event of default with respect to the loan on any aircraft will trigger an event of default on the loans with respect to every other financed aircraft. A default by any of the aircraft owning entities in respect of obligations in excess of \$10.0 million and holders of such obligation accelerate or demand repayment of amounts due thereunder would constitute an event of default.

CBA Facility

As of December 31, 2017, the Company had \$49.1 million principal amount outstanding under its debt facility with Commonwealth Bank of Australia and CommBank Europe Limited (the “CBA Facility”), which was secured by four aircraft. Fly has guaranteed all payments under the CBA Facility. These loans are cross-collateralized and contain cross-default provisions. The final maturity date of each of the four loans is October 28, 2020.

The Company makes scheduled monthly payments of principal and interest on each loan in accordance with a fixed amortization schedule. If, upon the repayment of any loan, the ratio of the remaining principal amount outstanding under the CBA Facility to the aggregate appraised value of the financed aircraft is equal to or greater than 80%, the Company will be required to pay cash collateral in an amount sufficient to reduce this ratio to less than 80%.

Borrowings under the CBA Facility accrue interest at a fixed interest rate.

The CBA Facility includes certain operating covenants, including reporting requirements. A breach of the covenants could result in the acceleration of outstanding indebtedness under the CBA Facility, and exercise of remedies available in relation to the collateral.

Term Loan

As of December 31, 2017, the Company had \$431.3 million principal amount outstanding under its senior secured term loan (the “Term Loan”), which was secured by 30 aircraft. Fly has guaranteed all payments under the Term Loan.

The Term Loan bears interest at three-month LIBOR, plus a margin of 2.00%.

On October 19, 2016, the Company amended the Term Loan to extend the maturity date from August 2019 to February 2022. In connection with this amendment, the Company paid a one-time fee of 0.25% on the then outstanding principal amount under the Term Loan to its lenders. The Company also expensed \$2.3 million as debt extinguishment costs.

On April 28, 2017, the Company completed an amendment of the Term Loan to (i) reduce the margin from 2.75% to 2.25%, (ii) eliminate the LIBOR floor of 0.75% and (iii) extend the maturity date from February 2022 to February 2023. The Company also upsized the Term Loan by \$50.0 million. On November 1, 2017, the Company completed another amendment of the Term Loan to further reduce the margin from 2.25% to 2.00%. Until May 2018, the Term Loan can be prepaid in whole or in part for an amount equal to 101% of the outstanding principal amount being repaid. Thereafter, the Term Loan can be prepaid in whole or in part at par.

During the year ended December 31, 2017, the Company incurred debt extinguishment costs totaling \$3.0 million in connection with these amendments.

The Term Loan requires that the Company maintain a maximum loan-to-value ratio 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. The Term Loan contains certain concentration limits with respect to types of aircraft which can be financed in the Term Loan, as well as geographic and single lessee concentration limits. These concentration limits apply upon the acquisition, sale, removal or substitution of an aircraft. The Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings.

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An event of default under the Term Loan includes any of the aircraft owning entities defaulting in respect of obligations in excess of \$50.0 million and holders of such obligation accelerate or demand repayment of amounts due thereunder.

Magellan Acquisition Limited Facility

On December 8, 2017, the Company, through a wholly-owned subsidiary, entered into a term loan facility with a consortium of lenders (“Magellan Acquisition Limited Facility”) that provides for loans and notes in an aggregate amount of \$331.8 million with a final maturity date of December 8, 2025. The Company paid an upfront fee of approximately \$3.0 million to the lenders concurrent with the closing.

As of December 31, 2017, the Company received an aggregate of \$273.7 million to finance seven aircraft, and the remaining \$58.1 million was held in an escrow account to be used to finance two additional aircraft, which were subsequently financed in the first quarter of 2018. The Magellan Acquisition Limited Facility is secured by nine aircraft with an initial loan-to-value ratio of less than 75%. Fly has guaranteed all payments under this facility.

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 issued under the facility is a fixed rate of 3.93% per annum.

The facility contains financial and operating covenants, including a covenant that the Company maintain a tangible net worth of at least \$325.0 million, as well as customary reporting requirements. A violation of any of these covenants could result in a default under the Magellan Acquisition Limited Facility. In addition, upon the occurrence of certain conditions including a failure by the Company 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 accounts pledged to the security trustee.

Upon the sale of an aircraft, the borrower may substitute aircraft into the Magellan Acquisition Limited Facility subject to certain conditions. The substitute aircraft must be equal to or greater than the appraised value of the aircraft being substituted. The borrower must be in compliance with the concentration limits after such substitution.

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

Fly Acquisition III Facility

In February 2016, the Company, through a wholly-owned subsidiary, entered into a revolving \$385.0 million credit facility (the “Fly Acquisition III Facility”) to finance the acquisition of eligible aircraft. Borrowings are secured by the beneficial interests in Fly Acquisition III and each of its subsidiaries, the aircraft and related leases. The Fly Acquisition III Facility has an availability period expiring on February 26, 2019 and a maturity date of February 26, 2022. Fly has guaranteed Fly Acquisition III’s obligations under the facility.

As of December 31, 2017, the Company had \$86.5 million principal amount outstanding, which was secured by four aircraft.

The Company pays a commitment fee of 0.50% per annum on a monthly basis to each lender on the undrawn amount of its commitment until the termination of the availability period; provided that at any time from and after March 26, 2017 through the end of the availability period, the commitment fee will increase to 0.75% per annum if at least 50% of the total amount of commitments have not been drawn.

The interest rate under the facility is based on one-month LIBOR plus an applicable margin. The applicable margin is 2.00% through the expiration of the availability period and will increase to 2.50% from February 27, 2019 through February 26, 2020 and 3.00% from February 27, 2020 through the maturity date of the facility.

The Fly Acquisition III Facility contains financial and operating covenants, including a covenant that the Company maintain a tangible net worth of at least \$325.0 million and a specified interest coverage ratio, as well as customary reporting requirements. Violation of any of these covenants could result in an event of default under the facility. Also, upon the occurrence of certain conditions, including a failure by the Company to maintain a minimum liquidity of at least \$25.0 million, Fly Acquisition III will be required to deposit maintenance reserves and security deposits received from lessees into accounts pledged to the security trustee.

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

Other Aircraft Secured Borrowings

The Company has entered into other aircraft secured borrowings to finance the acquisition of aircraft, one of which is denominated in Euros. As of December 31, 2017, the Company had \$905.5 million principal amount of other aircraft secured borrowings outstanding, which was secured by 19 aircraft. Of this amount, \$473.6 million was recourse to the Company.

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 these loans range from September 2019 to June 2028.

Future Minimum Principal Payments on Secured Borrowings

During the year ended December 31, 2017, the Company made scheduled principal payments of \$154.3 million on its secured borrowings. The anticipated future minimum principal payments due for its secured borrowings are as follows (dollars in thousands):

<u>Year ending December 31,</u>	
2018	\$ 309,914
2019	169,230
2020	187,184
2021	152,497
2022	174,436
Thereafter	<u>1,065,630</u>
Future minimum principal payments due	<u>\$2,058,891</u>

12. DERIVATIVES

Derivatives are used by the Company to manage its exposure to interest rate fluctuations. The Company uses interest rate swap contracts to hedge variable interest payments due on borrowings associated with aircraft with fixed rate rentals. As of December 31, 2017, the Company had \$1.1 billion of floating rate debt associated with aircraft with fixed rate rentals.

Interest rate swap contracts allow the Company to pay fixed interest rates and receive variable interest rates with the swap counterparty based on either the one-month or three-month LIBOR applied to the notional amounts over the life of the contracts. As of December 31, 2017 and 2016, the Company had interest rate swap contracts with notional amounts aggregating \$0.7 billion and \$0.8 billion, respectively. The unrealized fair value gain on the interest rate swap contracts, reflected as derivative assets, was \$2.6 million and \$1.9 million as of December 31, 2017 and 2016, respectively. The unrealized fair value loss on the interest rate swap contracts, reflected as derivative liabilities, was \$7.3 million and \$13.3 million as of December 31, 2017 and 2016, 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.

Designated Derivatives

Certain of the Company's interest rate derivatives have been designated as cash flow hedges. The effective portion of changes in fair value of these derivatives are recorded as a component of accumulated other

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comprehensive income, net of a provision for income taxes. Changes in the fair value of these derivatives are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

As of December 31, 2017, the Company had the following designated derivative instruments classified as derivative assets on the balance sheet (dollars in thousands):

Type	Quantity	Maturity Dates	Hedge Interest Rates	Swap Contract Notional Amount	Credit Risk Adjusted Fair Market Value	Gain Recognized in Accumulated Comprehensive Loss	Loss Recognized into Earnings
Interest rate swap contracts . . .	9	11/14/2018-1/11/23	0.90% - 4.30%	\$175,552	\$2,625	\$2,090	\$(16)
Accrued interest	—			—	18	—	—
Total – designated derivative assets	9			\$175,552	\$2,643	\$2,090	\$(16)

As of December 31, 2017, the Company had the following designated derivative instruments classified as derivative liabilities on the balance sheet (dollars in thousands):

Type	Quantity	Maturity Dates	Hedge Interest Rates	Swap Contract Notional Amount	Credit Risk Adjusted Fair Market Value	Loss Recognized in Accumulated Comprehensive Loss	Gain Recognized into Earnings
Interest rate swap contracts . . .	7	3/14/18-9/27/25	1.98% - 6.22%	\$206,447	\$(2,735)	\$(2,393)	\$ 4
Accrued interest	—			—	(113)	—	—
Total – designated derivative liabilities	7			\$206,447	\$(2,848)	\$(2,393)	\$ 4

Dedesignated Derivatives

Certain of the Company's interest rate swap contracts no longer qualify for hedge accounting and have been dedesignated. At December 31, 2017, the Company had an accumulated other comprehensive loss, net of tax, of \$4.3 million associated with these contracts, which is being amortized over the term. During the year ended December 31, 2017, \$1.4 million was recognized as interest expense.

As of December 31, 2017, the Company had the following dedesignated derivative instruments classified as derivative liabilities on the balance sheet (dollars in thousands):

Type	Quantity	Maturity Dates	Hedge Interest Rates	Swap Contract Notional Amount	Credit Risk Adjusted Fair Market Value	Gain Recognized into Earnings
Interest rate swap contracts	4	2/9/2018-2/9/2019	1.69% - 3.47%	\$318,747	\$(4,312)	\$204
Accrued interest	—			—	(184)	—
Total – dedesignated derivative liabilities	4			\$318,747	\$(4,496)	\$204

Terminated Derivatives

In 2016, the Company terminated four interest rate swap contracts and recognized a loss into earnings totaling \$0.6 million.

In 2015, the Company terminated 14 interest rate swap contracts and recognized a loss into earnings totaling \$2.4 million. In addition, the Company recognized a net loss of \$1.1 million on swap ineffectiveness.

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13. INCOME TAXES

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

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

	Years ended		
	2017	2016	2015
Current tax expense:			
Ireland	\$ —	\$ —	\$ 33
Luxembourg	195	145	252
Australia	4,062	1,742	138
Other	43	33	57
Current tax expense — total	4,300	1,920	480
Deferred tax (benefit) expense:			
Ireland	8,710	(10,812)	4,558
Australia	(1,743)	1,615	334
Other	65	—	27
Deferred tax (benefit) expense — total	7,032	(9,197)	4,919
Total income tax (benefit) expense	<u>\$11,332</u>	<u>\$ (7,277)</u>	<u>\$5,399</u>

The Company had no unrecognized tax benefits as of December 31, 2017 and 2016. The principal components of the Company's net deferred tax asset (liability) were as follows (dollars in thousands):

	December 31, 2017	December 31, 2016
Deferred tax asset:		
Net operating loss carry forwards	\$ 170,960	\$ 151,575
Net unrealized losses on derivative instruments	390	1,181
Basis difference on acquisition of GAAM Australian assets	7,314	6,786
Other	55	224
Valuation allowance	(39,484)	(30,524)
Total deferred tax asset	<u>139,235</u>	<u>129,242</u>
Deferred tax liability:		
Excess of tax depreciation over book depreciation	(153,447)	(137,249)
Book/tax differences identified in connection with GAAM Portfolio acquisition	(412)	(438)
Net earnings of non-European Union member subsidiaries	(3,745)	(3,957)
Withholding tax on Australian unrepatriated earnings	(1,800)	—
Total deferred tax liability	<u>(159,404)</u>	<u>(141,644)</u>
Deferred tax liability, net	<u>\$ (20,169)</u>	<u>\$ (12,402)</u>

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

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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.

At December 31, 2017 and 2016, the Company had a valuation allowance of \$39.5 million and \$30.5 million, respectively. For the years ended December 31, 2017, 2016 and 2015, the Company recorded net valuation allowance provisions of \$8.4 million, \$7.2 million and \$3.4 million, respectively.

The Company has undistributed earnings from its Australian subsidiary. The Company does not intend to indefinitely reinvest its subsidiary's earnings back into Australia. A withholding tax of 15.0% is applied to distributions of earnings which have not been taxed in Australia. In 2017, the Company recorded a deferred tax liability of \$1.8 million in connection with its unrepatriated Australian earnings.

For the year ended December 31, 2017, the effective tax rate was 81.3%. The effective tax rate in any period is impacted by the source and amount of income earned and expenses incurred in different tax jurisdictions and valuation allowances the Company has recorded. The table below is a reconciliation of the Irish statutory corporation tax rate of 12.5% on trading income to the Company's recorded income tax expense or benefit:

	Years ended		
	2017	2016	2015
Irish statutory corporate tax rate on trading income	12.5%	12.5%	12.5%
Valuation allowances	59.9%	(19.8)%	12.0%
Equity earnings from Fly-Z/C LP	(0.4)%	0.2%	(0.5)%
Tax impact of repurchased and resold Notes	(0.8)%	1.3%	(3.2)%
Foreign tax rate differentials	(18.4)%	7.8%	(9.7)%
True-up of prior year tax provision	2.2%	—	1.4%
Non-taxable gain on debt extinguishment	—	0.3%	—
Non-deductible interest expense, transaction fees and expenses	12.2%	(4.8)%	6.1%
Deductible intra-group interest	—	30.9%	—
Unrealized foreign exchange loss on re-valuation of deferred tax balances	0.5%	(8.6)%	—
Withholding tax	13.3%	0.0%	0.0%
Other	0.3%	0.2%	0.5%
Effective tax rate	<u>81.3%</u>	<u>20.0%</u>	<u>19.1%</u>

Under Irish tax legislation, Irish Revenue ("Revenue") is entitled to make enquiries and/or raise an assessment of any corporation tax return submitted up to a period of four years from the end of the year in which the return is submitted. As such, Revenue is entitled to make enquiries and/or raise an assessment in respect of the corporation tax returns submitted by the Company's Irish subsidiaries for each of the years ended December 31, 2013 to 2017.

In February 2018, Revenue issued a Value Added Tax ("VAT") assessment to Fly for the period from January 1, 2014 to December 31, 2016 in the amount of 6.1 million Euros, representing a portion of the VAT refunded to Fly during that time period. Fly has had an ongoing dialogue with Revenue since January 2017 regarding its VAT returns and believes the assessment was raised as a protective measure by Revenue to avoid missing the statute of limitations for any claims. Fly has not recorded any uncertain tax position liability related to this assessment as Fly has been notified by its tax advisors that based on the facts and circumstances, and as also supported by a relevant tax court case, the positions taken in its VAT returns are more likely than not to be sustained upon ultimate resolution of this matter.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

14. OTHER LIABILITIES

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

	December 31, 2017	December 31, 2016
Current tax payable.....	\$ 4,226	\$ 2,036
Lease incentive obligation	20,306	24,757
Deferred rent	8,444	3,792
Refundable deposits	805	350
Other	5,875	9,319
Total other liabilities.....	<u>\$39,656</u>	<u>\$40,254</u>

15. SHAREHOLDERS' EQUITY**Share Repurchases**

In July 2016, the Company's board of directors approved a \$75.0 million share repurchase program, which expired in December 2017. In November 2017, the Company's board of directors approved a \$50.0 million share repurchase program expiring in December 2018. Under this program, the Company may make share repurchases from time to time in the open market or in privately negotiated transactions.

During the year ended December 31, 2017, the Company repurchased 4,274,569 shares at an average price of \$13.35 per share, or \$57.1 million, before commissions and fees. As of December 31, 2017, there were 27,983,352 shares outstanding.

During the year ended December 31, 2016, the Company repurchased 3,414,960 shares at an average price of \$11.73 per share, or \$40.1 million, before commissions and fees.

During the year ended December 31, 2015, the Company repurchased a total of 5,797,673 shares at an average price of \$13.89 per share, or \$80.5 million, before commissions and fees.

Dividends

In November 2015, the Company announced that its board of directors approved the elimination of dividend payments on its shares. No dividends were declared or paid during the years ended December 31, 2017 or 2016. During the year ended December 31, 2015, the Company declared and paid dividends of \$1.00 per share or \$42.4 million.

Share Issuances

During the year ended December 31, 2017, the Company issued 1,481 shares in connection with SARs that were exercised.

During the year ended December 31, 2016 or 2015, the Company issued no shares.

16. SHARE-BASED COMPENSATION**Description of Plan**

On April 29, 2010, the Company adopted the 2010 Omnibus Incentive Plan ("2010 Plan") permitting the issuance of up to 1,500,000 share grants in the form of (i) SARs; (ii) RSUs; (iii) nonqualified stock options; and (iv) other stock-based awards. The Company has issued all shares available under the 2010 Plan.

SARs entitle the holder to receive any increase in value between the grant date price of Fly's ADSs and their value on the exercise date. RSUs entitle the holder to receive a number of Fly's ADSs equal to the number of RSUs awarded upon vesting. All awards are fully vested. The granted SARs and RSUs vested in three equal installments and expire on the tenth anniversary of the grant date. The Company satisfies SAR and RSU exercises with newly issued ADSs.

The holder of a SAR or RSU is also entitled to dividend equivalent rights ("Dividend Equivalent") on each SAR and RSU. For each Dividend Equivalent, the holder shall have the non-forfeitable right to receive a cash amount

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

equal to the per share dividend paid by the Company during the period between the grant date and the earlier of the (i) award exercise or vesting date, (ii) termination date or (iii) expiration date. Dividend Equivalents expire at the same time and in the same proportion that the SARs and RSUs are exercised, cancelled, forfeited or expired.

Grant Activity

Since June 30, 2015, all SARs and RSUs granted under the 2010 Plan have vested.

At December 31, 2016 and 2015, there were 821,117 SARs outstanding and exercisable at a weighted average exercise price of \$12.74. During the year ended December 31, 2017, 24,137 SARs were exercised at a weighted average price of \$12.73. At December 31, 2017, there were 796,980 SARs outstanding and exercisable at a weighted average exercise price of \$12.74. At December 31, 2017, the weighted average remaining contractual life of the SARs was 3.1 years.

During the year ended December 31, 2015, 36,075 RSUs vested at a weighted average price of \$12.28. At December 31, 2015, there were no RSUs outstanding or unvested.

Share-based compensation expense related to SARs and RSUs is recorded as a component of selling, general and administrative expenses, and totaled \$0.2 million for the year ended December 31, 2015.

17. EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per common share using the two-class method (dollars in thousands, except per share data):

	Years ended		
	2017	2016	2015
Numerator			
Net income (loss)	\$ 2,598	\$ (29,112)	\$ 22,798
Less:			
Dividends declared and paid to shareholders	—	—	(41,388)
Dividend equivalents paid to vested RSUs and SARs	—	—	(1,054)
Net income (loss) attributable to common shareholders	<u>\$ 2,598</u>	<u>\$ (29,112)</u>	<u>\$ (19,644)</u>
Denominator			
Weighted average shares outstanding-Basic	30,307,357	33,239,001	41,222,690
Dilutive common equivalent shares:			
RSUs	—	—	7,950
SARs	<u>46,068</u>	<u>—</u>	<u>84,509</u>
Weighted average shares outstanding-Diluted	30,353,425	33,239,001	41,315,149
Earnings (loss) per share:			
Basic			
Distributed earnings	\$ —	\$ —	\$ 1.00
Undistributed income (excess distribution)	<u>\$ 0.09</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>
Basic earnings (loss) per share	<u>\$ 0.09</u>	<u>\$ (0.88)</u>	<u>\$ 0.52</u>
Diluted			
Distributed earnings	\$ —	\$ —	\$ 1.00
Undistributed income (excess distribution)	<u>\$ 0.09</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>
Diluted earnings (loss) per share	<u>\$ 0.09</u>	<u>\$ (0.88)</u>	<u>\$ 0.52</u>

Basic earnings (loss) per share is calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) available to common shareholders by the sum of the weighted average number of common shares outstanding and the potential number of dilutive common shares outstanding during the period, excluding the effect of any anti-dilutive securities.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

SARs granted by the Company that contain non-forfeitable rights to receive dividend equivalents are deemed participating securities (see Note 16). Net income (loss) available to common shareholders is determined by reducing the Company's net income (loss) for the period by dividend equivalents paid on vested SARs during the period.

18. 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 agreements with third-party lessors to guarantee the residual value of three aircraft subject to twelve-year leases ("RVGs"). The Company 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 to the Company eleven months before each lease expiry date requiring the Company to purchase the aircraft on such date. The RVGs will terminate if not exercised accordingly. During the year ended December 31, 2017, the Company recognized \$0.6 million of income.

As of December 31, 2017, the Company had a commitment to purchase one aircraft, which was delivered in January 2018.

19. RELATED PARTY TRANSACTIONS

With respect to aircraft financed by the Securitization Notes, through December 31, 2016, BBAM was entitled to receive (i) a base fee of \$150,000 per month, subject to certain adjustments, (ii) a rent fee equal to 1.0% of the aggregate amount of rents due and 1.0% of the aggregate amount of rents actually collected and (iii) a sales fee of 1.5% of the aggregate gross proceeds in respect of any aircraft sold. BBAM also was entitled, until December 31, 2016, to an administrative agency fee from B&B Air Funding equal to \$750,000 per annum, subject to an annual CPI adjustment.

Effective January 1, 2017, the servicing agreement between B&B Air Funding and BBAM relating to aircraft financed by the Securitization Notes was amended, thereby (i) amending the rent fee to 3.5% of the aggregate amount of rents actually collected, plus \$1,000 per aircraft per month, and (ii) eliminating the base fee of \$150,000 per month. In connection with this amendment, effective January 1, 2017, the administrative agency fee also was reduced, through a rebate, to \$20,000 per month, subject to an annual CPI adjustment.

With respect to all other aircraft, BBAM is 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 Term Loan, the Magellan Acquisition Limited Facility and the Fly Acquisition III Facility, BBAM is also entitled to an administrative fee of \$10,000 per month. In addition, BBAM is entitled to receive an acquisition fee of 1.5% of the purchase price of any aircraft purchased and a disposition fee of 1.5% of the gross proceeds of any aircraft sold.

For the years ended December 31, 2017, 2016 and 2015, BBAM received servicing and administrative fees totaling \$13.1 million, \$14.6 million and \$17.3 million, respectively.

During the years ended December 31, 2017, 2016 and 2015, the Company incurred \$6.8 million, \$8.4 million and \$9.2 million of origination fees, respectively, payable to BBAM.

The Company pays an annual management fee to the 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. In connection with an amendment to the management agreement effective as of July 1, 2015, the annual management fee was reduced from \$10.7 million to \$5.7 million. The management fee is 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 also is subject to an annual CPI adjustment applicable to the prior calendar year. For the years ended December 31, 2017 and 2016, the Company incurred Management Expenses of \$6.3 million. For the year ended December 31, 2015, the Company incurred Management Expenses of \$8.2 million.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

In connection with the July 2015 amendment, the Company and the Manager also agreed to reduce the disposition fee in respect of the ECAF-I Transaction to an aggregate amount equal to 1.2% of the aggregate gross proceeds for such aircraft. During the years ended December 31, 2017, 2016 and 2015, the Company incurred disposition fees of \$0.3 million, \$7.5 million and \$15.6 million, respectively.

The Company further amended the management agreement, effective as of January 1, 2017, to reflect the amendments made to the servicing and administrative fees payable in respect of the aircraft financed by the Securitization Notes.

The management agreement is scheduled to terminate on July 1, 2025 and shall be automatically extended for one additional term of five years unless terminated by either party with 12 months' notice or otherwise terminated earlier in accordance with the terms therein.

If the management agreement is not renewed on July 1, 2025, the Company will pay the Manager a non-renewal fee on such termination date in an amount equal to (i) \$6.0 million plus (ii) so long as the Management Expense Amount does not exceed \$12.0 million, 50% of the excess (if any) of the Management Expense Amount over \$6.0 million in respect of the last fiscal year prior to such termination date.

The Company's minimum long-term contractual obligations with BBAM LP as of December 31, 2017, excluding rent fees, consisted of the following (dollars in thousands):

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Thereafter</u>	<u>Total</u>
Fixed base fee payments ⁽¹⁾	\$ 245	\$ 245	\$ 245	\$ 245	\$ 245	\$ 1,470	\$ 2,695
Fixed administrative agency fee payments due by B&B Air Funding ⁽¹⁾	108	69	31	12	12	13	245
Fixed administrative services fee due under the Term Loan ⁽²⁾	472	452	373	288	200	134	1,919
Fixed administrative services fee due under the Magellan Acquisition Limited Facility ⁽²⁾	204	204	204	202	192	758	1,764
Fixed administrative services fee due under Fly Acquisition III ⁽²⁾	168	153	144	144	31	7	647
Fixed administrative agency fee payments due by other subsidiaries ⁽²⁾	401	362	325	271	262	622	2,243
Fixed payments for Management Expenses ⁽¹⁾⁽³⁾	<u>7,307</u>	<u>7,307</u>	<u>7,307</u>	<u>7,307</u>	<u>7,307</u>	<u>54,799</u>	<u>91,334</u>
Total	<u>\$8,905</u>	<u>\$8,792</u>	<u>\$8,629</u>	<u>\$8,469</u>	<u>\$8,249</u>	<u>\$57,803</u>	<u>\$100,847</u>

(1) Assumes Consumer Price Index ("CPI") rates in effect as of December 31, 2017 remain constant in future periods.

(2) Assumes number of aircraft at December 31, 2017 remains constant in future periods.

(3) Assumes an automatic extension for one additional term of five years to July 1, 2030. Also assumes net book value of aircraft at December 31, 2017 and Consumer Price Index rates in effect as of December 31, 2017 remain constant in future periods.

20. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value on a 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.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

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 notes payable and debt facilities is based on observable market prices or parameters or derived from such prices or parameters (Level 2). Where observable prices or inputs are not available, valuation models are applied, using the net present value of cash flow streams over the term using estimated market rates for similar instruments and remaining terms (Level 3). These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. The Company determines the fair value of its derivative instruments using a discounted cash flow model which incorporates an assessment of the risk of non-performance by the swap counterparty and an evaluation of its credit risk in valuing derivative liabilities. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads and measures of volatility.

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 Fly's investment in an unconsolidated subsidiary and flight equipment held for operating lease, net. Fly accounts for its investment in an unconsolidated subsidiary under the equity method and records impairment when its fair value is less than its carrying value and the Company determines that the decline is other-than-temporary (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 as to future cash flows associated with the use of an aircraft and eventual disposition of such aircraft. The Company will record an impairment charge if the expected sale proceeds of an aircraft are less than its carrying value. For the years ended December 31, 2017, 2016 and 2015, the Company wrote down aircraft to their net realizable value and recognized charges of \$22.0 million, \$96.1 million and \$66.1 million, respectively (See Note 6).

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

	<u>As of December 31, 2017</u>		<u>As of December 31, 2016</u>	
	<u>Principal Amount Outstanding</u>	<u>Fair Value</u>	<u>Principal Amount Outstanding</u>	<u>Fair Value</u>
Securitization Notes	\$101,551	\$ 95,839	\$139,741	\$134,850
Nord LB Facility	153,176	153,176	171,509	171,509
CBA Facility	49,080	49,080	56,146	56,146
Term Loan	431,271	431,271	404,016	406,804
Magellan Acquisition Limited Facility	331,768	331,768	—	—
Fly Acquisition III Facility	86,520	86,520	113,045	113,045
Other Aircraft Secured Borrowings	905,525	905,525	980,967	980,967
2020 Notes	—	—	375,000	394,219
2021 Notes	325,000	339,235	325,000	340,438
2024 Notes	300,000	301,500	—	—

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

As of December 31, 2017 and 2016, the categorized derivative assets and liabilities measured at fair value on a recurring basis, based upon the lowest level of significant inputs to the valuations are as follows (dollars in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2017:				
Derivative assets	—	\$ 2,643	—	\$ 2,643
Derivative liabilities	—	7,344	—	7,344
December 31, 2016:				
Derivative assets	—	\$ 1,905	—	\$ 1,905
Derivative liabilities	—	13,281	—	13,281

21. UNAUDITED QUARTERLY CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited quarterly financial information for each of the quarters in the years ended December 31, 2017 and 2016 is presented below (dollars in thousands, except per share data):

	<u>March 31, 2017</u>	<u>June 30, 2017</u>	<u>September 30, 2017</u>	<u>December 31, 2017</u>
Total revenues	\$79,266	\$79,832	\$ 86,219	\$107,934
Net income (loss)	\$ 5,052	\$ 2,880	\$(12,504)	\$ 7,170
Earnings (loss) per share — Basic	\$ 0.16	\$ 0.09	\$ (0.43)	\$ 0.25
Earnings (loss) per share — Diluted	\$ 0.16	\$ 0.09	\$ (0.43)	\$ 0.25
	<u>March 31, 2016</u>	<u>June 30, 2016</u>	<u>September 30, 2016</u>	<u>December 31, 2016</u>
Total revenues	\$81,208	\$77,934	\$85,297	\$100,600
Net income (loss)	\$ 7,100	\$ 4,677	\$22,942	\$(63,831)
Earnings (loss) per share — Basic	\$ 0.21	\$ 0.14	\$ 0.70	\$ (1.98)
Earnings (loss) per share — Diluted	\$ 0.21	\$ 0.14	\$ 0.70	\$ (1.98)

22. SUBSEQUENT EVENTS**Aircraft Acquisition**

Subsequent to December 31, 2017, the Company purchased one narrow-body aircraft.

AirAsia Transactions

Subsequent to December 31, 2017, the Company entered into definitive agreements with AirAsia Berhad (“AirAsia”) and its subsidiary, Asia Aviation Capital Limited (“AACL”), pursuant to which the Company will acquire 55 Airbus narrowbody aircraft and seven engines on operating leases, between 2018 and 2021. The Company also will acquire the option to purchase an additional 20 Airbus A320neo family aircraft, not subject to lease, which begin delivering as early as 2019 (collectively, the “AirAsia Transactions”). The AirAsia Transactions remain subject to approval by AirAsia shareholders, receipt of regulatory approvals and satisfaction of other closing conditions set forth in the sale and purchase agreement, and the termination rights of the parties thereunder.

In addition, subsequent to December 31, 2017, the Company entered into a commitment letter with BNP Paribas, Citi, Commonwealth Bank of Australia and Deutsche Bank (the “Underwriters”) pursuant to which the Underwriters have agreed to provide \$582.2 million in senior, secured debt financing for the AirAsia Transactions (the “Acquisition Credit Facility”). The Underwriters have agreed to provide \$145.5 million under a two-year loan facility, and \$436.7 million under a five-year loan facility, subject to the terms and conditions of the commitment letter to finance the acquisition of 30 aircraft in 2018. Four aircraft are expected to be financed under the Company’s existing warehouse facility.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Schedule I — Condensed financial information of parent

Fly Leasing Limited

Condensed Balance Sheets

AS OF DECEMBER 31, 2017 AND 2016

(Dollars in thousands)

	December 31,	
	2017	2016
Assets		
Cash and cash equivalents	\$ 157,014	\$ 229,777
Notes receivable from subsidiaries	375,477	441,451
Investments in subsidiaries	985,476	912,163
Investment in unconsolidated subsidiary	8,196	7,700
Other assets, net	1,655	534
Total assets	<u>\$1,527,818</u>	<u>\$1,591,625</u>
Liabilities		
Payable to related parties	\$ 223	\$ 906
Payable to subsidiaries	349,585	280,034
Unsecured borrowings, net	615,922	691,390
Deferred tax liability, net	3,739	1,946
Accrued and other liabilities	14,640	24,114
Total liabilities	<u>984,109</u>	<u>998,390</u>
Shareholders' equity	<u>543,709</u>	<u>593,235</u>
Total liabilities and shareholders' equity	<u>\$1,527,818</u>	<u>\$1,591,625</u>

The accompanying note is an integral part of these consolidated financial statements.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Schedule I — Condensed financial information of parent

Fly Leasing Limited

Condensed Statements of Income (Loss)

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Dollars in thousands, except per share data)

	Years ended		
	2017	2016	2015
Revenues			
Equity earnings (loss) from subsidiaries	\$ 35,208	\$ (24,385)	\$ 17,065
Equity earnings from unconsolidated subsidiary	496	530	1,159
Intercompany management fee income	12,124	8,866	15,053
Intercompany interest income	34,068	44,394	48,077
Interest and other income	809	410	224
Total revenues	82,705	29,815	81,578
Expense			
Interest expense	45,970	48,013	48,013
Selling, general and administrative	12,630	11,803	12,987
Loss on modification and extinguishment of debt	19,655	—	—
Total expenses	78,255	59,816	61,000
Net income (loss) before provision (benefit) for income taxes	4,450	(30,001)	20,578
Provision (benefit) for income taxes	1,852	(889)	(2,220)
Net income (loss)	\$ 2,598	\$ (29,112)	\$ 22,798
Weighted average number of shares:			
Basic	30,307,357	33,239,001	41,222,690
Diluted	30,353,425	33,239,001	41,315,149
Earnings (loss) per share:			
Basic	\$ 0.09	\$ (0.88)	\$ 0.52
Diluted	\$ 0.09	\$ (0.88)	\$ 0.52

The accompanying note is an integral part of these consolidated financial statements.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Schedule I — Condensed financial information of parent

Fly Leasing Limited

Condensed Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(Dollars in thousands)

	Years ended		
	2017	2016	2015
Cash Flows from Operating Activities			
Net income (loss)	\$ 2,598	\$ (29,112)	\$ 22,798
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Equity earnings (loss) from subsidiaries	(35,208)	24,385	(17,065)
Equity earnings from unconsolidated subsidiary	(496)	(530)	(1,159)
Deferred income taxes	1,852	(12,139)	(2,276)
Share-based compensation	—	—	195
Amortization of debt discount and other	1,931	1,982	1,982
Loss on modification and extinguishment of debt	19,655	—	—
Changes in operating assets and liabilities:			
Payable to subsidiaries	6,144	(162,229)	132,843
Other assets	(1,121)	476	1,060
Payable to related parties	(683)	856	(867)
Accrued and other liabilities	(9,478)	12,622	483
Net cash flows provided by (used in) operating activities	(14,806)	(163,689)	137,994
Cash Flows from Investing Activities			
Distributions received from subsidiaries	—	—	53,500
Capital contributions to unconsolidated subsidiary	—	—	(2,009)
Notes receivable from subsidiaries	(48,335)	(40,172)	(650,083)
Notes payable to subsidiaries	144,718	334,556	505,273
Net cash flows provided by (used in) investing activities	96,383	294,384	(93,319)
Cash Flows from Financing Activities			
Proceeds from issuance of unsecured borrowings	295,150	—	—
Repayment of unsecured borrowings	(375,000)	—	—
Debt modification and extinguishment costs	(16,287)	—	—
Debt issuance costs	(917)	—	—
Shares repurchased	(57,286)	(40,257)	(81,432)
Dividends paid	—	—	(41,388)
Dividend equivalents	—	—	(1,054)
Net cash flows used in financing activities	(154,340)	(40,257)	(123,874)
Net increase (decrease) in cash and cash equivalents	(72,763)	90,438	(79,199)
Cash and cash equivalents at beginning of period	229,777	139,339	218,538
Cash and cash equivalents at end of period	\$ 157,014	\$ 229,777	\$ 139,339
Supplemental Disclosure:			
Cash paid during the year for:			
Interest	\$ 41,883	\$ 46,032	\$ 46,723
Taxes	—	—	—
Noncash Activities:			
Noncash investing activities:			
Capital contribution to subsidiaries	109,391	207,340	17,246
Distributions from subsidiaries	76,451	55,039	711

The accompanying note is an integral part of these consolidated financial statements.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

ITEM 19. EXHIBITS

We have filed the following documents as exhibits to this Annual Report.

Exhibit Number	Description of Exhibit
1.1	Memorandum of Association ⁽¹⁾
1.2	Amended and Restated Bye-Laws of Fly Leasing Ltd. ⁽²⁾
2.1	Deposit Agreement between Deutsche Bank Trust Company Americas and Babcock & Brown Air Limited. ⁽¹⁾
4.1	Servicing Agreement, dated as of October 2, 2007, among Babcock & Brown Aircraft Management LLC, Babcock & Brown Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. ⁽¹⁾
4.2	Administrative Services Agreement, dated as of October 2, 2007, among Deutsche Bank Trust Company Americas, AMBAC Assurance Corporation, Babcock & Brown Air Management Co. Limited and Babcock & Brown Air Funding I Limited. ⁽¹⁾
4.3	Trust Indenture, dated as of October 2, 2007, among Deutsche Bank Trust Company Americas, BNP Paribas, AMBAC Assurance Corporation and Babcock & Brown Air Funding I Limited. ⁽¹⁾
4.4	Security Trust Agreement, dated as of October 2, 2007, between Deutsche Bank Trust Company Americas, and Babcock & Brown Air Funding I Limited. ⁽¹⁾
4.5	Cash Management Agreement between Deutsche Bank Trust Company Americas and Babcock & Brown Air Funding I Limited. ⁽¹⁾
4.6	Form of Director Service Agreement between Babcock & Brown Air Limited and each director thereof. ⁽¹⁾
4.7	Amendment No. 1 to Servicing Agreement, dated as of April 29, 2010, among Babcock & Brown Aircraft Management LLC, Babcock & Brown Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. ⁽³⁾
4.8	Fly Leasing Limited Omnibus Incentive Plan. ⁽³⁾
4.9	Form of Stock Appreciation Right Award Agreement. ⁽³⁾
4.10	Form of Restricted Stock Unit Award Agreement. ⁽³⁾
4.11	Loan Agreement dated as of November 14, 2007, among Global Aviation Holdings Fund Limited, GAHF (Ireland) Limited, Caledonian Aviation Holdings Limited and Norddeutsche Landesbank Girozentrale. ⁽⁴⁾
4.12	Form of Loan Agreement among Hobart Aviation Holdings Limited, Norddeutsche Landesbank Girozentrale and each borrower thereof. ⁽⁴⁾
4.13	Form of Servicing Agreement among BBAM US LP, BBAM Aviation Services Limited and each company thereof. ⁽¹⁷⁾

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Exhibit Number	Description of Exhibit
4.14	Securities Purchase Agreement dated November 30, 2012, by and among Fly Leasing Limited, Summit Aviation Partners LLC and such persons identified therein. ⁽⁸⁾
4.15	Purchase Agreement dated November 30, 2012 by and among BBAM Limited Partnership, Summit Aviation Partners LLC, Fly-BBAM Holdings Ltd., Summit Aviation Management Co., Ltd. and such persons identified therein. ⁽⁶⁾
4.16	First Amendment to Purchase Amendment dated December 28, 2012 by and among Fly Leasing Limited, Summit Aviation Partners LLC and such persons identified therein. ⁽⁸⁾
4.17	Amended and Restated Fly Leasing Limited Management Agreement dated as of December 28, 2012, between Fly Leasing Limited and Fly Leasing Management Co. Limited. ⁽⁸⁾
4.18	Registration Rights Agreement dated as of December 28, 2012, by and among Fly Leasing Limited and each shareholder identified therein. ⁽⁸⁾
4.19	Amended and Restated Servicing Agreement dated as of January 24, 2013, by and among BBAM US LP, BBAM Aviation Services Limited and Fly Leasing Limited. ⁽⁸⁾
4.20	Indenture dated December 11, 2013 between Fly Leasing Limited and Wells Fargo Bank, National Association. ⁽⁷⁾
4.21	First Supplemental Indenture dated December 11, 2013 between Fly Leasing Limited and Wells Fargo Bank, National Association. ⁽⁷⁾
4.22	Second Supplemental Indenture dated as of October 3, 2014, between Fly Leasing Limited and Wells Fargo Bank, National Association. ⁽¹⁰⁾
4.23	Amendment No. 1 to Trust Indenture, dated as of October 24, 2014, by and among Babcock & Brown Air Funding I Limited, Deutsche Bank Trust Company Americas, BNP Paribas and AMBAC Assurance Corporation. ⁽¹²⁾
4.24	Amendment No. 2 to Servicing Agreement, dated as of October 24, 2014, by and among BBAM Aircraft Management LP, BBAM Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. ⁽¹²⁾
4.25	First Amendment to Amended and Restated Fly Leasing Limited Management Agreement, dated June 19, 2015, between Fly Leasing Limited and Fly Leasing Management Co. Limited. ⁽¹³⁾
4.26	Sale Agreement dated June 19, 2015, among certain sellers and ECAF I Ltd. ⁽¹³⁾
4.27	Servicing Agreement dated as of February 26, 2016, among BBAM US LP, BBAM Aviation Services Limited and Fly Acquisition III Limited. ⁽¹⁴⁾
4.28	Second Amendment to Amended and Restated Fly Leasing Limited Management Agreement, dated July 27, 2016, between Fly Leasing Limited and Fly Leasing Management Co. Limited. ⁽¹⁶⁾
4.29	Amendment No. 3 to Servicing Agreement, dated as of February 1, 2017, by and among BBAM Aircraft Management LP, BBAM Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. ⁽¹⁷⁾

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Exhibit Number	Description of Exhibit
4.30	Third Amendment to Amended and Restated Fly Leasing Limited Management Agreement, dated as of February 1, 2017, between Fly Leasing Limited and Fly Leasing Management Co. Limited. ⁽¹⁷⁾
4.31	Fee Rebate Side Letter, dated as of February 1, 2017, by and among Babcock & Brown Air Funding I Limited, Fly Leasing Management Co. Limited, and AMBAC Assurance Corporation. ⁽¹⁷⁾
4.32	Guaranty [Fly 2016A Warehouse] dated February 26, 2016 by Fly Leasing Limited. ⁽¹⁷⁾
4.33	Third Supplemental Indenture dated as of October 16, 2017, between Fly Leasing Limited and Wells Fargo Bank, National Association. ⁽¹⁹⁾
4.34	Servicing Agreement dated as of December 8, 2017, among BBAM US LP, BBAM Aviation Services Limited and Magellan Acquisition Limited.
4.35	Guaranty [Fly 2017A Term Loan] dated December 8, 2017 by Fly Leasing Limited.
8.1	List of the Company's subsidiaries.
10.1	Aircraft Mortgage and Security Agreement dated as of August 9, 2012, among Fly Funding II S.A.R.L., Fly Leasing Limited, Fly Peridot Holdings Limited, Babcock & Brown Air Acquisition I Limited, The Initial Intermediate Lessees, The Initial Lessor Subsidiaries, The Additional Grantors Referred to Therein and Wells Fargo Bank Northwest, National Association. ⁽⁵⁾
10.2	Amended and Restated Senior Secured Credit Agreement dated July 3, 2013 among Fly Acquisition II Limited, the Subsidiary Guarantors party thereto, the Lenders party thereto, and Deutsche Bank Trust Company Americas, as Security Trustee and as Administrative Agent. ⁽⁹⁾
10.3	Amended and Restated Term Loan Credit Agreement dated as of November 21, 2013 among Fly Funding II S.A.R.L., Fly Leasing Limited, Fly Peridot Holdings Limited, Babcock & Brown Air Acquisition I Limited, each other Guarantor Party referred to therein, the Lenders identified therein, Citibank, N.A., and Well Fargo Bank Northwest, National Association. ⁽¹¹⁾
10.4	Amendment to Credit Agreement, dated as of April 22, 2015, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent. ⁽¹³⁾
10.5	Facility Agreement [Fly 2016A Warehouse] dated as of February 26, 2016 among Fly Acquisition III Limited, the Subsidiary Guarantors party thereto, the Lenders party thereto, Commonwealth Bank of Australia, New York Branch, as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. ⁽¹⁴⁾
10.6	Note Purchase Agreement [Fly 2016A Warehouse] dated as of February 26, 2016 among Fly Acquisition III Limited, the Purchasers party thereto, Commonwealth Bank of Australia, New York Branch, as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. ⁽¹⁴⁾

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Exhibit Number	Description of Exhibit
10.7	Credit Agreement [Fly 2016A Warehouse] dated as of February 26, 2016 among Fly Acquisition III Limited, the Banks party thereto, Commonwealth Bank of Australia, New York Branch, as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee. ⁽¹⁴⁾
10.8	Second Amendment to Credit Agreement, dated as of October 19, 2016, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent. ⁽¹⁵⁾
10.9	Third Amendment to Credit Agreement, dated as of April 28, 2017, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent. ⁽¹⁸⁾
10.10	Fourth Amendment to Credit Agreement, dated as of November 1, 2017, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent. ⁽²⁰⁾
10.11	Facility Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Subsidiary Guarantors party thereto, the Lenders party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee.
10.12	Note Purchase Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Purchasers party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee.
10.13	Credit Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Banks party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee.
10.14	Security Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Grantors thereto, and Wells Fargo Bank, National Association, as Security Trustee
10.15	Security Agreement [Fly 2016A Warehouse] dated February 26, 2016 among Fly Acquisition III Limited, the Grantors party thereto, and Well Fargo Bank, National Association as Security Trustee.
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
15.1	Consent of Deloitte & Touche LLP.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (CONT'D)

Exhibit Number	Description of Exhibit
101	The following materials from the Company's Annual Report on Form 20-F for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2017 and 2016, (ii) Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015, (iv) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2015, 2016 and 2017, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015, and (vi) Notes to Consolidated Financial Statements for the year ended December 31, 2017.

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- (1) Previously filed with the Registration Statement on Form F-1, File No. 333-145994.
 - (2) Previously filed as an exhibit on Form 6-K dated June 30, 2010.
 - (3) Previously filed as an exhibit on Form 6-K dated May 7, 2010.
 - (4) Previously filed with the Annual Report on Form 20-F for the year ended December 31, 2011.
 - (5) Previously filed as an exhibit on Form 6-K dated November 13, 2012.
 - (6) Confidential treatment has been requested with certain portions of this exhibit. This exhibit omits the information subject to this confidential treatment request. The omitted information has been filed separately with the Securities and Exchange Commission.
 - (7) Previously filed as an exhibit on Form 6-K dated December 11, 2013.
 - (8) Previously filed with the Annual Report on Form 20-F for the year ended December 31, 2012.
 - (9) Previously filed as an exhibit on Form 6-K dated August 6, 2013.
 - (10) Previously filed as an exhibit on Form 6-K dated October 3, 2014.
 - (11) Previously filed with the Annual Report on Form 20-F for the year ended December 31, 2013.
 - (12) Previously filed with the Annual Report on Form 20-F for the year ended December 31, 2014.
 - (13) Previously filed as an exhibit on Form 6-K dated August 5, 2015.
 - (14) Previously filed as an exhibit on Form 6-K dated May 19, 2016.
 - (15) Previously filed as an exhibit on Form 6-K dated October 20, 2016.
 - (16) Previously filed as an exhibit on Form 6-K dated November 17, 2016.
 - (17) Previously filed with the Annual Report on Form 20-F for the year ended December 31, 2016.
 - (18) Previously filed as an exhibit on Form 6-K dated May 1, 2017.
 - (19) Previously filed as an exhibit on Form 6-K dated October 16, 2017.
 - (20) Previously filed as an exhibit on Form 6-K dated November 1, 2017.

ANNUAL REPORT OF FLY FOR THE FYE 31 DECEMBER 2017 (*CONT'D*)

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Fly Leasing Limited

By: /s/ Colm Barrington

Colm Barrington

Chief Executive Officer and Director

Dated: March 13, 2018

FURTHER INFORMATION

1. DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been reviewed and approved by our Board and they collectively and individually accept full responsibility for the accuracy of the information contained herein and confirm that after making all reasonable enquiries and, to the best of their knowledge and belief, there are no other facts, the omission of which, would make any statement herein misleading.

Information relating to the parties not within our Group has been provided by the relevant parties and/or extracted from publicly available sources, where available. The responsibilities of our Board are therefore restricted to ensuring that such information is accurately reproduced in this Circular.

2. WRITTEN CONSENT AND DECLARATION OF CONFLICT OF INTEREST**(i) RHB Investment Bank**

RHB Investment Bank, being our principal adviser and one of our Joint Financial Advisers for the Proposed Disposals, has given and has not subsequently withdrawn its written consent to include its name and all references thereto in this Circular in the form and context in which they appear.

Employee Provident Fund (“**EPF**”) is a common shareholder of our Company and RHB Bank Berhad (being the holding company of RHB Investment Bank). Nevertheless, EPF is not involved in the day-to-day operations of both our Group and RHB Banking Group (as defined herein).

RHB Investment Bank, its subsidiaries and associated companies, as well as its holding company, RHB Bank Berhad and the subsidiaries and associated companies of its holding company (“**RHB Banking Group**”) form a diversified financial group and may extend credit facilities or engage in private banking, commercial banking and investment banking transactions including, among others, brokerage, securities trading, asset and fund management and credit transaction service businesses in its ordinary course of business with our Company and/or our persons acting in concert. RHB Banking Group has engaged and may in the future, engage in transactions with and perform services for our Company and/or, in addition to the roles set out in this Circular.

Furthermore, in the ordinary course of business, any member of the RHB Banking Group may at any time offer or provide its services to or engage in any transactions (whether on its own account or otherwise) with our Group and/or any other entity or person, hold long or short positions in the securities offered by our Group, make investment recommendations and/or publish or express independent research views on such securities and may trade or otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of our Group.

As at the LPD, RHB Banking Group has offered various facilities with a combined limit of approximately RM740.0 million to our Group, which are in RHB Banking Group's ordinary course of business. Further, as part of the transaction structure of the Proposed Disposals, a debt financing amounting to approximately RM80.9 million provided by RHB Banking Group for one of our Aircraft Assets (“**Debt Financing**”) will be retired accordingly.

Notwithstanding the above and as at the LPD, RHB Investment Bank, as part of the RHB Banking Group is not aware of any conflict of interests which exists or is likely to exist in its capacity as our principal adviser and one of our Joint Financial Advisers for the Proposed Disposals on the basis that:

- (a) the facilities (including the Debt Financing) were provided on an arm's length basis and when compared to the audited total assets of RHB Bank Berhad of approximately RM230.2 billion as at 31 December 2017, the total amount of facilities (including the Debt Financing) is not material;

FURTHER INFORMATION (CONT'D)

- (b) the facilities (including the Debt Financing) have been provided by RHB Bank Berhad, RHB Islamic Bank Berhad (“**RHB Islamic**”) and RHB (L) Ltd (“**RHB Labuan**”) (as part of RHB Banking Group) in the ordinary course of business and are not conditional upon RHB Investment Bank being appointed as the principal adviser and Joint Financial Advisers for the Proposed Disposals or upon any other proposal(s) being undertaken by any entity(ies) within the RHB Banking Group.
- (c) the appointment of RHB Investment Bank as the principal adviser and Joint Financial Advisers for the Proposed Disposals is in its ordinary course of business as a licensed investment bank. RHB Investment Bank does not have any interest in the Proposed Disposals other than as a principal adviser and Joint Financial Advisers based on the terms of engagement which are mutually agreed between both parties. Further, RHB Investment Bank does not receive or derive any financial interest or benefit save for the professional fees received in relation to its appointment as the principal adviser and Joint Financial Advisers for the Proposed Disposals;
- (d) the corporate finance, and mergers and acquisitions divisions of RHB Investment Bank are required under its investment banking license to comply with strict policies and guidelines issued by the Securities Commission Malaysia, Bursa Securities and Bank Negara Malaysia governing its advisory operations. These guidelines require, among others, the establishment of Chinese wall policies, clear segregation between dealing and advisory activities and the formation of independent committees to review its business operations. Further, there is no involvement by the corporate finance, and mergers and acquisitions divisions of RHB Investment Bank in respect of any credit application process undertaken by other departments within RHB Banking Group;
- (e) RHB Bank Berhad, RHB Islamic and RHB Labuan have their own distinct management teams and employees from that of RHB Investment Bank. In addition, RHB Bank Berhad, RHB Islamic and RHB Labuan have their own check and balances, including segregation of reporting structures, as their respective activities are monitored and reviewed by independent parties and committees. Further, the teams in-charge of the Proposed Disposals in RHB Investment Bank is independent from the team handling the facilities;
- (f) none of our directors is a board member of the RHB Banking Group; and
- (g) the conduct of RHB Banking Group in its banking business is strictly regulated by the Financial Services Act 2013, the Capital Markets and Services Act 2007 and RHB Banking Group’s own internal controls and checks.

(ii) BNP PARIBAS

BNP PARIBAS, being one of the Joint Financial Advisers for the Proposed Disposals, has given and has not subsequently withdrawn its written consent to include its name and all references thereto in this Circular in the form and context in which they appear.

BNP PARIBAS has confirmed that it is not aware of any existing or potential interest or any circumstances that exists or is likely to exist that give rise to a possible conflict of interests situation in its capacity as one of the Joint Financial Advisers for the Proposed Disposals.

BNP PARIBAS is expected to act as one of the acquisition financing banks for the Proposed Disposals, through a working team different from the team acting as one of the Joint Financial Advisers. BNP PARIBAS group, through a set of rules and procedures (commonly known as “information barriers”), isolates its different departments and entities from one another so as to prevent undue disclosure of confidential information.

(iii) Credit Suisse

Credit Suisse, being one of our Joint Financial Advisers for the Proposed Disposals, has given and has not subsequently withdrawn its written consent to include its name and all references thereto in this Circular in the form and context in which they appear.

FURTHER INFORMATION (CONT'D)

Credit Suisse has confirmed that it is not aware of any existing or potential interest or any circumstances that exists or is likely to exist that give rise to a possible conflict of interests situation in its capacity as one of our Joint Financial Advisers for the Proposed Disposals.

(iv) Messrs Ernst & Young

Messrs Ernst & Young, being our Reporting Accountants for the Proposed Disposals, has given and has not subsequently withdrawn its written consent to include its name, Reporting Accountants' letter on our pro forma consolidated statement of financial position as at 31 December 2017 and all references thereto in this Circular in the form and context in which they appear.

Messrs Ernst & Young has confirmed that it is not aware of any existing or potential interest or any circumstances that exists or is likely to exist that give rise to a possible conflict of interests situation in its capacity as the Reporting Accountants for the Proposed Disposals.

3. MATERIAL COMMITMENTS**3.1 Our Group**

Save as disclosed below, as at 31 December 2017, being the latest practicable date of which such amount could be calculated before the printing of this Circular, our Board is not aware of any material commitments incurred or known to be incurred by our Group which may have a material impact on the financial position of our Group:

	<u>As at 31 December 2017</u>
	<u>RM'000</u>
Property, plant and equipment	
- Approved and contracted for	89,812,952
- Approved but not contracted for	38,512
Total	<u>89,851,464</u>

The capital commitments for our Group are in respect of aircraft purchase and the on-going construction of facilities.

3.2 FLY and its subsidiaries

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

In 2016, FLY entered into agreements with third-party lessors to guarantee the residual value of 3 aircraft subject to 12-year leases ("RVGs"). FLY received residual value guarantee fees totalling USD6.6 million, which are being amortised over a 12-year period. The third-party lessors may exercise their rights under the RVGs by issuing a notice to FLY 11 months before each lease expiry date requiring FLY to purchase the aircraft on such date. The RVGs will terminate if not exercised accordingly. During the FYE 31 December 2017, FLY recognised USD0.6 million of income.

As of 31 December 2017, FLY had a commitment to purchase one aircraft, which was delivered in January 2018.

The above extraction is as of 31 December 2017, being the latest practicable date of extraction of information that is publicly available. Please refer to "Item 18 – Financial Statements, Note 18 – Commitment and Contingencies" set out in page F-35 in the FLY's annual report for FYE 31 December 2017 as appended in Appendix VIII of this Circular.

FURTHER INFORMATION (CONT'D)

3.3 Incline A LLC

Incline A LLC was formed for the object and purpose of investing substantially all of its assets in Incline A. As at 31 December 2017, being the last practicable date of which such information could be ascertained before the printing of this Circular, Incline A LLC had a total capital commitment to Incline A equal to the total capital commitment of Incline A LLC's members to Incline A LLC.

Save as disclosed above, as at 31 December 2017, being the latest practicable date of which such information could be ascertained before the printing of this Circular, Incline A GP (Cayman), being the managing member of Incline A LLC has no actual knowledge of any material commitments incurred or known to be incurred by Incline A LLC which may have a material impact on the financial position of the entity.

4. CONTINGENT LIABILITIES**4.1 Our Group**

As at the LPD, our Board is not aware of any contingent liabilities which may become enforceable and in the opinion of our Board will or may substantially affect the liability of our Group to meet our obligations as and when they fall due.

4.2 FLY and its subsidiaries

Please refer to Section 3.2 above and "Item 18 – Financial Statements, Note 18 – Commitment and Contingencies" set out in page F-35 in the FLY's annual report for FYE 31 December 2017 as appended in Appendix VIII of this Circular.

4.3 Incline A LLC

As at 31 December 2017, being the latest practicable date of which such information could be ascertained before the printing of this Circular, Incline A GP (Cayman), being the managing member of Incline A LLC has no actual knowledge of any material contingent liabilities which may become enforceable and in the opinion of Incline A GP (Cayman) will or may substantially affect the liability of Incline A LLC to meet its obligations as and when they fall due.

5. MATERIAL CONTRACTS**5.1 Disposal Subsidiaries**

As at the LPD and save for the Disposal SPAs, there are no material contracts (not being contracts entered into in the ordinary course of business) that have been entered into by the Disposal Subsidiaries and/or its subsidiaries within 2 years immediately preceding the date of this Circular.

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FURTHER INFORMATION (CONT'D)

5.2 FLY and its subsidiaries

Saved as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) that have been entered into by FLY and/or its subsidiaries within 2 years immediately preceding 31 December 2017, being the latest practicable date of extraction of information that is publicly available :

- (i) Second Amendment to Credit Agreement dated 19 October 2016 between Fly Funding II S.à r.l, each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A. in its capacity as administrative agent, for the purpose of amending that certain Amended and Restated Term Loan Credit Agreement dated as of November 21, 2013 (as amended pursuant to that certain Amendment to Credit Agreement dated as of April 22, 2015, and as otherwise amended, supplemented or modified from time to time, the “**Term Loan Credit Agreement**”), under which \$431.3 million principal amount was outstanding as of December 31, 2017;
- (ii) Second Amendment to Amended and Restated Fly Leasing Limited Management Agreement, dated 27 July 2016 between Fly Leasing Limited and Fly Leasing Management Co. Limited for the purpose of amending that certain Amended and Restated Fly Leasing Limited Management Agreement, dated as of December 28, 2012, by and among Fly Leasing Limited, a Bermuda exempted company, and Fly Leasing Management Co. Limited, a Bermuda exempted company (the “**Manager**”), as amended by the First Amendment to Amended and Restated Fly Leasing Limited Management Agreement, dated as of June 19, 2015 (as amended, and as otherwise amended, supplemented or modified from time to time, the “**Management Agreement**”);
- (iii) Amendment No. 3 to Servicing Agreement dated 1 February 2017 by and among BBAM Aircraft Management LP, BBAM Aircraft Management(Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation for the purpose of amending that certain Servicing Agreement dated as of October 2, 2007, by and among, BBAM Aircraft Management LP, BBAM Aircraft Management(Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation (as amended, and as otherwise amended, supplemented or modified from time to time, the “**Babcock & Brown Air Funding I Limited Servicing Agreement**”);

Third Amendment to Amended and Restated Fly Leasing Limited Management Agreement dated 1 February 2017 between Fly Leasing Limited and Fly Leasing Management Co. Limited for the purpose of amending the Management Agreement;
- (iv) Fee Rebate Side Letter dated as of 1 February 2017, by and among Babcock & Brown Air Funding I Limited, Fly Leasing Management Co. Limited, and AMBAC Assurance Corporation for the purpose of memorializing a fee rebate payable by Fly Leasing Management Co. Limited for the benefit of Babcock & Brown Air Funding I Limited;
- (v) Third Supplemental Indenture dated as of 16 October 2017, between Fly Leasing Limited and Wells Fargo Bank, National Association for the purpose of supplementing that certain Indenture dated December 11, 2013 between the Fly Leasing Limited Wells Fargo Bank, National Association, a national banking association, as trustee, in connection with the issuance by Fly Leasing Limited of its 5.250% Senior Notes due 2024 in an initial aggregate principal amount of \$300,000,000;

FURTHER INFORMATION (CONT'D)

- (vi) Servicing Agreement dated as of 8 December 2017, among BBAM US LP, BBAM Aviation Services Limited and Magellan Acquisition Limited for the purpose of the appointment by Magellan Acquisition Limited and each additional grantor that becomes a party to such agreement (together with Magellan Acquisition Limited, the “**Serviced Group**”) of BBAM US LP and BBAM Aviation Services Limited to act as the exclusive providers of certain services with respect to (i) airframes and engines owned or leased, or to be owned or leased, by the Serviced Group from time to time and (ii) certain accounting, professional and administrative functions on behalf of the Serviced Group;
- (vii) Guaranty [Fly 2017A Term Loan] dated December 8, 2017 by Fly Leasing Limited for the purpose of Fly Leasing Limited provided a guaranty of certain obligations of its subsidiary, Magellan Acquisition Limited, under the FLY 2017A Term Facility Agreement, the FLY 2017A Term Loan Note Purchase Agreement, the FLY 2017A Term Loan Credit Agreement and related agreements;
- (viii) Third Amendment to Credit Agreement dated as of 28 April 2017, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent for the purpose of amending that certain Term Loan Credit Agreement;
- (ix) Fourth Amendment to Credit Agreement dated as of 1 November 2017, among Fly Funding II S.à r.l., each Borrower Party named therein, the Consenting Lenders and the Replacement Lenders named therein, Wells Fargo Bank Northwest, National Association, as Collateral Agent, and Citibank N.A., in its capacity as Administrative Agent for the purpose of amending that certain Term Loan Credit Agreement;
- (x) Facility Agreement (FLY 2017A Term Loan) dated as of 8 December 2017 among Magellan Acquisition Limited, the Subsidiary Guarantors party thereto, the Lenders party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee (the “**FLY 2017A Term Loan Facility Agreement**”) which, together with the FLY 2017A Term Loan Note Purchase Agreement and the FLY 2017A Term Loan Credit Agreement, provides for loans and notes in an aggregate principal amount of \$331.8 million;
- (xi) Note Purchase Agreement (FLY 2017A Term Loan) dated as of 8 December 2017 among Magellan Acquisition Limited, the purchasers party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee (the “**FLY 2017A Term Loan Note Purchase Agreement**”) which, together with the FLY 2017A Term Facility Agreement and the FLY 2017A Term Loan Credit Agreement, provides for loans and notes in an aggregate principal amount of \$331.8 million;
- (xii) Credit Agreement (FLY 2017A Term Loan), dated as of 8 December 2017 among Magellan Acquisition Limited, the Banks party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent and Wells Fargo Bank, National Association, as Security Trustee (the “**FLY 2017A Term Loan Credit Agreement**”) which, together with the FLY 2017A Term Facility Agreement and the FLY 2017A Term Loan Note Purchase Agreement, provides for loans and notes in an aggregate principal amount of \$331.8 million; and
- (xiii) Security Agreement [FLY 2017A Term Loan], dated as of December 8, 2017 among Magellan Acquisition Limited, the Grantors thereto, and Wells Fargo Bank, National Association, as Security Trustee, relating to the FLY 2017A Term Facility Agreement, the FLY 2017A Term Loan Note Purchase Agreement, the FLY 2017A Term Loan Credit Agreement and related agreements.

FURTHER INFORMATION (CONT'D)

5.3 Incline A LLC

As at 31 December 2017, being the latest practicable date of which such information could be ascertained before the printing of this Circular, Incline A GP (Cayman), being the managing member of Incline A LLC has no actual knowledge of any material contracts (not being contracts entered into in the ordinary course of business) that have been entered into by the Incline A LLC and/or its subsidiaries within 2 years immediately preceding the date of this Circular.

6. MATERIAL LITIGATION**6.1 Disposal Subsidiaries**

As at the LPD, neither our Company nor our subsidiaries is presently involved in any material litigation, claims and/or arbitration either as plaintiff or defendant, and our Board is not aware of any proceedings, pending or threatened against our Group, or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of our Group.

6.2 FLY and its subsidiaries

FLY and its subsidiaries are not currently a party to any litigation or other legal proceeding that may have a material adverse impact on their business or operations. However, they are and may continue to be subject to various claims and legal actions arising in the ordinary course of business.

The above extraction is as of 31 December 2017, being the latest practicable date of extraction of information that is publicly available. Please refer to “Item 8 – Financial Information – Legal Proceedings” set out in page 69 in the FLY’s annual report for FYE 31 December 2017 as appended in Appendix VIII of this Circular.

6.3 Incline A LLC

As at 31 December 2017, being the latest practicable date of which such information could be ascertained before the printing of this Circular, Incline A GP (Cayman), being the managing member of Incline A LLC has no actual knowledge of any material litigation, claims and/or arbitration to which Incline A LLC is a party, either as plaintiff or defendant, nor any proceedings, pending or threatened against Incline A LLC, nor facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of Incline A LLC.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at our registered office at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia during business hours from Mondays to Fridays (except public holidays) from the date of this Circular up to and including the date of our forthcoming EGM:

- (i) our and Disposal Subsidiaries’ constitutions;
- (ii) constituent document of FLY and certificate of conversion from a corporation to a limited liability company in relation to Incline A LLC;
- (iii) AAB’s audited consolidated financial statements for the FYE 31 December 2016 and FYE 31 December 2017;
- (iv) our audited consolidated financial statements for the FPE 31 December 2017;
- (v) our pro forma consolidated statement of financial position as at 31 December 2017 together with the reporting accountants’ letter thereon;
- (vi) Annual Report of FLY for the FYE 31 December 2017 which includes the past 2 financial years;
- (vii) Disposal SPAs, Future Aircraft Agreements and the Pending Completion Documents referred to in Section 11 of this Circular;

FURTHER INFORMATION (CONT'D)

- (viii) the material contracts referred to in Section 5, Appendix IX of this Circular; and
- (ix) the letters of consent as referred to in Section 2, Appendix IX of this Circular.

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AIRASIA GROUP BERHAD

(Company No.: 1244493-V)

(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of AirAsia Group Berhad (“**AAGB**” or “**Company**”) will be held at CAE Kuala Lumpur Sdn. Bhd. (*formerly known as Asian Aviation Centre of Excellence*), Lot PT25B, Jalan KLIA S5, Southern Support Zone, Kuala Lumpur International Airport, 64000 Sepang, Selangor Darul Ehsan, Malaysia on Monday, 14 May 2018 at 10.00 a.m., or any adjournment thereof, for the purpose of considering and if thought fit, passing with or without modifications, the following resolution:

ORDINARY RESOLUTION

PROPOSED DISPOSAL BY AAGB OF ITS AIRCRAFT LEASING OPERATIONS

“**THAT** subject to and conditional upon the approvals of all relevant authorities and/or parties (where required) being obtained, approval be and is hereby given to the Company, AirAsia Berhad (“**AAB**”) and Asia Aviation Capital Limited (“**AACL**”), a wholly owned indirect subsidiary of the Company, to dispose of its entire equity interest in Red Aircraft Holdings 2 Co., Ltd, a wholly-owned subsidiary of AACL, and 3 aircraft and 7 aircraft engines to Incline Aladdin Holdings Limited (“**Incline Aladdin**”) for a disposal consideration of USD548.5 million (approximately RM2,150.9 million) (“**Proposed Disposal To Incline B**”) in accordance with the terms and subject to the conditions as set out in the share purchase agreement dated 28 February 2018 entered into among AAB, AACL, Incline Aladdin and Incline B Aviation Limited Partnership (“**Incline B**”) and such other ancillary agreements, instruments and documents whatsoever that have been or will be entered into by the relevant parties in connection with the Proposed Disposal To Incline B.

THAT subject to and conditional upon the approvals of all relevant authorities and/or parties (where required) being obtained, approval be and is hereby given to the Company, AAB and AACL to dispose of 21 aircraft to be delivered in the future to Incline Aladdin for a disposal consideration to be agreed among the parties at a later date (“**Proposed Future Disposal To Incline B**”) in accordance with the terms and subject to the conditions as set out in the aircraft sale and purchase agreement dated 28 February 2018 entered into among AAB, AACL and Incline Aladdin and such other ancillary agreements, instruments and documents whatsoever that have been or will be entered into by the relevant parties in connection with the Proposed Future Disposal To Incline.

THAT subject to and conditional upon the approvals of all relevant authorities and/or parties (where required) being obtained, approval be and is hereby given to the Company, AAB and AACL to dispose of its entire equity interest in Red Aircraft Holdings 3 Co., Ltd, and Red Aircraft Holdings 4 Co., Ltd, both wholly-owned subsidiaries of AACL, and 1 aircraft and 7 aircraft engines to Fly Aladdin Holdings Limited (“**Fly Aladdin**”) for a disposal consideration of USD453.3 million (approximately RM1,777.6 million) (“**Proposed Disposal To FLY**”) in accordance with the terms and subject to the conditions as set out in the share purchase agreement dated 28 February 2018 entered into among AAB, AACL, Fly Aladdin and FLY Leasing Limited and such other ancillary agreements, instruments or documents whatsoever that have been or will be entered into by the relevant parties in connection with the Proposed Disposal To FLY.

THAT subject to and conditional upon the approvals of all relevant authorities and/or parties (where required) being obtained, approval be and is hereby given to the Company, AAB and AACL to dispose of 27 aircraft to be delivered in the future to Fly Aladdin for a disposal consideration to be agreed among the parties at a later date (“**Proposed Future Disposal To FLY**”) in accordance with the terms and subject to the conditions as set out in the aircraft sale and purchase agreement dated 28 February 2018 entered into among AAB, AACL and Fly Aladdin and such other ancillary agreements, instruments and documents whatsoever that have been or will be entered into by the relevant parties in connection with the Proposed Future Disposal To FLY.

THAT subject to and conditional upon the approvals of all relevant authorities and/or parties (where required) being obtained, approval be and is hereby given to the Company, AAB and AACL to grant options to Incline Aladdin and Fly Aladdin, respectively to collectively purchase up to 50 aircraft to be delivered in the future for a purchase consideration to be agreed among the parties at a later date (collectively “**Proposed Option**”) in accordance with the terms and subject to the conditions as set out in the aircraft sale and purchase option agreement dated 28 February 2018 entered into among AAB, AACL and Incline Aladdin, and the aircraft sale and purchase option agreement dated 28 February 2018 entered into among AAB, AACL and Fly Aladdin, respectively, for the Proposed Option, and such other ancillary agreements, instruments and documents whatsoever that have been or will be entered into by the relevant parties in connection with the Proposed Option.

THAT authority be and is hereby given to the Board of Directors of the Company or any other subsidiaries of the Company to enter into, assent to any modifications to the required and relevant agreements under or pursuant to the Proposed Disposal To Incline B, Proposed Future Disposal To Incline, Proposed Disposal To FLY, Proposed Future Disposal To FLY and Proposed Option (collectively “**Proposals**”) and to sign, execute and deliver any other ancillary agreements, instruments and documents whatsoever in relation thereto (as may be amended from time to time by further agreement among the parties) in connection with the Proposals, including to enter into relevant lease agreements or arrangements in respect of such aircraft and/or aircraft engines for the benefit of the Company and/or any of its subsidiaries upon completion of the Proposals or any part thereof on such terms and conditions as the Board of Directors of the Company may deem fit.

THAT subject to and conditional upon the approvals of all relevant authorities and/or parties (where required) being obtained, approval be and is hereby given to the Company and its subsidiaries, to implement, complete and give full effect to the Proposals with full powers to do or procure to be done all acts, deeds and things (including all applications and submissions to the relevant regulatory authorities and bodies) and take all such decisions as they may in their absolute discretion deem fit, necessary, expedient or appropriate in the best interest of the Company and to execute or enter into all such agreements, arrangements, undertakings, indemnities, transfers, extensions, assignments, deeds, confirmations, declarations, guarantees or instruments whatsoever, with any party or parties, to deliver or cause to be delivered all such documents and to do such acts and matters as they may consider necessary to implement, finalise and give full effect to and complete the Proposals with full powers to assent to any arrangement, conditions, modifications, variations and/or amendments thereto as the Board of Directors of the Company may deem fit and/or as may be imposed by any relevant authorities in connection with the Proposals.

AND THAT all previous actions taken by the Directors of the Company for the purpose of or in connection with the Proposals be and are hereby adopted, approved and ratified.”

By Order of the Board
AIRASIA GROUP BERHAD

JASMINDAR KAUR A/P SARBAN SINGH (MAICSA 7002687)
Company Secretary
Kuala Lumpur
Malaysia

27 April 2018

Notes:

- (a) Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Article 41(a) of the Company's Constitution, only those Foreigners (as defined in the Constitution) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total issued share capital, on a first-in-time basis based on the Record of Depositors to be used for the EGM, shall be entitled to vote. A proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote. Consequently, all such disenfranchised voting rights shall be automatically vested in the Chairman of the EGM.

- (b) *A member must be registered in the Record of Depositors at 5.00 p.m. on 7 May 2018 (“**General Meeting Record of Depositors**”) in order to attend and vote at the EGM. A depositor shall not be regarded as a Member entitled to attend the EGM and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors. Any changes in the entries on the General Meeting Record of Depositors after the abovementioned date and time shall be disregarded in determining the rights of any person to attend and vote at the EGM.*
- (c) *A member entitled to attend and vote is entitled to appoint up to 2 proxies (or in the case of a corporation, to appoint representative(s) in accordance with Section 333 of the Companies Act, 2016), to attend and vote in his stead. There shall be no restriction as to the qualification of the proxy(ies).*
- (d) *The Proxy Form in the case of an individual shall be signed by the appointor or his attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.*
- (e) *Where a member appoints 2 proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.*
- (f) *Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“**Omnibus Account**”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
- (g) *The Proxy Form or other instruments of appointment shall not be treated as valid unless deposited at the Registered Office of the Company at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than 48 hours before the time set for holding the EGM. **Faxed copies of the duly executed form of proxy are not accepted.***
- (h) *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the resolution set out in this Notice will be put to vote by way of poll.*
- (i) *By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member’s personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “Purposes”), (ii) warrants that where the member discloses the personal data of the member’s proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member’s breach of warranty.*



AIRASIA GROUP BERHAD

(Company No.: 1244493-V)

(Incorporated in Malaysia)

FORM OF PROXY FOR THE EXTRAORDINARY GENERAL MEETING

I/We _____ NRIC No./Passport No./Co No.: _____ of
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

_____ (ADDRESS)

telephone no. _____ being a member of the Company hereby appoints *chairman of the meeting or
(COMPULSORY)

_____ NRIC No./Passport No.: _____
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

of _____
(ADDRESS)

and/or _____ NRIC No./Passport No.: _____
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

of _____
(ADDRESS)

as my/our proxy(ies), to vote in my / our name and on my / our behalf at the Extraordinary General Meeting (“EGM”) of AirAsia Group Berhad (“AAGB” or “Company”) to be held at CAE Kuala Lumpur Sdn. Bhd. (formerly known as Asian Aviation Centre of Excellence), Lot PT25B, Jalan KLIA S5, Southern Support Zone, Kuala Lumpur International Airport, 64000 Sepang, Selangor Darul Ehsan, Malaysia on Monday, 14 May 2018 at 10.00 a.m. or any adjournment of such meeting and to vote as indicated below:

ORDINARY BUSINESS	FOR	AGAINST
Proposed Disposal by AAGB of its Aircraft Leasing Operations		

(Please indicate with an “X” in the spaces provided how you wish your votes to be cast. If you do not do so, the proxy will vote or abstain from voting as he thinks fit)

* Delete the words “the Chairman of the Meeting or” if you wish to appoint some other person to be your proxy.

No. of shares held:			
CDS Account No.:			
The proportion of my/our holding to be represented by my/our proxies are as follows:		No. of Shares	Percentage
	First Proxy		
	Second Proxy		
Date:			

Signature of Shareholder/Common Seal

Notes to Form of Proxy:

- (a) Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Article 41(a) of the Company’s Constitution, only those Foreigners (as defined in the Constitution) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total issued share capital, on a first-in-time basis based on the Record of Depositors to be used for the EGM, shall be entitled to vote. A proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote. Consequently, all such disenfranchised voting rights shall be automatically vested in the Chairman of the EGM.



- (b) *A member must be registered in the Record of Depositors at 5.00 p.m. on 7 May 2018 (“General Meeting Record of Depositors”) in order to attend and vote at the EGM. A depositor shall not be regarded as a Member entitled to attend the EGM and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors. Any changes in the entries on the General Meeting Record of Depositors after the abovementioned date and time shall be disregarded in determining the rights of any person to attend and vote at the EGM.*
- (c) *A member entitled to attend and vote is entitled to appoint up to 2 proxies (or in the case of a corporation, to appoint representative(s) in accordance with Section 333 of the Companies Act, 2016), to attend and vote in his stead. There shall be no restriction as to the qualification of the proxy(ies).*
- (d) *The Proxy Form in the case of an individual shall be signed by the appointor or his attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.*
- (e) *Where a member appoints 2 proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.*
- (f) *Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“Omnibus Account”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.*
- (g) *The Proxy Form or other instruments of appointment shall not be treated as valid unless deposited at the Registered Office of the Company at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than 48 hours before the time set for holding the EGM. **Faxed copies of the duly executed form of proxy are not accepted.***
- (h) *Pursuant to Paragraph 8.29A(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the resolution set out in this Notice will be put to vote by way of poll.*
- (i) *By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member’s personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “Purposes”), (ii) warrants that where the member discloses the personal data of the member’s proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member’s breach of warranty.*

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretary
AIRASIA GROUP BERHAD (Company No. 1244493-V)

Unit 30-01, Level 30, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Malaysia

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