

Board Governance Document

**Fly Leasing Limited**

**As of: March 5, 2014**

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## **Board Governance Document**

### **1. Background**

This Board Governance Document was originally adopted on November 6, 2007 and has been amended and restated as of March 5, 2014.

*This Board Governance Document is intended as a component of the robust governance framework within which the Board of Directors (the “Board”) of Fly Leasing Limited (the “Company”), assisted by its committees, directs the affairs of the Company. While the guidelines and principles contained therein should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Company’s Memorandum of Association and Bye-laws, they are not intended to establish by their own force any legally binding obligations.*

### **2. Role of the Board**

The Board must at all times act honestly, fairly and diligently in all respects in accordance with the law applicable to the Company and must act in the best interests of the Company.

The Board, in consultation with the Manager, as defined below, will formulate and approve the strategic direction, investment objectives and goals of the Company.

### **3. Responsibilities of the Board**

The manager of the Company under a separate long-term management agreement (“Management Agreement”) is Fly Leasing Management Co. Limited (the “Manager”). Under the terms of the Management Agreement, the Manager provides comprehensive management services to the Company and makes recommendations to the Board in respect of various matters set out in the Management Agreement, including managing our portfolio of aircraft and other aviation assets.

Specific matters reserved for determination by the Board include:

- (a) Strategic and financial performance
  - Developing and approving the corporate strategy, policy and direction of the Company.
  - Monitoring the Manager’s performance as the manager.
  - Determining the Company’s distribution policy and the amount and timing of all dividends paid to the Company’s shareholders.

- Reviewing and approving the Company’s financial objectives and major corporate plans and actions, including evaluating and approving capital expenditure, acquisitions, divestitures and other corporate transactions of the Company that fall outside the limits set out in the Management Agreement.
  - Reviewing and approving all accounting policies, financial reports and material reporting by or on behalf of the Company, including major changes in auditing and accounting principles and practices.
- (b) Audit, risk management and compliance
- Retaining the independent auditor (subject to shareholder approval).
  - Providing oversight of internal and external audit processes, financial reporting, and disclosure controls and procedures.
  - Providing oversight of risk assessment, monitoring and protection processes and processes designed to promote legal compliance.
- (c) Corporate governance
- Regularly reviewing the performance and effectiveness of the Company’s corporate governance structures, practices, policies and procedures and considering any amendments.
  - Overseeing compliance with applicable laws and regulations.
  - Subject to the Company’s Bye-laws, relevant legislation and the New York Stock Exchange (“NYSE”) Listing Rules, approving the appointment of directors to the Board and to its committees established by the Board.
  - Setting expectations about the tone and ethical culture of the Company.
- (d) Performance evaluation
- At least once per year, reviewing and evaluating the performance of the Board, and each of its committees.

## **4. Structure of the Board**

### **4.1 Overview**

The size and composition of the Board is determined in accordance with the Company’s Bye-laws.

The Board is responsible for recommending director nominees to shareholders for election. The Board has delegated the screening process to the Nominating and Corporate

Governance Committee.

The Nominating and Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the appropriate skills and characteristics required of directors in the context of the current make up of the Board. This assessment includes issues of judgment, objectivity, integrity, independence, diversity, age, skills (such as understanding of relevant industries, international background, etc.), in the context of an assessment of the perceived needs of the Board at that point in time.

The Nominating and Corporate Governance Committee considers recommendations for Board candidates submitted by shareholders using the same criteria it applies to recommendations from the Nominating and Corporate Governance Committee, directors, the Manager and members of management. Shareholders may submit recommendations by writing to the Nominating and Corporate Governance Committee at Fly Leasing Limited, West Pier, Dun Laoghaire, County Dublin, Ireland.

Invitations to serve as a nominee are extended by the Board itself via the Chairman of the Board and the Chairman of the Nominating and Corporate Governance Committee.

#### **4.2 Criteria for an “Independent” Director**

The Board has a majority of directors who are not officers or employees of the Company or its subsidiaries and who, in each case, the Board has affirmatively determined lack a “material relationship” with the Company (either directly or as a partner, controlling shareholder or executive officer of an organization that has a material relationship with the Company).

The Board defines a director as lacking a material relationship and therefore “independent” (subject to the guidance provided by the Listing Rules of the New York Stock Exchange) if he or she:

- a) within the past three years
  - i. has not been employed by the Company and has not received more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service;
  - ii. has not provided significant advisory or consultancy services to the Company, and is not affiliated as an executive officer, partner or controlling shareholder with a company or a firm that has provided such significant services (payments of the greater of 2% of the other company’s consolidated gross revenues or \$1 million is considered significant);
  - iii. has not been a significant customer or supplier of the Company nor a partner, controlling shareholder or executive officer of a company or firm that has been such a significant customer or supplier (payments of the greater of 2% of the other company’s consolidated gross revenues or \$1

million is considered significant);

- iv. has not been employed by or affiliated with an internal or external auditor that within the past three years provided services to the Company;
- v. has not been employed by another company where any of the Company's current executive officers serve, or within the past three years served, on that company's compensation committee;
- b) is not a spouse, parent, sibling, child, mother- or father-in-law, son- or daughter-in-law or brother- or sister-in-law of a person having a relationship described in (1) above or shares a residence with such person;
- c) is not an executive officer or chairman of the board of a tax-exempt entity that within the past 12 months received significant contributions from the Company (payments of the greater of 2% of the entity's consolidated gross revenues or \$1 million is considered significant);
- d) does not have any other relationships that would disqualify the director from being considered "independent" under NYSE listing rules; and
- e) does not have any other relationships with the Company or with members of senior management that the Board determines to be material.

For purposes of the independence tests in this Section 4.2, references to the "Company" include any subsidiaries in a consolidated group with the Company and affiliates of the Manager and its parent, subsidiaries and affiliates.

#### **4.3 Commitment and Limits on Other Activities**

Directors are expected to limit the number of other boards (excluding non-profits) on which they serve to between 3 and 5, with the lower limit applying to directors who are engaged full-time in another business. Directors are asked to advise the Chairman of the Board and the Chairman of the Nominating and Governance Committee in advance of accepting an invitation to serve on another board.

#### **4.4 Share Ownership Policy**

Each director is encouraged to hold equity of the Company with a market value of at least 40% of the annual retainer paid to independent directors. The Board has adopted this policy recognizing that strict compliance with such a policy may not be practicable in light of the various tax regimes that apply to the Company's directors.

#### **4.5 Term Limits**

As an alternative to term limits, the Nominating and Governance Committee formally reviews each director's continuation on the Board at the expiration of the director's term.

## **4.6 Directors' Responsibilities**

The directors of the Company are required to act in accordance with the Code of Business Conduct and Ethics adopted by the Board, along with other relevant policies. The Code of Business Conduct and Ethics sets out principles and standards in respect of practices considered necessary to maintain confidence in the Company's integrity, and the responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour.

The directors of the Company must:

- (a) conduct their duties at the highest level of honesty and integrity;
- (b) observe the rule and the spirit of the law and comply with any relevant ethical and technical standards;
- (c) maintain the confidentiality of all information acquired in the course of serving as a director and not make improper use of, or disclose to third parties, any confidential information unless that disclosure has been authorised by the Board, or is required by law or by the NYSE Listing Rules (in relation to the Company, as a listed entity);
- (d) observe the principles of independence, accuracy and integrity in dealings with the Board, Board committees, internal auditors, external auditors and senior management;
- (e) disclose to the Board any actual or perceived conflicts of interest, whether of a direct or indirect nature, of which the director becomes aware; and
- (f) set a standard of honesty, fairness, integrity, diligence and competency in respect of the position of director.

## **5. Roles and Responsibilities of the Chairman of the Board, Lead Independent Director and Chief Executive Officer of the Company, and Chief Executive Officer of the Servicer**

### **5.1 Objective**

The Company recognizes that it is important for the Chairman and the Chief Executive Officer of the Company to have defined roles in the organization and operate in accordance with clear functional lines. The Company also recognizes the importance of independent directors to Board deliberations and for this reason has established the position of Lead Independent Director. Finally, the Company relies on one or more affiliates of the Manager (collectively, the "Servicer") to service its portfolio of aircraft, and therefore the Company has created a defined role for the Chief Executive Officer of the Servicer.

## **5.2 Chairman of the Board**

The Chairman of the Board of the Company will be appointed by the Board. The Manager shall recommend a Chairman for the Board's consideration.

## **5.3 Specific duties of the Chairman of the Board**

The Chairman of the Board of the Company will:

- (a) convene and chair Board meetings;
- (b) determine in consultation with the Chief Executive Officer and the Manager the schedule for Board meetings, agenda items and the Board's information needs associated with those agenda items, and identify the need for and scope of related presentations, ensuring that there is sufficient time in the meeting schedule for discussion of all agenda items;
- (c) chair meetings of shareholders, including any Annual General Meeting of the Company;
- (d) together with the Chief Executive Officer, represent the views of the Board to shareholders, the general public, government, regulators and other stakeholders; and
- (e) if the Chairman is an independent director, convene, chair and determine agendas for executive sessions of the Board and coordinate feedback to the Chief Executive Officer regarding issues discussed in executive sessions.

## **5.4 Lead Independent Director**

If the Chairman does not qualify as an "independent" director, the Board, from time to time, upon recommendation from the non-management and independent directors will select one independent/non-management director to serve as Lead Independent Director.

## **5.5 Specific duties of the Lead Independent Director**

The Lead Independent Director will:

- (a) convene, chair and determine agendas for executive sessions of the non-management or independent directors and coordinate feedback and report results to the Chief Executive Officer and Chairman regarding issues discussed in executive sessions;
- (b) preside at all meetings of the Board at which the Chairman is not present;
- (c) determine in consultation with the Chief Executive Officer and Manager the

schedule for Board meetings, agenda items and the Board's information needs associated with those agenda items, and identify the need for and scope of related presentations, ensuring that there is sufficient time in the meeting schedule for discussion of all agenda items;

- (d) be the primary spokesperson for the independent directors;
- (e) represent the views of the independent directors to the Board, the Chief Executive Officer and the Manager; and
- (f) be the primary channel of communication and point of contact between independent directors and the Board, the Chief Executive Officer and the Manager.

## **5.6 Role and Responsibilities of the Chief Executive Officer of the Company**

The Chief Executive Officer will be appointed by the Board at the recommendation of the Manager and has primary responsibility to the Board for the affairs of the Company. The Board may terminate the Chief Executive Officer without the Manager's consent. If there is a vacancy in the position of Chief Executive Officer, the Manager will recommend a candidate to serve as replacement Chief Executive Officer. If the Board does not appoint the initial candidate proposed by the Manager to fill any such vacancy, then the Manager shall recommend one or more further candidates until the Board appoints a candidate recommended by the Manager to fill such vacancy.

The Chief Executive Officer will:

- (a) be the primary channel of communication and point of contact between the Manager and the Board;
- (b) consult with the Chairman and the Company Secretary in relation to establishing the agenda for Board meetings;
- (c) in conjunction with other allocated responsibilities for the Company, review and monitor all matters material to the interests of the Company;
- (d) be the primary spokesman for the Company;
- (e) chair meetings of shareholders, including the Annual General Meeting of the Company, in the absence of the Chairman; and
- (f) otherwise oversee the day to day management of the Company.

## **5.7 Management Delegations**

The Board has delegated to the Manager the power to manage the day-to-day business of

the Company and its portfolio of aircraft and other aviation assets in accordance with the terms of the Management Agreement. This power may from time to time be sub-delegated by the Manager within the scope of its authority to certain individuals within the Manager, to the boards of subsidiary entities or to executives involved in the management of individual investments.

#### **5.8 Role and Responsibilities of the Chief Executive Officer of the Servicer**

The Company's Servicer acquires and disposes of its aircraft, markets its aircraft for lease and re-lease, collects rents and other payments from the lessees of aircraft, monitors maintenance, insurance and other obligations under leases and enforces the Company's rights against lessees pursuant to certain servicing agreements between the Company and the Servicer. Accordingly, the Chief Executive Officer of the Servicer performs a critical role in the growth and success of the Company. The Chief Executive Officer of the Servicer will be expected to make presentations to the Board of Directors regarding the performance of the Company's aircraft portfolio, the state of the aircraft leasing industry, and the opportunities available to the Company for further growth.

#### **5.9 Management Development and Succession Planning**

The Chief Executive Officer reports at least annually to the Board on the Company's program for management development and on succession planning, which the Board views as closely-related issues. In its consideration of these issues, it is the policy of the Board to consider issues related to the Chief Executive Officer and senior executive selection and performance.

In addition, there is available on a continuing basis, and the Board and the Chief Executive Officer periodically discuss, the Chief Executive Officer's recommendation as to a successor in the event of the sudden resignation, retirement or disability of the Chief Executive Officer.

### **6. Confidential Information and External Communication**

The Board has established the following principles to apply in respect of information concerning the Company:

- (a) generally, the Chief Executive Officer will speak for the Company. Individual Board members are expected not to communicate on behalf of the Board or the Company without prior consultation with the Chairman;
- (b) the Chairman or Lead Independent Director (as the case may be) should speak for the independent directors, in situations where it is appropriate to communicate the views of the independent directors; and
- (c) all directors are required to keep confidential all information provided to them in their capacity as a director.

## **7. Conflicts of Interest**

The directors are required to act in a manner that is consistent with the Code of Business Conduct and Ethics adopted by the Board. The Code of Business Conduct and Ethics contains detailed guidelines for directors in the event of potential conflicts of interest.

## **8. Related Party Transactions**

The Board may adopt policies or procedures from time to time to assist in identifying and appropriately managing related party transactions.

## **9. Director Orientation and Continuing Education**

The Board has delegated to the Nominating and Corporate Governance Committee the task of designing, with input from Company management, an appropriate orientation program for new directors. The Committee also explores, makes available, and designs and provides continuing education opportunities for directors, from time to time.

## **10. Director Compensation**

The Company believes that compensation for non-employee directors should be competitive. The Compensation Committee will periodically review the level and form of the Company's director compensation, including how it compares to director compensation of companies of comparable size, industry and complexity, and recommend any changes to the Board for approval. Such review will also include a review of both direct and indirect forms of compensation to the Company's directors, including any charitable contributions by the Company to organizations in which a director is affiliated and consulting or other similar arrangements between the Company and a director. Officers who also serve as directors will not receive compensation for their services as directors. When determining the form and amount of director compensation and the independence of a director, the Board will critically evaluate situations when directors' fees exceed what is customary, when the listed company makes substantial charitable contributions to organizations in which a director is affiliated and when the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director.

## **11. Director Access to Senior Managers and Independent Advisors**

The Board and its committees are authorized to retain independent advisors to assist them in carrying out their activities and the Company shall provide adequate resources to compensate such advisors.

Directors have complete access to senior management and to the Board's advisers. Directors are expected to use good judgment to ensure that this contact is not distracting to the business operation of the Company, and that independent advisers are used efficiently.

The Board welcomes regular attendance of senior managers at Board meetings. Should the Chairman and Chief Executive Officer wish to suggest that a senior manager attend on a regular basis, such suggestion is made to the Board for its concurrence. The Board encourages management to bring managers into Board meetings who:

- (a) can provide additional insight into the items being discussed because of personal involvement in these areas; and/or
- (b) have future potential such that management believes the Board should have greater exposure to the individual.

A director of the Company is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures and subject to the conditions set out below:

- (a) a director must seek the prior approval of the Chairman, or where the advice sought relates to an issue in respect of which the Chairman has declared an interest or where it would be otherwise inappropriate for the Chairman to approve the seeking of independent professional advice, the Lead Independent Director;
- (b) in seeking the prior approval of the Chairman or Lead Independent Director (as the case may be), the director must provide the Chairman or Lead Independent Director (as the case may be) with details of:
  - o the nature of the independent professional advice;
  - o the likely cost of seeking the independent professional advice; and
  - o details of the independent adviser he or she proposes to instruct;
- (c) the Chairman or Lead Independent Director (as the case may be) may set a reasonable limit on the amount that the Company will contribute towards the cost of obtaining such advice; and
- (d) the right to advice does not extend to advice concerning matters of a personal or private nature, including for example, matters relating to the director's appointment as a director or any dispute between the director and the Company.

## **12. Meetings**

### **12.1 Overview**

The Board will formally meet not less than four times per annum and as frequently as may otherwise be required.

All Directors are expected to diligently prepare for, attend, and participate in all Board meetings. Two Directors (excluding alternate directors, if any) shall constitute a quorum necessary for the transaction of business at a meeting of the Board. Meetings of the Board may be held or participated in by conference call or similar means. Resolutions of the Board may be passed by written resolution in accordance with the Company's Bye-laws.

The Chairman, in conjunction with the Chief Executive Officer should ensure the availability and, if necessary, the attendance at the relevant meeting, of any member of the Manager responsible for a matter included as an agenda item at the relevant meeting.

## **12.2 Agenda**

An agenda will be prepared for each Board and Committee meeting. The agenda will be prepared in consultation with the Chairman of the Board (or the relevant Board Committee) and/or the Chief Executive Officer.

## **13. Board Committees**

The Board currently has three committees: Audit; Compensation; and Nominating and Corporate Governance. The Board retains discretion to form new committees or disband current committees depending upon the circumstances.

The Nominating and Corporate Governance Committee recommends, after consultation with the Chairman of the Board and Chief Executive Officer, and with consideration of the desires of individual directors, the appointment of directors to various committees and the appointment of committee chairmen, for Board approval.

The Board may establish such other committees as it determines appropriate from time to time and the purposes and responsibilities of any Board committee will be determined by the Board at the time the committee is established.

Although the Board may delegate powers and responsibilities to a committee, the Board retains ultimate accountability for discharging its duties.

The Board will consider and approve a charter for each Board committee, as required by SEC and NYSE rules and regulations, which will identify the areas in which the Board will be assisted by the committee, and review such charters periodically.

## **14. Annual Board and Committee Performance Evaluations**

The Board conducts an annual self-evaluation of its performance and the performance of its committees. The Nominating and Corporate Governance Committee recommends to the Board and its committees the methodology for such evaluations and oversees its

execution.

## **15. Communicating with the Board**

Shareholders are invited to communicate to the Board or its committees by writing to: Fly Leasing Limited, West Pier, Dun Laoghaire, County Dublin, Ireland. In addition, interested parties may communicate with the Chairman or the Lead Independent Director (as the case may be), or the non-management directors of the Company as a group by writing to: Fly Leasing Limited, West Pier, Dun Laoghaire, County Dublin, Ireland.