AEROSPACE INSURANCE

Willis INDEX

4TH QUARTER 2009

AEROSPACE FOURTH QUARTER (Q4) 2009

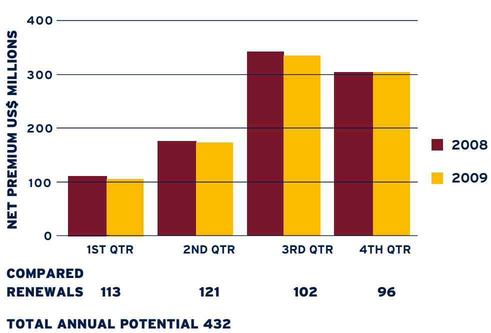
The final quarter of 2009, based on the review of 96 monitored renewals records net renewal premium of US$313.5 million which is a slight reduction, 0.4%, compared with the expiring premium base of 2008. This level of premium change, although small in quantum, reflects a continuation of the market's approach towards its renewing risk base, a pattern that was established at the start of 2009.

AEROSPACE ANNUAL RENEWAL PREMIUM CHANGE 2009 vs 2008

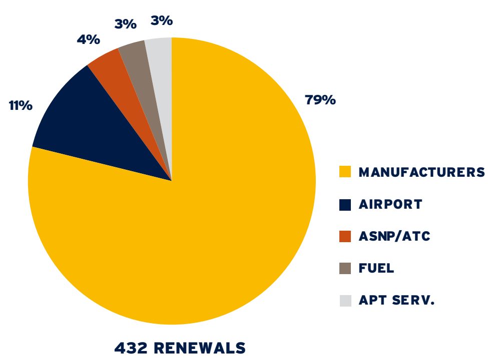
AEROSPACE SECTOR	NET US$ PREMIUM (M) 2008	NET US$ PREMIUM (M) 2009	CHANGE %	RENEWING PROGRAMMES
MANUFACTURERS	743	747	0.5	190
AIRPORT	110	106	-3.6	131
ATC	40	38	-5.0	39
FUEL	30	29	-3.3	52
AIRPORT SERVICES	29	24	-17.5	20
OVERALL AEROSPACE	**952**	**944**	**-0.8**	**432**

AEROSPACE RENEWAL PREMIUM DISTRIBUTION 2009 vs 2008

TOTAL AEROSPACE RENEWAL PREMIUM DISTRIBUTION 2009 vs 2008



AEROSPACE SECTOR NET PREMIUM SPLIT 2009



AEROSPACE MANUFACTURERS Q4 2009

Based on a total of 48 program renewals overall, the manufacturers' sector Q4 2009 generated net premium of US$259 million. This is a small increase of 2% compared with Q4 2008. The Manufacturers' sector represented approximately 83% of Q4 2009 total Aerospace renewal premium which is a small proportional increase when compared with Q4 2008. The projected sales exposure of Q4 2009 renewing programs records a fall of 9.2% compared with Q4 2008. This equates to a decline of approximately US$14 billion and is evidence of the delayed impact of the recession that aerospace manufacturers are suffering, and are likely to continue suffering for the next few years.

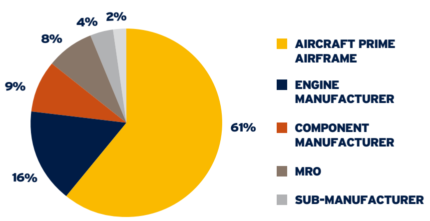
During 2009 premium reductions were achieved, in most cases, where projected exposure values declined, where limits purchased were reduced or where self- insured retentions and/or deductibles were introduced or increased. Insurer's, however, have increasingly utilized their actuarial and modeling resources to assist in pricing each renewing program within their portfolio and where deemed necessary have imposed increases and in some instances declined renewal.

WILLIS MANUFACTURERS INDEX ANNUAL RENEWAL CHANGE 2009 vs 2008

MANUFACTURERS INDEX SECTOR	NET US$ PREMIUM CHANGE%*	ESTIMATED SALES CHANGE%	RATE ON SALES CHANGE%	RENEWING PROGRAMMES
AIRCRAFT PRIME MANUFACTURER	-0.3	-3.8	3.6	14
SUB-MANUFACTURER	-5.2	-8.4	3.5	14
ENGINE MANUFACTURER	4.8	-5.3	10.7	11
ELECTRONIC/AVIONIC	2.9	7.3	-4.1	15
COMPONENT MANUFACTURER	-1.3	-2.6	-1.4	36
MRO	2.3	0.25	2.0	24
TOTAL	**0.4**	**-3.2**	**3.7**	**114**

*Renewing placements known as at December 12, 2009. All expiring currency converted at 2009 US$ ROE

WILLIS MANUFACTURERS INDEX, PREMIUM DISTRIBUTION, BY SECTOR 2009



114 RENEWED PROGRAMMES

A total of 29 **Willis Manufacturers Index** programs renewed during Q4 2009 that generated a combined net renewal premium of US$240.6 million, an increase of 2.5% compared with the expiring net premium base. Total estimated sales of US$133 billion represent a reduction of 9.25% on the expiring programs estimated total, consequently, the derived rate on sales records **a near 13% increase**.

The Q4 2009 increased premium is due almost entirely to the additional premium applied to a particular insured to cover run-off exposure, previously purchased by a program partner. If this is excluded, the net renewal premium increase Q4 2009 increased by just under 0.5%.

Full year Index net renewal premiums total US$683 million which is an increase of 0.4% compared with the expiring 2008 premium total based on 114 programs. The sector distribution of 2009 Index net renewal premiums has changed little from that of 2008.

The Aircraft Prime Manufacturers Q4 2009 saw three program renewals that cumulatively generated approximately US$150 million net premium making Q4 the second highest earning renewal quarter of the year. When compared with Q4 2008 net renewal premium has increased by 1.2%, while projected sales have declined by 7%. The renewal experience of Q4 generally continues the pattern of 2009 so far, in that small adjustments have been made to result in minimum premium loss.

The total 2009 renewal premium generated by the **Aircraft Prime Manufacturers** sector is virtually unchanged compared with the 2008 total. This result however conceals the fact that the renewal outcome of individual programs was varied. The majority of renewing programs in fact obtained as-before or slight reductions in premium. As-before premium renewals generally resulted from long term policy re-signings, while those programs that obtained premium reductions generally did so due to projected sales reductions. A few programs increased their level of self-insured retention, a decision that impacted their renewal prices positively. Those programs that received premium increases did so as a result of their projected sales growth, a rare experience in this sector or where their loss ratios' have increased, a similarly rare experience.

The Engine Manufacturers sector in Q4 2009 sees almost 50% of the total annual renewal premium generated for this sector. It is dominated by non-U.S. manufacturers in terms of exposure, however, measured by net premium volume it is a major U.S . program that is the single largest contributor. The sector's Q4 2009 renewal premium increase of 9.5% does not reflect the genuine basis under which these programs renewed. A mix of additional exposure and self-insured retention change have on the one hand resulted in a premium increase to a long term Insured, and on the other, has stabilized/negated premiums of others. The Q4 result in this sector can be seen as the result of a firming approach by insurers.

Both the **Aircraft Prime Manufacturers and Engine Manufacturers** sectors have experienced cautious treatment from insurers during 2009. Insurers have acknowledged the difficulties that the recession has inflicted upon their Insured's but have maintained a firm line. This is despite the **real and growing net premium credit balance position these sectors are delivering**.

The Sub Manufacturers sector Q4 2009, based on six renewing programs, resulted in a net renewal premium reduction of approximately 2.3% compared with the expiring Q4 2008 premium base. Projected sales however recorded a decline of almost 15%.

The sector's decline in sales projections mirrors its role within the major airframe/engine programs via joint venture partnerships and/or risk revenue share ventures where specific design/manufacturing capabilities are provided.

Renewal premium for 2009 results in an overall reduction of 5.2%, projected sales declined by 8.4%. This sector has, in common with the prime airframe and engine manufacturer sectors, **continued to build an excellent net premium credit balance to insurers**.

The Electronic/Avionic sector saw three renewals during Q4 2009. Total renewal premium generated produced a reduction of 8.6% compared with the expiring Q4 2008 premium base while projected sales recorded an increase of 7.6%.

The sector's 2009 experience records a small premium increase of 2.9% and sales growth of 7.3%. Within this sector a number of Insured's are generating increased revenue due to their role as design and system integration providers, particularly in the government/military area, while actual manufacture of products remains flat or has declined. **This is another sector that continues to build an excellent premium credit balance with insurers**.

The Component Manufacturers sector is always an interesting sector to review. The number of Insured's and their diverse product base results in a mixed renewal experience. The Willis Manufacturers Index saw eight program renewals during Q4 2009 that produced a premium reduction of 2.4% compared with the expiring net premium base of Q4 2008; projected sales however recorded a significant decline of almost 14%. Of the eight renewing programs, four renewed as-before, three obtained premium reductions and one received a premium increase; however six renewing programs recorded double digit projected sales decline and two recorded sales growth. The full 2009 year sees renewal premium down by 1.3% and projected sales down by 2.64%.

The renewal experience of the component manufacturers sector during Q4 2009 and in fact that of the whole of 2009 reflects insurers 'thorough review' approach to this sector, which **despite its profitability**, continues to cause some markets unease due to its perceived loss potential relative to its premium base.

The Maintenance, Repair and Overhaul sector saw seven renewals during Q4 2009 that recorded a premium reduction of 1% compared with the Q4 2008 expiring premium base; projected sales recorded an increase of 5.7%.

Recent losses in this sector have made it 'loss-driven' with underwriters reacting swiftly post loss by applying significant premium increases. In such a market environment comparable Insured's can pay significantly different premium levels. Renewal results therefore reflect, more than any other sector, the insureds' loss histories. In addition it is more the projected exposure- type of aircraft/engines/systems, to be worked on- and not so much the projected sales values that is the major consideration on the part of insurers as price levels are determined.

Our review of the 2009 renewal experience of the Willis Manufacturers Index leads us to conclude that the market has generally taken a firm approach towards all renewals. The market was extremely reluctant to reduce premium levels as a result of excellence of record but has preferred to give, in percentage terms, small reductions in response to larger projected sales declines, while increasing premium where growth in projected sales occurred.

The increased utilization of actuarial risk modeling is underpinning the efforts of many insurers to re-evaluate their portfolio and push for higher prices. This is an interesting position given that cumulatively the 114 manufacturers of the **Willis Manufacturers Index (on programs incepting during the eight years 2002 – 2009) have generated a significant net premium credit balance to the market**.

AIRPORT OPERATORS Q4 2009

A total of 20 monitored airport program renewals occurred during Q4 2009 that generated US$13.8 million renewal net premium, a reduction of 5.5% compared with the expiring net premium. The total projected passenger numbers of 425 million represent a reduction of 3.3% compared with Q4 2008. This is, however, the smallest recorded reduction of any quarter during 2009 suggesting that we are at last seeing, in some regions, the end of the decline in passenger numbers.

Based on 123 monitored renewals during 2009 a total net premium of US$106 million was generated which is a reduction of approximately 4% on the expiring net premium. Projected passenger numbers totaled 2.92 billion which compared with 2008 is a decline of 4.1%.

During 2009 the combined factors of declining passenger numbers and market appetite for participation in this profitable sector has resulted in the majority of renewing programs obtaining premium reductions, although the derived passenger rate has generally remained static. Premium increases have been applied where increased limits have been purchased, where projected passengers have increased significantly and/or in a few instances, where there is significant claim deterioration.

WILLIS AIRPORTS INDEX Q4 2009

The Willis Airports Index Q4 2009 renewals totaled 15 programs that represent approximately 63% (in unadjusted premium value) of Q4's total renewal premium and 83% of projected passenger numbers. Q4 2009's renewal pattern was similar to that of the preceding three quarters of 2009.

*Before removal of premium amount iro ANSP/ATC exposure.

WILLIS AIRPORTS INDEX ANNUAL RENEWAL CHANGE 2009 vs 2008

COMPARISON*							
REGION	**PLACEMENTS***	**EST PAX**	**CHANGE %**	**PREMIUM****	**CHANGE****	**PAX RATE**	**CHANGE%**
EUROPE	35	1,227,404,134	-6.7	51,474,801	-6.4%	0.04194	0.3
FAR EAST	10	646,650,122	-3.9	6,816,464	-4.2%	0.01054	-0.2
SOUTH AMERICA-CARIBBEAN	10	233,052,354	-2.8	5,136,540	-0.5%	0.02204	2.3
PACIFIC REGION	11	126,940,091	-3.0	2,978,121	2.1%	0.02346	5.2
MIDDLE EAST	7	129,570,434	11.8	2,347,323	0.7%	0.01812	-10.0
AFRICA	9	78,328,715	-0.7	5,036,177	1.6%	0.06430	2.3
OVERALL INDEX	**82**	**2,441,188,581**	**-4.4%**	**73,032,158**	**-5.2%**	**0.02992**	**-0.8%**

* Renewaing placements known as at December 31, 2009
* *All expiring currency converted a 2009 US$ ROE

The Willis Airports Index 2009, represents approximately 79% of the world's projected passenger numbers of 3.1 billion excluding North America. The Index demonstrates the close correlation between projected passenger number decline and premium reduction. A few instances of program structural change have slightly distorted the underlying renewal trend of unchanged derived passenger rate. The one exception is the Middle East where robust projected passenger growth attracted no additional premium. Underwriters have reflected the excellent loss record of the region as well as the quality of the infrastructure

Looking forward to 2010, assuming there are to be no major claims where cause seems attributable to an airport, we do not anticipate a significant change in the market's attitude towards the Airports sector.

AIR NAVIGATION SERVICE PROVIDERS Q4 2009

Ten pure ANSP/ATC programs renewed during Q4 2009 generating a total net premium of US$11.9 million. This is a small increase of 0.90% compared with Q4 2008. Projected aircraft movements, totaling 17.14 million, also represent a small reduction of approximately 1%. The small increase can be accounted for by the fact that, of the 10 renewing programs three elected to purchase increased limits which in each case, resulted in increased premium cost cumulatively amounting to 8.1%. The seven programs that renewed with unchanged limits cumulatively resulted in a premium reduction of 2.7% which is perhaps a more useful comparison.

AIR NAVIGATION SERVICE PROVIDERS 2009

In 2009 overall there were 39 pure ANSP/ATC program renewals that generated a net premium of US$39 million, a reduction of 2.5% compared with the expiring premium base of 2008. The projected aircraft movements of the 39 renewing programs resulted in a small increase of 0.7%.

Reviewed by region Pure ANSP/ATC

REGION	PREIMUM % CHANGE	PREIMUM % SHARE	2009 AIRCRAFT MOVEMENTS % CHANGE	2009 AIRCRAFT MOVEMENTS % SHARE
EUROPE	-4.9	66.6	-2.6	59.7
FAR EAST	1.1	11.8	11.5	10.8
CANADA	3.2	10.4	0.0	11.0
PACIFIC REGION	-4.7	7.6	6.6	11.9
SOUTH AMERICA/CARIBBEAN	-4.9	1.9	11.4	5.4
AFRICA	-1.0	1.7	-1.6	1.4

The market has been receptive towards the ANSP/ATC sector throughout 2009, however, despite adequate capacity, competition is less intense compared with the airports sector, reflecting insurer's continued caution regarding the perceived catastrophe potential of the class and recognition that a global premium income of around US$40 million will not go far in covering a major claim.

FUEL

The Fuel (Refiners/Distributors/Refuellers) sector Q4 2009 renewals resulted in a net renewal premium reduction of 3.5% compared with the Q4 2008 expiring premium. This is similar to that seen throughout 2009 which at 3.3% closely mirrors the decline in the exposure base of projected U.S. gallons of approximately 3%.

The majority of the premium base for this sector is derived from buyers who carry significant self-insured retentions. Insurers have historically been and remain very attracted to this sector because they are removed from the frequent small loss aspect of the vast majority of exposed operations and acknowledge that they are insuring the catastrophe aspect. Premium levels therefore reflect a minimum for the limit and tend to be stable, as insurers are concerned with retaining their participations.

Those programs that are exposed from the ground up, excess of standard deductibles have experienced renewals similar to those of the manufacturers. Exposure increases have mostly resulted in premium increases, while exposure decline has resulted in as before renewal or small percentage reductions.

AIRPORT SERVICE PROVIDERS

Within the aviation insurance fraternity it is broadly recognized that a large proportion of losses impacting the market arise as a result of damage to aircraft on the ground whilst receiving service from vehicles on the apron. Ground handling agreements ensure that many of the smaller losses are retained by independent ground handling companies meaning that premiums for such risks are invariably more closely linked to loss activity than turnover or limit size. Because such risks suffer from regular levels of loss it makes more sense for the insurance to be structured so that the insured accepts a self-insured retention at a level that stands a good chance of absorbing predictable levels of loss because insurers will not absorb those losses economically. There has been a trend in this direction in recent years which make comparisons between renewal premiums of independent ground handlers inconclusive.

IATA through their ISAGO initiative is encouraging industry excellence standards in operational risk management and hope that loss incidence will thereby diminish, but we fear that for the time being insurers will continue to be driven by the results from policies already written rather than the promise of a better future.

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