

It should be noted that with effect from January 2009 that Willis will report all our market premium and rate percentage changes on a Net basis.

AIRLINE RENEWALS

In marked contrast to December, which saw in excess of 50 programmes renew, January sees just four risks renew with a fleet value in excess of US\$100 million. These are Airlinair (France), Blue Wings (Germany), Great Lakes (USA) and NASAir (Saudi Arabia). To put the month into perspective, not one of these programmes has an expiring Average Fleet Value (AFV) in excess of US\$500 million compared to 46 in December. In 2008, January generated just 0.3% of the year's annual premium. As a reminder of the current troubled economic times, Silverjet, previously a January renewal ceased operations in July 2008.

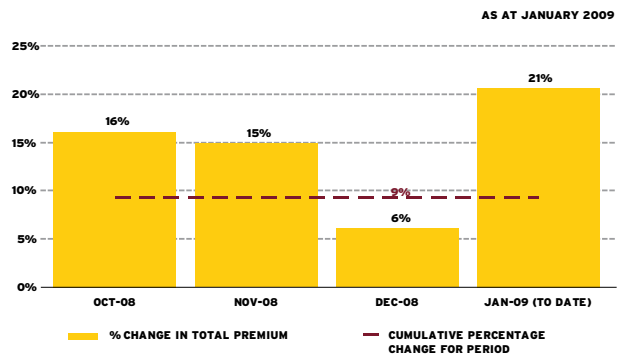
This lack of renewal activity is reflected in the level of premium generated during January totalling just US\$7.4 million, a 21% increase in premium on a like-for-like basis. Although this would appear to indicate that premium increases are rising, both Blue Wings and NASAir (the largest risks to renew) saw fleet growth of 25% and 65% respectively, with similar increases in liability exposures, thus further raising the level of premium generated. The total AFV for the month is just US\$1,114 million, an increase of 32% with passenger numbers totalling 2.8 million, an increase of 14%.

During January, all the renewals continued to see premium increases. The overall level of premium percentage increase to buyers continues to be higher than our lead terms figures suggest, as the following markets continue to close the percentage differential between their terms and those of the leader. This trend is likely to continue through 2009. Due to the small sample of renewals taking place at this time of the year it is unwise to draw anything but broad based conclusions from the figures as one renewal can significantly distort the figures. The global economic downturn has continued to affect the

industry with Fly LAL/Lithuanian Airlines ceasing operations in January, the first carrier to do so in 2009 with Macair of Australia also ceasing operations.

With many in the market believing that the current '2008 Cycle' commenced on October 1, we illustrate the percentage premium movements generated since October 2008. As expected the volume of premium generated is dominated by December. The premium generated since October 2008 totals US\$963 million, an increase of 9% compared to the same period 12 months ago.

HULL AND LIABILITY NET Q4 2008 AND Q1 2009 % PREMIUM MOVEMENTS



HULL AND LIABILITY

NET Q4 2008 AND Q1 2009 % PREMIUM MOVEMENTS

| 2008 | NO. OF RENEWALS | AFV % CHANGE | PAX % CHANGE | 2007 NET PREMIUM US\$M | 2008 NET PREMIUM US\$M | US\$M PREMIUM CHANGE | PREMIUM % CHANGE |
|------------------------------------|-----------------|--------------|--------------|------------------------|------------------------|----------------------|------------------|
| OCTOBER | 15 | 4.1% | 6.1% | 52.8 | 61.3 | 8.5 | 16.1% |
| NOVEMBER | 25 | 8.5% | 3.0% | 241.6 | 277.6 | 36.1 | 14.9% |
| DECEMBER | 53 | 4.6% | 0.5% | 583.2 | 619.0 | 35.8 | 6.1% |
| Q4 SUMMARY | 93 | 0.7% | 0.7% | 877.6 | 957.9 | 80.3 | 9.2% |
| 2008 | 209 | 7.5% | 4.4% | 1,330.3 | 1,446.7 | 116.4 | 8.8% |
| 2009 | NO. OF RENEWALS | AFV % CHANGE | PAX % CHANGE | 2008 NET PREMIUM US\$M | 2009 NET PREMIUM US\$M | US\$M PREMIUM CHANGE | PREMIUM % CHANGE |
| JANUARY | 4 | 31.8% | 14.1% | 6.1 | 7.4 | 1.3 | 20.6% |
| OCTOBER 2008 - JANUARY 2009 | | | | 883.7 | 965.3 | 81.6 | 9.2% |

2008 REVIEW

2008 saw nearly 210 airline programmes with an AFV in excess of US\$100 million renew, generating US\$1.45 billion in Net Premium on a like for like basis. This was an increase of 9% or US\$116 million on those programmes that have renewed.

In our various reports we detail two sets of premium figures which are obtained by using different selection criteria, these are a premium figure of US\$1,860 million which is our total airline premium figure including airlines with an AFV of less than US\$100 million, this is used in our Premium and Claims charts. The monthly and annual percentage change figures reported in this publication are calculated using airlines with an AFV in excess of US\$100 million with an expiring policy to enable a like for like comparison of market trends and totals US\$1,450 million.

The forward momentum for underwriters was eroded significantly by the industry economics and we estimate that there has been US\$50 million of premium lost through airline insolvency, with a further US\$7 million being lost through merger and acquisition activity. Underwriters therefore only managed to generate US\$60 million of additional premium on a lead basis.

Based on declared exposures, fleet values increased by 8% and passenger numbers increased by 4%. With many of the worlds larger airlines making substantial cuts in capacity and the worsening worldwide economic environment the actual exposures are likely to be significantly reduced. We believe that the AFV is likely to fall as aircraft are retired and deliveries postponed and that passenger numbers are likely to fall somewhere between 5 - 10% on the figures that many airlines declared at renewal. Premiums will therefore likely fall by a corresponding figure which would be between UD\$70 million and US\$145 million. It will not be possible to quantify this change until later in 2009 as airlines renew during 2009 and give details of their expiring and anticipated exposures for the following 12 months.

If exposure levels have fallen by these levels, it will have the effect of lowering the premium that insurers can expect to receive for the 2008 year of account, because when policies are adjusted they will have to return premium to insureds. This is likely to result in insurers looking to increase rating levels even further to offset the premium that they will have 'lost' as a result of the exposure reductions, so that premiums will at least remain at the levels that are currently anticipated for 2008.

Premium levels increased in every quarter of the year, with the fourth quarter of the year seeing a 9% increase and generating 66% of the annual premium and having the biggest impact on the annual percentage change figures.

The level of exposure increase fell as the year progressed and during the fourth quarter both hull and liability exposures saw a minimal increase of 1% this is believed to be primarily a result of the effects of the economic downturn becoming clear and being reflected in the exposure estimates made by airlines. We believe that the level of exposures will continue to fall as 2009 progresses until the worldwide economic environment improves.

The U.S. carriers deviated from the trend and benefitted from a lower level of increase than carriers domiciled elsewhere in the world. This was a consequence of the U.S. insurance markets (who underwrite the significant proportion of the U.S. risks) being prepared to give smaller rate increases than insurers in the rest of the world. Focussing their participations U.S. and Canadian risks, has generated a significant profit since 2001.

Vertical market differentials, the difference between the lead price and the following markets price, closed dramatically during 2008, with some programmes seeing following insurers achieve higher premium levels than the leader, this resulted in buyers incurring greater increases than the lead term figures that are shown in this publication.

The 2008 loss total is US\$1.4 billion which reflects a US\$653 million improvement on 2007 and a US\$16 million improvement on the figure for 2006.

With a five year average loss total of US\$1.4 billion, 2008 represents no worse than an average year for insurers (in terms of reserves), in the safer era of airline operation, established post 2001, the debate still continues as to how long this excellent record can continue.

There were five high valued hull losses (in excess of US\$25 million) and low levels of fatalities with only four of the major losses having passenger fatalities. Depending on your viewpoint 2008 was another year of, 'what might have been', when the losses are looked at in detail.

The largest loss of the year was the loss of a Spanair MD82 at Madrid Barajas International Airport, Spain on August 20, which resulted in the deaths of 153 passengers and has a total incurred reserve of under US\$150 million.

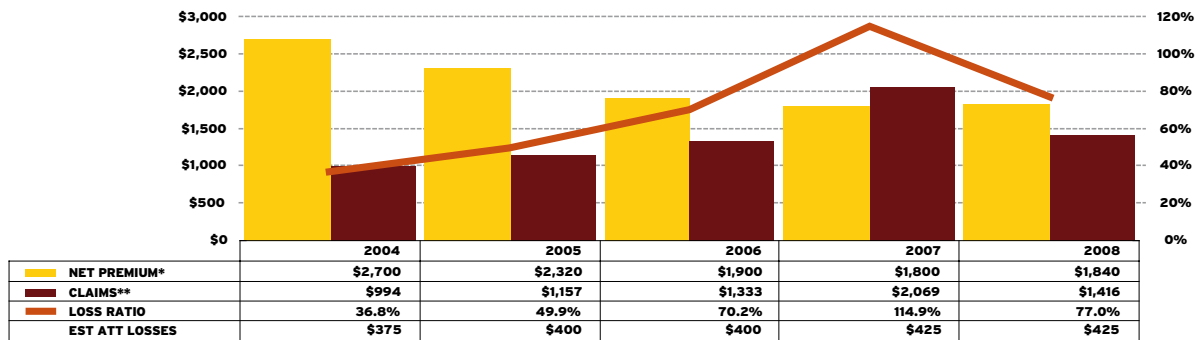
For the market overall, insurers made a technical surplus (Premiums less Claims), assuming that they wrote all business offered and incurred losses on all claims, before their operating expenses are taken into account.

| | NET PREMIUM % CHANGE | % SHARE OF ANNUAL PREMIUM | AVERAGE FLEET VALUE % CHANGE | PASSENGER % CHANGE |
|---------------------------|-------------------------------|------------------------------------|---------------------------------------|-----------------------|
| FIRST QUARTER 2008 | +2% | 2% | 11% | 7% |
| SECOND QUARTER 2008 | +12% | 14% | 21% | 20% |
| THIRD QUARTER 2008 | +6% | 18% | 5% | 5% |
| FOURTH QUARTER 2008 | +9% | 66% | 1% | 1% |

WORLD WIDE AIRLINE HULL AND LIABILITY PREMIUM AND CLAIMS 2004 - 2008 (NET LEADERS TERMS US\$M)

AS AT JANUARY 2009

5 YEAR TOTALS (2004 - 2008)
 PREMIUM: US\$10,560M
 CLAIMS (INC ATTRITIONAL): US\$6,969M
 PROFIT TO THE MARKET: US\$3,591M
 LOSS RATIO: 66%

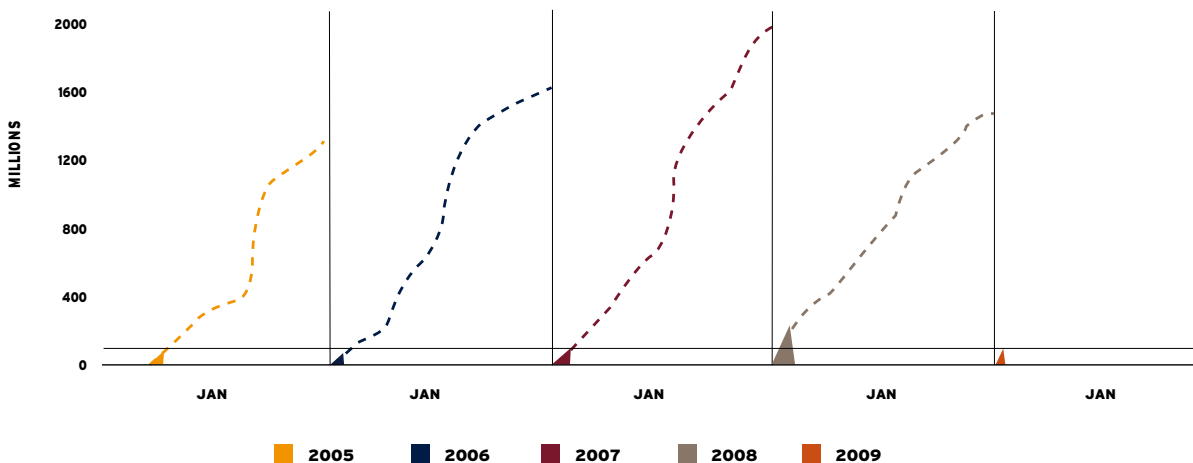


LOSSES UPDATE

The current loss figure for 2009 is US\$103 million, composed of US\$60 million hull and a pro-rata figure of US\$ 37.5 million in respect of attritional losses. This figure does not include reserves from some recent losses that are still to be confirmed and will therefore add to this total.

This early in the year it is difficult to draw significant conclusions from the loss activity to date.

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



Recent incidents of significance are detailed below:

On January 11, a Zest Air Xian MA-60, registration RP-C8893, undershot the runway on landing at Caticlan Malay Airport, Philippines. The aircraft struck a concrete barrier sustaining serious damage to its forward fuselage before coming to a stop with its undercarriage collapsed. Of the three crew and 22 passengers onboard the aircraft, one of the crew was seriously injured. The aircraft is a Constructive Total Loss (CTL).

Shortly after take-off from La Guardia Airport, New York, USA on January 15, a US Airways Airbus A320, registration N106US, is believed to have encountered a flock of birds. The aircraft suffered multiple bird strikes resulting in a complete or partial loss of thrust from its two engines with the aircraft subsequently ditching in the Hudson River less than six minutes after take-off. All occupants evacuated the aircraft, climbing onto the wing and entering life rafts. Coast Guard vessels and commuter ferries rescued everyone on board without any serious injury to the 150 passengers and five crew. The aircraft is a Total Loss.

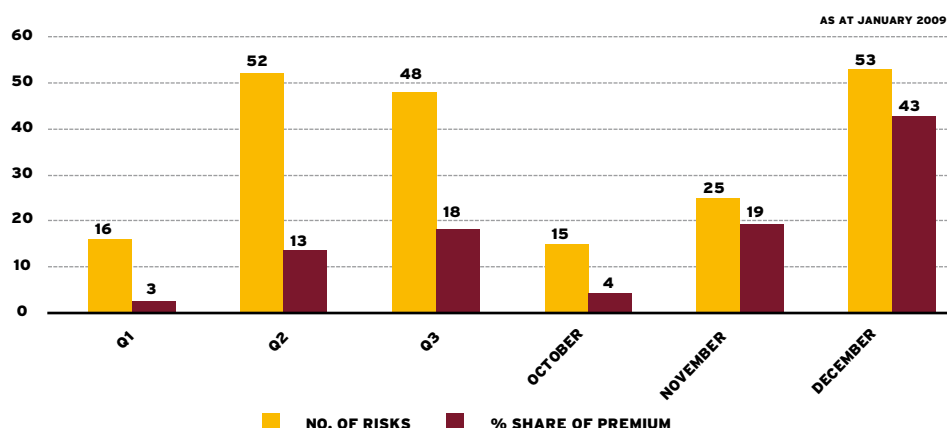
During landing at Tehran International Airport on January 19, Iran, an Iran Air Fokker 100, registration EP-CFN, sustained substantial damage when its right main undercarriage collapsed causing it to veer off the runway. All of the passengers and crew onboard the aircraft escaped without serious injury. The aircraft is a Constructive Total Loss.

An Empire Airlines ATR42-300F, registration N902FX, operating for Federal Express, reportedly struck the ground short of the runway while on approach to Lubbock Preston Smith International Airport, Texas, USA in poor weather conditions on January 27. The undercarriage collapsed and a large part of the right wing broke off. Ruptured fuel tanks caused a fire which quickly spread to the fuselage. Both pilots managed to escape from the ATR before it was consumed by flames. The aircraft is a Total Loss.

FORTHCOMING RENEWALS

HULL AND LIABILITY

2009 RENEWAL AND NET PREMIUM DISTRIBUTION



FOR PROGRAMMES WITH AN AFV IN EXCESS OF US\$100M

The very low level of renewal activity continues into February, with only five risks scheduled to renew, these are Aer Arran Express (Eire), Air Finland, Hi Fly (Portugal), Lotus Air (Egypt) and Skynet Asia (Japan). EOS previously a February renewal will not renew, as it ceased operations in 2008. Last year, February accounted for just 0.4% or US\$6 million of the annual income.

We would advise caution though, when looking at the monthly percentage change figures during the first quarter of 2008. With only a small number of risks renewing in each month, only 15 renewals anticipated in the first quarter of 2009 and only one programme renewing with a fleet value in excess US\$1,000 million it is easy for one renewal to distort the overall figures for a month or even whole quarter.

Additionally, in another continuation of recent trends we believe the percentage differential between lead and following markets will also continue to narrow generating larger increases for the buyers.

Under US\$40 million in premium was generated during the first quarter in 2008, compared to US\$108 million in April alone, which with 19 programmes scheduled to renew,

including a number of major programmes including Air Berlin (Germany), British Airways et al, Air Comet (Spain), Jet Airways (India) and Hainan Airlines (China) will see more activity than the entire first quarter.

We believe that renewals in the first nine months of the year will see a greater variance between 2008's declared exposures and the figures declared at renewal in 2009. There was more confidence in the first half of 2008 that the economic downturn would not be as severe as is becoming apparent, this is likely to result in adjusted premiums for 2008 renewal being much lower and that insurers will attempt to recoup this 'lost' premium by increasing rates to maintain premium levels for the catastrophe loss that recent incidents in the past two months will have reminded insurers is always a possibility.

The market will continue to be mindful of the challenges facing the industry and the impact that these will have in the shape and size of the major airline programmes. 2009 will be a year of continued uncertainty and the understanding and managing of the expectations of all parties will be a hard task. With so many external factors applying pressure, it could be some time yet before aviation insurance pricing is reflective of its changing risk profile.

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It is intended to highlight general issues which may be of interest and does not necessarily deal with every important subject nor cover every aspect of the subjects contained herein. If you intend to take any action or make any decision on the basis of the content of this bulletin, you should first seek specific professional advice and verify its content. Copyright Willis Limited. All rights reserved. Willis Limited, Registered number: 181116 England and Wales. Registered address: 51 Lime Street, London EC3M 7DQ Tel +44 (0)20 3124 6000. www.willis.com A Lloyd's Broker, Authorised and regulated by the Financial Services Authority for its general insurance mediation activities only.