

AEROSPACE SECOND QUARTER (Q2) 2009

Q2 2009 Aerospace monitored renewal premium totaled US\$177.6m, a reduction of 2.3% compared to Q2 2008. Manufacturer renewals dominate Q2 measured by premium volume accounting for 73.5% of the total. This is a higher proportion than that of Q2, 2008 and reflects the firmer stance taken by the London market towards manufacturer renewals in comparison to other sectors.

Q2 2009 Manufacturers total renewal premium is virtually unchanged compared to Q2, 2008 recording an increase of just under 0.6%, projected sales are down by approximately 2.2%. Despite the firmer stance taken by the market the Manufacturers sector renewal experience was varied. Of 49 renewals monitored 21 achieved premium reductions, largely due to reduced projected sales, 13 obtained 'as before' prices while 15 received increases. Reduced projected sales were recorded by 60% of companies that renewed in Q2 2009 compared to 31% of those that renewed in Q1 2009.

The Airports sector, Q2 2009, recorded a renewal premium reduction of 6% compared to Q2, 2008. This is a continuation of the trend established in Q1 2009, premium reductions have continued to reflect the exposure downturn experienced by the majority of operators and also reflect the ongoing influence of abundant capacity.

The market has maintained its efforts to stabilise its premium base but it continues to demonstrate that it will set renewal prices that reflect the merits and experience of each individual programme. It also remains sympathetic to the difficult trading conditions recorded by an increasing number of Aerospace insured's.

The tragic Air France and Yemenia losses that occurred in June 2009 have had no impact on the Aerospace sector to date. Our estimate of cumulative airline losses totals US\$1.755b as at the end of July 2009, indicating another year of loss for airline underwriters. This and the anticipated increase in reinsurance costs paid by aviation insurers has intensified the pressure on underwriters to increase premium generated from the airline sector at a particularly difficult time for many airlines as they face the ongoing impact of the recession and a growing impact of the H1N1 pandemic.

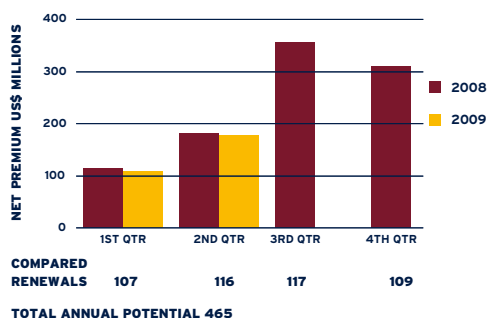
AEROSPACE YTD END Q2 RENEWAL PREMIUM CHANGE

AEROSPACE SECTOR	NET US\$ PREMIUM (M) 2008	NET US\$ PREMIUM (M) 2009	CHANGE %	RENEWING PROGRAMMES
MANUFACTURERS	175	176	0.1	86
AIRPORT	76	71	-6.1	75
ATC	13	12	-6.0	16
FUEL	19	19	-2.5	34
AIRPORT SERVICES	9	6	-29.5	12
OVERALL AEROSPACE	292	284	-2.9	223

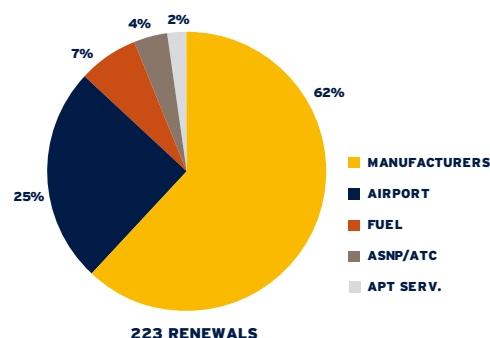
All expiring currency converted a 2009 US\$ ROE
All premiums are net



AEROSPACE QUARTERLY RENEWAL PREMIUM DISTRIBUTION YTD END Q2 2009 vs Q1-Q4 2008



AEROSPACE SECTOR PREMIUM SPLIT YTD END Q2 2009

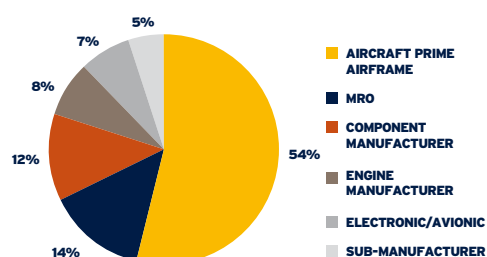


WILLIS MANUFACTURERS INDEX YTD Q2 2009 RENEWAL CHANGE

WILLIS MANUFACTURERS INDEX SECTOR	NET US\$ PREMIUM CHANGE*	ESTIMATED SALES CHANGE	RATE ON SALES CHANGE	RENEWING PROGRAMMES
AIRCRAFT PRIME MANUFACTURER	-1%	-7%	6%	4
SUB-MANUFACTURER	-12%	-5%	-7%	4
ENGINE MANUFACTURER	1%	-1%	3%	4
ELECTRONIC/AVIONIC	8%	11%	-3%	5
COMPONENT MANUFACTURER	6%	5%	1%	19
MRO	7%	4%	3%	10
TOTAL	1%	0%	1%	46

* All expiring currency converted a 2009 US\$ ROE

WILLIS MANUFACTURERS INDEX, PREMIUM DISTRIBUTION, BY SECTOR YTD END Q2 2009



Q2 sees 31 'Willis Index' renewals compared to just 15 in Q1. This provides a total of 46 Index renewals, part of an anticipated 113 for the year (2008 Index total renewals) for comparison. In terms of potential annual Index premium however, YTD Q2 represent just 20% of 2008 Index total premium base.

As was the case with the review of Q1 2009 individual sector renewal results are varied. YTD 2009 total Index premium increased by 1% compared to 2008.

Aircraft Prime Manufacturer, The premium anomaly (-20%) reported in Q1 2009, caused by the increase in the SIR of the single renewal in that quarter, has been submerged by the considerably larger programme renewals of Q2 2009 resulting in a clearer view of this sectors experience. Three Q2 renewals generate cumulatively US\$75m renewal premium, an increase of approximately 1% compared to Q2 2008. Projected Q2 sales are fractionally lower than those of the expiring year resulting in a small rate on sales increase of 1.25%. YTD the sector projected sales are down 7%, renewal premium, however, is down by just 1%.

Sub-Manufacturer, Q2 2009 saw renewal premium reduce by 18% compared with Q2 2008. This is due to the repositioning of a single manufacturer into this sector following a change in its manufacturing profile. Its altered exposure base, while not reflected in its projected sales, which actually grew, achieved a significant renewal premium reduction. The other Q2 renewing programmes in this sector all reported projected sales downturns that resulted in modest premium reductions. YTD the derived rate on sales for this sector has reduced by approximately 7%.

Engine Manufacturer, Three Index renewals during Q2 produced a total premium increase of approximately 0.5%, total projected sales are cumulatively down by almost 14.5% resulting in a sharp rise in the derived rate on sales of approximately 17%. YTD sees the overall Index premium for this sector up by 1%, projected sales down 1.5% with a derived rate on sales up 3%. The experience of this sector at the end of Q2 2009 compared to 2008 demonstrates the markets determination to maintain expiring premium levels.

Component Manufacturers, A total of 12 Index programmes renewed during Q2. Premium increased by 6.4% and projected sales by 5.7%. four renewals recorded a premium reduction all of which reported reduced projected sales. The remainder renewed 'as before' or, where projected sales were up, received premium increases. YTD Index renewals for this sector total 19, premium and projected sales are up 6% and 5% respectively, the derived rate on sales is up 1%.

Electronic/Avionic, Two Index renewals occurred in Q2, one renewed at expiring terms, one obtained a modest reduction, however, both recorded projected sales increases and consequently both achieved rate on sales reductions. YTD the

total renewal premium of this sector results in an increase of 8% while projected sales record an increase of approximately 11%, the rate on sales has consequently fallen by 3%.

MRO, Six Index renewals occurred in Q2. Two renewing programmes achieved 'as before' premiums, however, both projected increased sales and consequently achieved rate on sales reductions. The remaining renewals all experienced premium increases, three actually projected significant sales reductions cumulatively amounting to 23%, causing a 37% rate on sales increase. YTD this sector cumulatively results in a 7% premium rise, 4% sales rise and 3% increase of the rate on sales. The experience of certain Q2 renewals in this sector demonstrates underwriter's determination to react to losses or old year loss deterioration with robust pricing.

Overall renewal premiums of the Willis Index Q2 2009 are reflecting the firm 'no reductions' stance of the market. If the results of the Aircraft Prime and Sub Manufacturer sectors are excluded, (due to the profile and programme structure changes that have occurred) overall renewal premium increased by 6.8%, projected sales rose 8.7%, producing a small rate on sales reduction of 1.8%.

WILLIS AIRPORTS INDEX

The Willis Airports Index represents 61% of the total number of renewal placements and 75% of the renewal premium that have occurred YTD Q2 2009.

AIRPORTS INDEX YTD END Q2 2009 RENEWAL CHANGE

YTD Q2 2009/2008 COMPARISON							
REGION	PLACEMENTS **	EST PAX #	CHANGE	PREMIUM**	CHANGE**	PAX RATE	CHANGE
EUROPE	29	998,301,862	6.6%	44,642,763	-8.8%	0.04472	-2.3%
FAR EAST	4	491,423,884	-1.8%	4,231,420	-4.5%	0.00861	-2.7%
SOUTH AMERICA-CARIBBEAN	1	21,657,948	-16.7%	639,450	5.5%	0.02952	26.7%
PACIFIC REGION	-	-	-	-	-	-	-
MIDDLE EAST	5	75,545,432	13.2%	1,470,283	-0.1%	0.01946	-11.7%
AFRICA	7	53,548,906	2.0%	2,917,551	4.3%	0.05469	2.2%
OVERALL INDEX	46	1,640,478,032	-4.3%	53,901,467	7.5%	0.03286	-3.3%

* Renewing placements known as at June 30, 2009

** All expiring currency converted a 2009 US\$ ROE

Willis Airports Index* Q2 2009 renewal premium of US\$17.9m is a reduction of 7.5% compared to Q2 2008.

*adjusted premium by removal of ATC proportion of premium of combined programmes

As was the case in Q1 2009, it is European renewals that dominate Q2 2009 renewal activity. Projected passenger numbers for the European region register a fall of 6% (15.5m passengers), a slightly lower percentage downturn to that recorded in Q1 2009. The regions premium compared to Q2 2008 has reduced by approximately 9.5%. The derived rate per passenger shows a small reduction of approximately 4%, slightly above that recorded in Q1 2009. The market continues to respond to the difficult conditions experienced by the majority of European airport operators by maintaining a similar per passenger rate level. However, rate/premium increases have been applied where the claims history is poor or there is an experience of deterioration. In the few instances where projected passenger numbers have increased premium has generally risen, in these instances however, a modest derived rate reduction prevails.

The Middle East and Africa regions both record projected passenger growth of 13.2% and 2% respectively, however the premium experience differed considerably, the Middle East recording a negligible increase but achieved a significant reduction in rate per passenger while Africa received a premium increase of 4.3% resulting in a modest rate rise.

The Far East renewals during Q2 2009 compared to Q2 2008 registered a small passenger reduction of 2.5%, premium however, reduced by 6.5%, producing a rate per passenger reduction of 4.2%.

Q2 Airport Operators Liability renewals underline the popularity of this class to the market, High levels of capacity continue to drive competitive renewal pricing.

AIR NAVIGATION SERVICE PROVIDERS Q1 2009

Six pure ANSP/ATC programmes renewed during Q2 2009 generating a total net premium of US\$ 3.3m which is a reduction of 9.95% compared to the premium generated in Q2 2008. Projected aircraft movements, totaling 2.4m, represent an increase of 7% compared to Q2 2008, just one renewal recorded a slight fall in projected aircraft movements. A single renewal received a premium increase as a result of increasing its liability limit. YTD the underlying trend continues to be for premium reduction, as with the Airports sector it is the high level of capacity that is producing competitive pricing.

FUEL SUPPLIERS/REFUELLING

Q2 2009 net premium of US\$10.4m is unchanged compared to Q2 2008. Projected throughput in USGal's of approximately 14.2b, is a reduction of almost 10% compared to Q2 2008. The premium position is entirely due to a single renewal that received an 80% premium increase because of an old year loss. Excluding this renewal a premium reduction of 3.3% is recorded. YTD premium reduction is 6.3% while throughput reduction is approximately 3% (all excluding the one renewal referred to).

The underlying trend remains for modest reductions, where projected renewal throughput is flat or down. In instances where throughput is an increase, on the expiring programme, premiums generally increase dependent on the volume of increased throughput exposure. The class continues to be attractive to the market.

AIRPORT SERVICE PROVIDERS

Q2 2009 net premium for this sector records a reduction of 11% compared to Q2 2008. The market continues to monitor carefully the loss histories of insureds' in this sector. Renewal results reflect the experience of an individual insured rather than the sector as a whole. Adjustments to SIR and deductibles continue to be made that significantly impact premium levels. Some renewals are experiencing significant revenue downturn particularly as the airfreight/cargo operators continue to suffer in the current recession.

MARKET PERSONNEL CHANGES

There have been a significant number of resignations from the aviation division at the Aon Group, following the resignation of Jonathan Palmer Brown.

James Geller, of Ace Global Markets (Claims) has resigned and is to join QBE in London Insurance upon completion of his contractual obligations.

MARKET NEWS

AIG FORMS A SPECIAL PURPOSE VEHICLE

It was announced on July 27, that AIG has formed a special purpose vehicle (SPV), consisting of the equity in AIG's general insurance companies – Commercial Insurance, Private Client Group and American International Underwriters, of which AIG UK is a part of. It is the next step in the process of positioning them as an independent global general insurance company.

The new company is called Chartis. Kristian P. Moor has been named President and Chief Executive Officer and Nic Walsh as Vice Chairman. It will start to operate under the new name later in 2009.

PARTNERRE TO ACQUIRE PARIS RE

It was announced on July 6, that PartnerRe have entered into an agreement to acquire Paris Re, a Swiss based reinsurer. It is expected that the transaction will be completed in the first quarter of 2010. Until completion both entities will continue to conduct business as two separate entities. The combined entity will have a total capitalisation of US\$6.5b and assets of US\$23b.

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This is the Willis Aerospace Insurance Index our vehicle to keep our clients and others informed of developments in the aerospace insurance market.

We welcome any comments or suggestions you may have to improve this publication. All data and analysis within this newsletter includes all known information at the time of production and is based on the net London lead terms and structure of the renewing insurance programmes monitored.

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