

JUNE RENEWALS

Since the disappearance of the Air France A330 aircraft (AF447) on June 1, 2009 the airline insurance market has become very volatile. The accident which resulted in the deaths of 216 passengers and 12 crew, is likely to become one of the largest losses in terms of claims quantum since 9/11.

Insurers were already concerned that with reducing fleet values and falling passenger numbers the premium they expected to receive for the 2008 year of account would not be achieved. At the end of May losses were already at their worst, in monetary terms since 2000. This position has deteriorated further since the AF447 loss and the Yemenia loss of June 30. Insurers have indicated that in the following months they will seek to significantly increase premium levels.

Prior to the Yemenia loss it was being suggested by insurers that increases in the region of 30% on 2008 premium levels are required to enable insurers to have a viable market going forward. With the level of capacity still available in the worldwide market it remains to be seen if this level of increase is achievable.

For many of the June renewals, negotiations were already complete and orders had been given by the time of the Air France loss. As a result they did not see the level of increase indicated in the previous paragraph.

In addition many of the orders for July renewals had also been given and therefore when the final figures for the July renewals are known it is likely that this also will not truly reflect the level of rate hardening that is taking place in the current environment. It could therefore be a case of before and after for individual renewals.

The level of renewal activity in June showed a significant reduction on the previous two months, with just eleven renewals. Two of the months largest renewals in 2008, Ethiopian Airlines and Mexicana now renew in July and September respectively. This significantly reduced the level of renewal activity and makes it easy for one programme to distort the figures for the month. June generated premium of US\$35 million, an increase of 17%. The concerns of underwriters regarding their earnings being eroded through a downturn in exposures is underlined with the June renewals total Average Fleet Value (AFV) decreasing by 15% and passenger numbers showing a reduction of 22%.

There were just three risks that renewed with an AFV in excess of US\$1 billion, Aegean Airlines (Greece), Eva Airways (Taiwan) and Kingfisher Airlines (India). The largest single risk to renew in terms of exposure was EVA Airways, with an AFV of nearly US\$5 billion and passenger numbers of nearly 8.5 million. There were eight other risks with an AFV between US\$1 billion and US\$100 million.

The level of premium in 2009 (to date) totals US\$219 million, an increase of 10%, with income generated since October 2008 totalling US\$1,325 million, an increase of 7%. This increase is of course dependent on the exposure figures declared at renewal being achieved.

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	4.4%	-6.7%	67.8	78.0	10.3	15.2%
NOVEMBER	25	8.2%	2.8%	249.2	286.1	36.9	14.8%
DECEMBER	60	2.6%	-2.0%	723.8	749.5	25.7	3.6%
Q4 SUMMARY	100	0.7%	0.7%	1,040.8	1,113.7	72.9	7.0%
2008							
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%
FEBRUARY	3	57.3%	10.8%	3.8	4.6	0.8	21.1%
MARCH	4	11.7%	3.4%	17.0	20.5	3.5	20.9%
Q1 SUMMARY	11	25.0%	5.4%	26.9	32.5	5.6	20.8%
APRIL	19	-0.1%	-6.2%	94.0	98.7	4.6	4.9%
MAY	15	10.6%	0.0%	48.3	52.7	4.4	9.1%
JUNE (TO DATE)	8	-12.2%	-18.1%	24.8	30.0	5.3	16.8%
Q2 SUMMARY (TO DATE)	42	0.7%	-5.9%	167.1	181.4	14.3	8.5%
JULY (TO DATE)	7	0.5%	-15.0%	106.1	132.6	26.5	25.0%
2009 (TO DATE)	60	1.5%	-5.2%	300.2	346.5	46.4	15.4%
OCTOBER 2008 - JULY 2009 (TO DATE)				1,340.9	1,460.2	119.3	8.9%

THE FIRST HALF OF 2009

The first half of the year has been a period of contrast between two very different quarters. The first quarter of the year saw very little activity, with just 11 renewals and generated just US\$33 million in premium and with no renewals with an AFV in excess of US\$750 million.

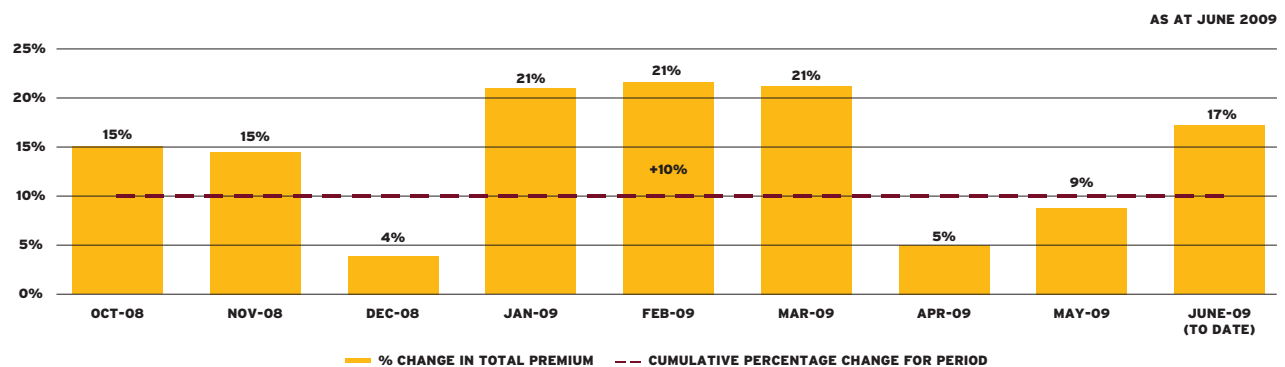
The second quarter saw activity increase significantly with 41 renewals, including some of the world's largest airline programmes. The quarter generated US\$187 million in premium, an increase of 8% which is very similar to the level of increase seen during the fourth quarter of 2008 and with the exception of airlines with losses looked to offer a more realistic guide to how the market was expected to proceed during the remainder of 2009.

During the first half of the year, those airlines renewing have seen a small increase in the total AFV generated but with passenger numbers reducing by 5%.

In addition during this time there were 12 incidents that have resulted in loss reserves in excess of US\$10 million. The three largest losses in terms of passenger fatalities and claims quantum will be the Colgan Air loss in February and the Air France and Yemenia in June. Claims for the first half of 2009 currently total US\$1,426 million (excluding attritional losses) and are at their highest at this point of the year since records began.

HULL AND LIABILITY

NET Q4 2008 AND Q1 2009 % PREMIUM MOVEMENTS



MARKET PERSONNEL CHANGES

John Larkins, Executive Loss Adjuster, at Ace Global Markets has resigned and is to join XL Insurance as Claims Manager, U.K. Aerospace upon completion of his contractual obligations.

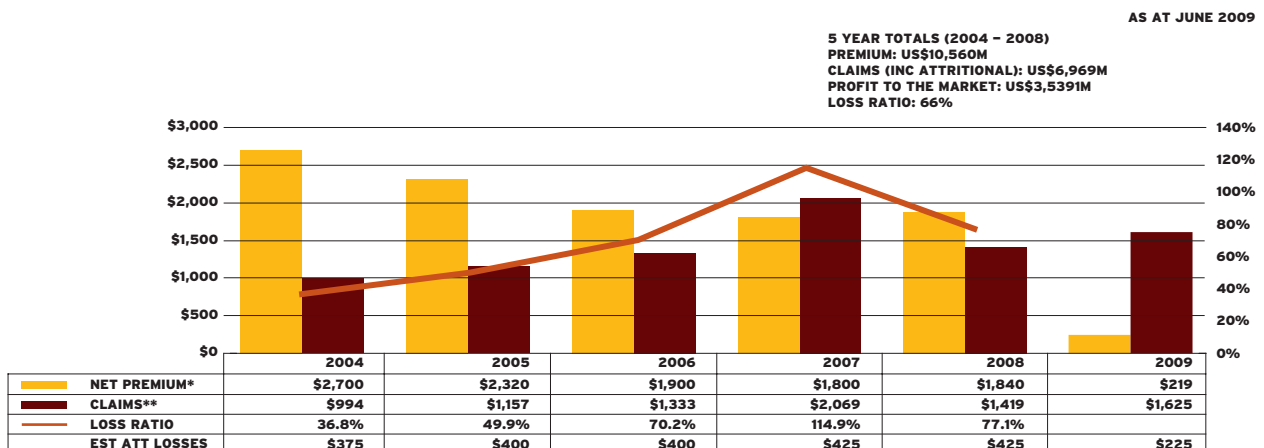
Richard Power of CV Starr has resigned and is to join the Catlin operation in London upon completion of his contractual obligations.

Global Aerospace Underwriting Managers have announced that with effect from July 1, 2009 that Michael Bannon will assume responsibility for the management of the underwriting at their three European centres in London, Zurich and Paris and his title will be Underwriting Manager, Europe.

It was announced on July 10, that Jonathan Palmer-Brown, of AON is to join Jardine Lloyd Thompson upon completion of his contractual obligations.

WORLD WIDE AIRLINE HULL AND LIABILITY PREMIUM AND CLAIMS

2004 - 2009 (NET LEADERS TERMS US\$M)



* Premium includes all known airlines and an estimate for untracked airlines, and is based on Net London Lead Terms.; it is subject to change as more information becomes available.

** Claims on expired years include the estimated figure for attritional losses.

LOSSES UPDATE

The current loss figure for 2009 is US\$1,651 million, composed of US\$450 million hull losses, US\$950 million in liability claims and a pro-rata estimated figure of US\$225 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.

Prior to the Air France loss of June 1, the second quarter of 2009 had been relatively quiet in terms of loss frequency and severity and 2009 was slowly becoming a more normal year in terms of reserves. As a consequence of AF447 and the Yemenia loss, the position is now the worst since records began. If the market were to see an average level of losses (as seen in the past five years) for the second half of the year we are likely to see claims costs for the year reaching a figure in the region of US\$2.5 billion.

Recent incidents of significance are detailed below:

On June 1, an Air France Airbus A330-200, registration F-GZCP, crashed into the Atlantic Ocean off the coast of Brazil whilst on a flight from Rio de Janeiro to Paris, France. Aircraft wreckage and bodies have subsequently been found in the ocean. There were 216 passengers and 12 crew on board the aircraft when it disappeared and all are presumed to have perished.

On landing at Diwopu Airport, Urumqi, China on June 3, a China Cargo Airlines Boeing (McDonnell-Douglas) MD-11F, registration B-2175 reportedly touched down hard and suffered a tail strike, sustaining damage. There were no injuries reported.

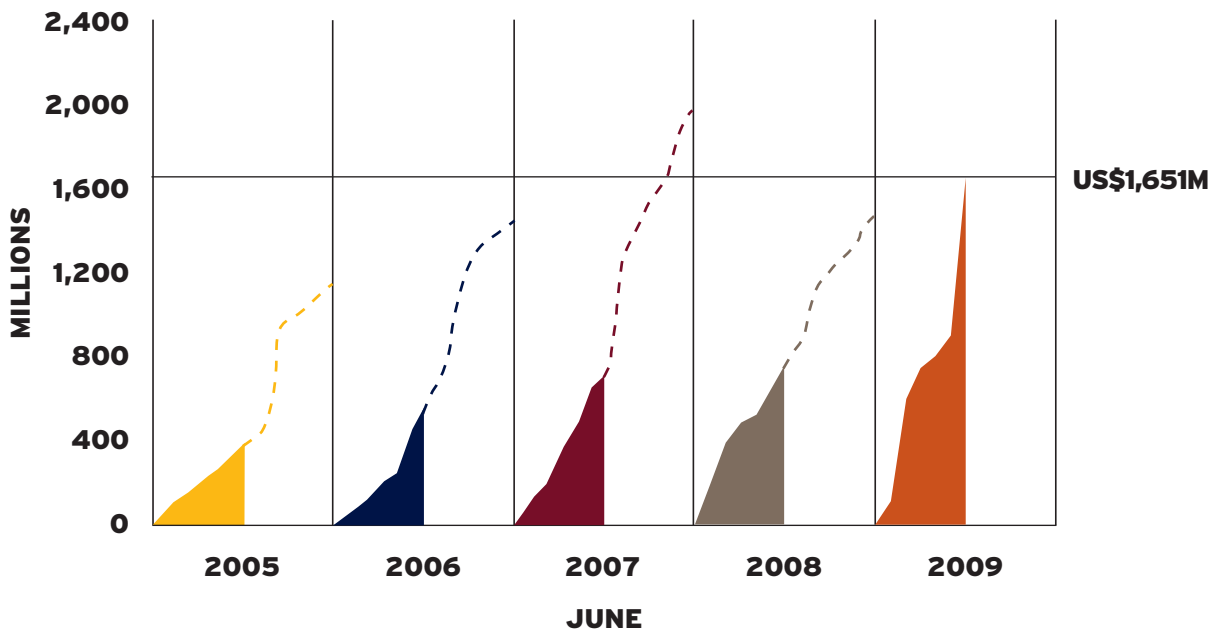
A Fokker F28-4000, registration XY-ADW of Myanmar Airlines sustained substantial damage on June 6, when the aircraft's right main undercarriage failed and collapsed on landing. The aircraft eventually came to rest on its belly at Sittwe Airport, Myanmar. There were no reported injuries.

On June 11, an Atlantic Southeast Airlines (part of the Delta Air Lines programme), Bombardier CRJ-200, registration N857AS sustained substantial damage when it landed with its left main undercarriage retracted and veered off the runway coming to a stop on the grass verge. The three crew and 19 passengers were all uninjured in the accident.

A Fairchild Dornier 328-100, registration PK-TXN of Express Air sustained damage on June 14, at Tanahmerah Airport, Indonesia when the aircraft veered to the right and ran off the edge of the runway onto the grass verge on landing. The aircraft's right wing dropped and the propeller struck the ground and separated from the aircraft. There were no reported injuries.

On June 30, a Yemenia Air Airbus A310-300, registration 70-ADJ, was destroyed when it crashed whilst on approach to Moroni Airport, Comoros following a flight from Sana'a, Yemen. At this stage there is no conclusive evidence to suggest the cause of the crash. A 14 year old girl was the only survivor from the 142 passengers and 11 crew.

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



Note: The loss reserve development only contains known liability reserves.

FORTHCOMING RENEWALS

July sees a significant increase in renewal activity, with 33 risks scheduled to renew, including some of the world's largest programmes.

In 2008 July generated over US\$225 million in premium or 13% of the years premium and was the year's the second busiest month in terms of the number of renewals (only December sees more renewals) and third busiest in terms of premium income generated.

There are two programmes, American Airlines and Federal Express with an AFV in excess of US\$10 billion. China Airlines (Taiwan), which has changed broker from AON to JLT, is expected to renew with an AFV in excess of US\$7 billion, in addition there are seven programmes expected to renew with an AFV between US\$1-5 billion, with the remainder having an AFV between US\$1 billion and US\$100 million.

Included within these figures are three of the world's largest cargo operators. Following a number of large cargo operator losses in recent years it will be of interest to all parties involved to see the level of increase that these carriers incur.

The geographic spread of renewals is also varied with 13 risks domiciled in Europe, with five each in North America and the Far East, with four from Africa, three each from the Middle East and South America. There are two carriers from the Indian Sub Continent. This is as a consequence of the NACIL programme (Air India and Indian Airlines) electing to extend their 2008 expiring policy and will now renew in October, SriLankan Airlines extended its expiring policy and will now renew in July.

These extensions in period could mark the start of a trend that could have a significant impact on the 2009 renewal calendar as we believe that there are around 20 programmes that have the option to extend their current policy at pro-rata terms during the fourth quarter of the year, which if exercised would result in their next renewal date occurring in 2010. This movement of renewals would potentially have the effect of removing in excess of US\$225 million of premium from insurers 2009 year of account.

We believe that insurers are being more successful in significantly increasing rates following the Air France and Yemenia losses. Based on information known at the time of writing premium is showing an increase in the region of 25%, although there are still over 20 risks for which renewal information is not currently confirmed and these figures could see significant change.

AIRLINE	RENEWAL DATE	EXPRING AFV US\$M
AMERICAN AIRLINES	1-JUL-09	18,602
FEDERAL EXPRESS	1-JUL-09	12,881
ALASKA AIR GROUP	1-JUL-09	4,863
TACA GROUP	1-JUL-09	1,633
SPIRIT AIRLINES	1-JUL-09	1,539
ETHIOPIAN AIRLINES	1-JUL-09	1,114
VOLGA DNEPR	1-JUL-09	1,030
WIZZ AIR	1-JUL-09	813
VOLARIS	1-JUL-09	806
ONUR AIR	1-JUL-09	779
MIDDLE EAST AIRLINES	1-JUL-09	721
AIR MACAU	1-JUL-09	668
TIGER AIRWAYS	1-JUL-09	590
AIGLE AZUR	1-JUL-09	372
OMNI AIR INTERNATIONAL	1-JUL-09	342
ATLASJET INT'L AIRWAYS	1-JUL-09	338
AIR MEDITERRANEE	1-JUL-09	312

AIRLINE	RENEWAL DATE	EXPRING AFV US\$M
MANDALA AIRLINES	1-JUL-09	287
AIR ITALY	1-JUL-09	242
KIBRIS THY	1-JUL-09	202
ARKIA	1-JUL-09	170
MERPATI NUSANTARA	1-JUL-09	142
HELLO	1-JUL-09	120
AEROFLOT	2-JUL-09	2,566
SIBERIA AIRLINES	7-JUL-09	583
ARIK AIR	7-JUL-09	442
SRILANKAN AIRLINES	11-JUL-09	965
VARIGLOG	11-JUL-09	469
AFRIQIYAH AIRWAYS	11-JUL-09	312
CHINA AIRLINES	15-JUL-09	7,487
TNT HOLDINGS	15-JUL-09	1,025
BINTER CANARIAS	26-JUL-09	240
INDIGO	28-JUL-09	977

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