

AIRLINE RENEWALS

March has been another month with low levels of renewal activity and comparatively low premium volumes. While it is the busiest month of the year thus far it still witnessed just four renewals.

The March renewals are Bangkok Airlines (Thailand), Free Bird Airlines (Turkey), Iran Air and KD Avia (Ukraine). These airlines represent a diverse cross section of the industry but cannot be truly indicative of any market direction. None of these renewals has an Average Fleet Value (AFV) in excess of US\$650 million.

The current level of premium increase is 21%, however, the minimal renewal data collected and therefore the high potential for any single renewal to significantly distort the overall averages makes it extremely hard and unwise to draw any meaningful conclusions.

A recurring theme of recent months and one that will undoubtedly continue as 2009 progresses is that the number of renewals in March was reduced as a consequence of airline industry challenges, insolvency and consolidation.

Avolar (Mexico) stopped flying in August 2008 and Air Nostrum, previously the largest risk during March in terms of exposure, elected to join the Iberia programme at the natural expiry of its 2008 policy. In addition Jet8, a Singapore based cargo operation has extended its expiring policy until 31st May. In 2008 the month generated just 1.6% of the year's annual premium, a figure that will reduce in 2009.

This lack of renewal activity is however not reflected in the level of premium volume generated during March which totalled US\$21 million (significantly higher than the previous two months), a 21% increase in premium on a like-for-like basis. The largest risk to renew during the month is Iran Air with an AFV of US\$605 million, which saw fleet growth of 19%, with passengers totalling 12.5 million, growth of 12%. The total AFV for the month is just US\$1,579 million, an increase of 12%. Passenger numbers totalled 17 million, an increase of 3% compared to last year.

The overall premium figure for March is distorted by the Iran Air renewal, which because of various sanctions restricting the number of insurers that can participate and a number of losses in recent years pays a higher premium than similar sized carriers domiciled elsewhere in the world. The renewal of KD Avia paid a significant increase in premium as a consequence of suffering the total loss of a B737-300 in October, 2008.

All the renewals during the month received premium increases of varying degrees, additionally the level of differential between lead terms and following markets continued to narrow. Some insurers again received premium levels in excess of the lead insurer, thus generating higher increases in the actual premium paid than our average's suggest. This trend is likely to continue through to at least the final quarter of 2009.

The only realistic conclusion is that insurers seem to be being successful in their continued efforts to increase premium levels. With just 11 renewals thus far in 2009 however this could change after the renewal of one large risk. With a number of sizeable programmes coming to market in April no meaningful analysis can be made until these details are fully available.

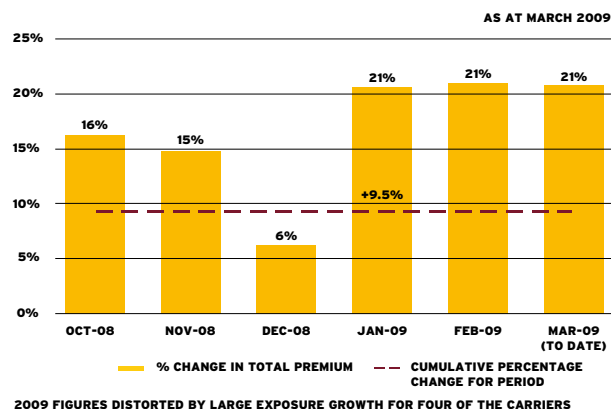
With a number of major losses having occurred in the first three months of 2009, resulting in reserves totalling in excess of US\$660 million, this has been the worst start to year in terms of claims since 2000 which went on to generate losses in excess of US\$1.7 billion.

Indeed at the end of March the claims total for 2009 stood at 47% of 2008's annual claims reserves, with just a quarter of the year passed.

It is likely that in the following months insurers will attempt to use these figures as part of their arguments to at least maintain premium levels at their 2008 levels which with falling exposures would result in rate increases. We believe they are currently being successful in their efforts to do so for those risks renewing in April.

A more meaningful figure in terms of premium, is the income generated since October 2008, which totals US\$990 million, an increase of 9.5% compared to the same period 12 months ago, this compares to a premium increase of 9.2% at the end of the fourth quarter of 2008, despite the small number of renewals and premium generated thus far in 2009.

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



HULL AND LIABILITY

NET Q4 2008 AND Q1 2009 % PREMIUM MOVEMENTS

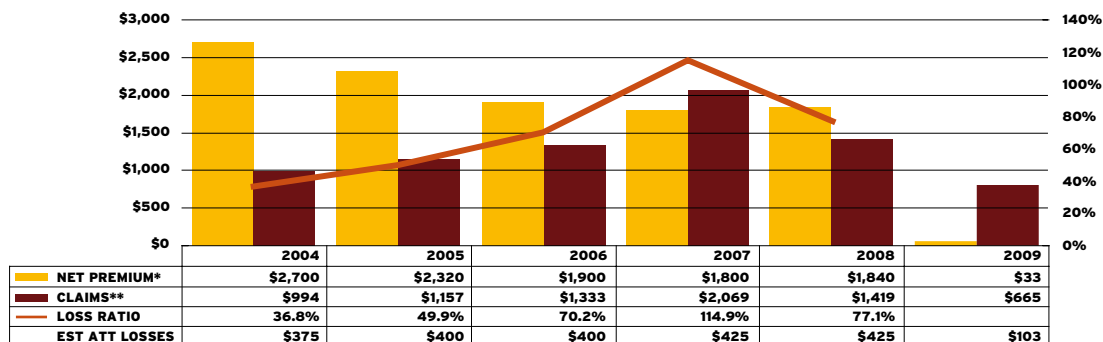
| 2008 | NO. OF RENEWALS | AFV % CHANGE | PAX % CHANGE | 2007 NET PREMIUM US\$M | 2008 NET PREMIUM US\$M | US\$M PREMIUM CHANGE | PREMIUM % CHANGE |
|-------------------|-----------------|--------------|--------------|------------------------|------------------------|----------------------|------------------|
| 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% |
| 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 | 2.1 | 20.8% |
| OCTOBER 2008 - MARCH 2009 | | | | 904.5 | 990.4 | 81.6 | 9.5% |

WORLD WIDE AIRLINE HULL AND LIABILITY PREMIUM AND CLAIMS 2004 - 2009 (NET LEADERS TERMS US\$M)

AS AT MARCH 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%



* PREMIUM INCLUDES ALL KNOWN AIRLINES AND AN ESTIMATE FOR UNTRACKED AIRLINES, AND IS BASED ON GROSS LONDON LEAD TERMS; IT IS SUBJECT TO CHANGE AS MORE INFORMATION BECOMES AVAILABLE

** CLAIMS ON EXPIRED YEARS INCLUDE THE ESTIMATED FIGURE FOR ATTRITIONAL LOSSES

HULL WAR

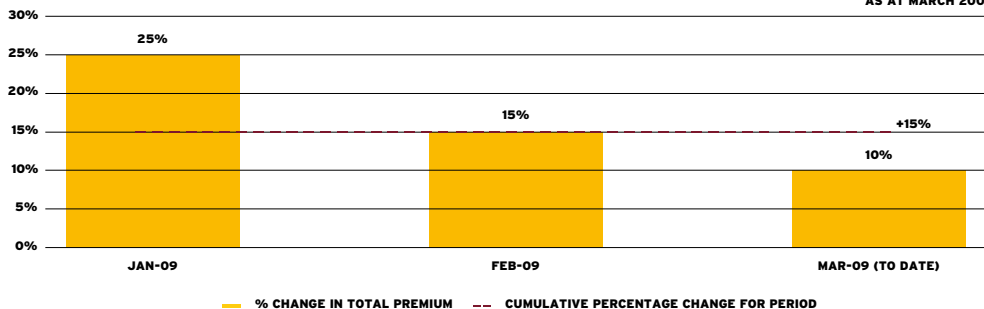
This sector of the market has a very similar renewal profile to that of the hull and liability market. As a consequence there have been very few renewals in 2009, although the largest risk to renew in the first quarter was the Emirates Group programme.

Rates, in the main are unchanged, but as a consequence of the Average Fleet Value (AFV) increasing by 16% during the first quarter, premium has increased by a comparable amount. The small sample of renewals in the first quarter makes it unlikely that this level of increase in terms of exposure and premium will be sustained.

As the larger programmes renew with reduced AFV's it remains to be seen what will happen to rates in view of the potentially reducing premiums.

GROSS 2009 % PREMIUM MOVEMENTS

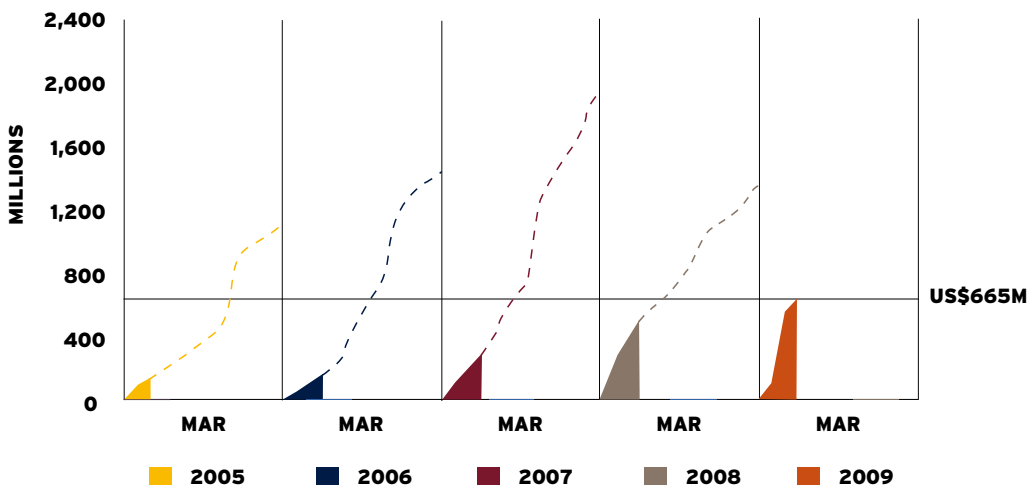
AS AT MARCH 2009



LOSSES UPDATE

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)

Please note the loss reserve development chart only contains known liability reserves.



The current loss figure for 2009 is US\$665 million, composed of US\$197 million hull, US\$356 million liability and a pro-rata figure of US\$113 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.

Until the middle of February known incurred loss reserves were on par with recent years. A number of high profile losses in the last six weeks, most notably the Colgan Air loss on February 12, has produced a far higher incurred loss position. The 2009 first quarter loss position is now the worst since the year 2000.

In terms of passenger fatalities, 2009 has not seen a significant increase over 2008 which may bode well for the rest of the year according to recent analysis published by the International Civil Aviation Organisation (ICAO). Analysis of fatal accidents experienced by scheduled airline operations from ICAO member states showed that 2008 had seen a year-on-year reduction of 25% in air accident deaths when compared to 2007.

This represents a drop from 587 passenger fatalities in 2007 to 439 in 2008 from 11 fatal accidents in each year based on ICAO's analysis criteria. The scheduled airline operations accident rate also showed a marginal decrease, down from 0.01391 passenger fatalities per 100 million passenger-kilometres in 2007 to 0.01370 in 2008, continuing the trend since 1990.

Recent incidents of significance are detailed:

On February 28, Atlantic Southeast Airlines Bombardier CRJ-200ER, registration N830AS, suffered a fire in the cockpit whilst parked at the gate at Tallahassee International Airport, Florida, USA. Only the crew were onboard the aircraft at the time of the incident and were able to exit the aircraft without suffering injury before fire services were able to extinguish the fire. Substantial damage was reportedly caused to the cockpit area.

Shortly after landing in heavy rain at Jakarta International Airport, Indonesia, on March 9, an MD-90, registration PK-LIL, operated by Lion Air, left the runway and ran onto soft ground and made a 180 degree spin before eventually stopping tail first in an open field. According to reports the landing gear was damaged and there were some cracks on the left wing. All of the 166 passengers and six crew onboard were safely evacuated.

On landing in high winds at Tokyo Narita International Airport, Japan, on March 23, a Federal Express Boeing (McDonnell-Douglas) MD-11F, registration N526FE, according to reports it bounced on first touchdown, then dropped from 50-100 ft onto the nose wheel. At this point the aircraft rapidly banked to the left causing the port wing impacted the ground and a fire erupted. The aircraft rolled further onto its back and slid off the runway. The aircraft was destroyed and both crew members were killed.

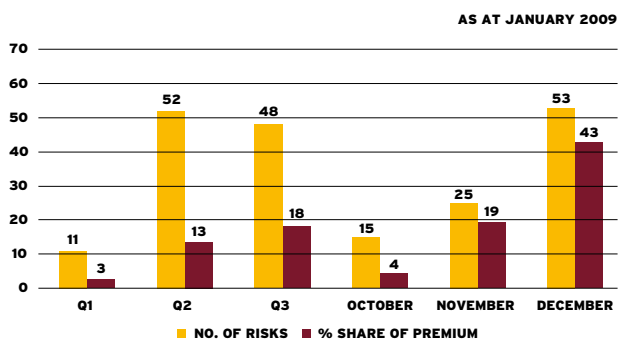
During its landing roll out following arrival at Istanbul Atatürk International Airport, Turkey, an Embraer ERJ-145, registration UR-DNE, operated by Dniproavia, ran off the end of the runway on March 23. The aircraft's nose undercarriage collapsed, but there were no injuries to the 44 passengers and crew on board.



FORTHCOMING RENEWALS

HULL AND LIABILITY

2009 RENEWAL AND NET PREMIUM DISTRIBUTION



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

The second quarter of 2009 will see activity increase considerably in comparison to the first. It has nearly four times the number renewals and also includes some of the world's largest insurance programmes. Despite this sharp increase in activity in 2008 the second quarter only generated 13% of the year's annual premium.

April is the busiest month of the quarter with 18 renewals, more renewals than the entire first quarter. The British Airways programme is the largest programme in terms of exposure to renew in April. To highlight the impact of the major programmes, it is likely that this programme alone will generate more premium than the entire first quarter of 2009.

The number of risks renewing in April is less than in 2008 as a result of Jeju Air (Korea) ceasing operations in 2008 and SriLankan Airlines extending their policy to July. We have however seen Aerolineas Argentinas and Austral of Argentina electing to leave the Air Comet programme and renew in April in a new combined programme.

There are three risks renewing with an expiring AFV in excess of US\$5 billion, two risks in excess of US\$1 billion with the remainder having an AFV between US\$1 billion and US\$100 million.

The geographic spread of renewals is also varied with nine risks domiciled in Europe, three African carriers, two in India and Asia respectively and one each in North and South America.

April will offer the first real chance to see how the attitude of insurers has developed since the final quarter of 2008. Are we simply going to see a continuation of the cycle started as we approached the final quarter of last year or will we witness a further hardening of their stance.

APRIL RENEWALS

| AIRLINE | RENEWAL DATE | AFV US\$M |
|---------------------------------|--------------|-----------|
| BRITISH AIRWAYS | 1-APR-09 | 21,161 |
| AIR COMET | 1-APR-09 | 550 |
| AEROLINEAS ARGENTINAS | 1-APR-09 | 1,236 |
| MERIDIANA GROUP | 1-APR-09 | 923 |
| EVERGREEN INTERNATIONAL | 1-APR-09 | 753 |
| AIR MAURITIUS | 1-APR-09 | 692 |
| AIR TAHITI | 1-APR-09 | 405 |
| NEOS | 1-APR-09 | 272 |
| COMPAGNIE CORSE MEDITERRANEE | 1-APR-09 | 208 |
| AIR MADAGASCAR | 1-APR-09 | 195 |
| TACV | 1-APR-09 | 149 |
| AIR BERLIN | 4-APR-09 | 3,894 |
| ARIK AIR | 7-APR-09 | 442 |
| HAINAN AIRLINES | 8-APR-09 | 7,169 |
| SKY AIRLINES | 9-APR-09 | 206 |
| JET AIRWAYS (INDIA) | 16-APR-09 | 5,592 |
| SPICEJET | 20-APR-09 | 955 |
| AIR ASTANA | 26-APR-09 | 743 |

The wide selection of renewals, in terms of size, geographic region and type of operation will provide some insight. Importantly it will also be the first real chance for the market to see how realistic the exposure figures declared in 2008 have proved to be and how likely it is that insurers will be returning premiums to airlines when the final adjustments are made for the 2008 programmes.

The market will watch with interest the changes in premium that the April renewals receive, as this is likely to set the benchmark for the treatment of the renewals following in the next few months. We believe that insurers are being successful in their efforts to increase premiums for those risks renewing in April, although not at the level seen in the first three months of 2009.

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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.

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