AIRLINE INSURANCE

Willis

INSIGHT

NOVEMBER 2008

NOVEMBER RENEWALS

The market continued to show a hardening in rating conditions in November. Premium increased by 16% on a like for like basis, this figure is higher than the 11% increase seen for renewals in October. This month is likely to give a better indication of how the larger renewals in December will fare as some of the world's largest programmes renewed.

With only 18 renewals November is relatively quiet, now being the third busiest in the renewal calendar after December and July. Due to the size of some of the renewals, it will however generate the second highest volume of premium in 2008.

There were three renewals with an Average Fleet Value (AFV) in excess of US$20 billion and two with an AFV in excess of US$10 billion.

Included within the 18 renewals are five pure cargo carrier programmes. This sector of the market has suffered a number of major losses in the past 12 months and as a consequence is incurring higher rate increases than passenger carrying airlines. In November the cargo carriers saw a premium increase of 40%.

There have been a small number of U.S. carriers renew recently, although none are U.S. Major carriers. We believe that the international insurers are showing a harder attitude than those in the U.S. and are attempting to achieve higher percentage increases in premium. Many of the U.S. based underwriters only participate on U.S. risks and these have seen a relatively low level of loss activity since 2001, this is resulting in orders to the non-U.S. markets being reduced.

The number of renewals in November has seen a reduction on 2007, with the Qantas Programme (consisting of Qantas, Air New Zealand, Air Pacific, Jetstar Asia and Pacific Airlines) now renewing in December. Cathay Pacific which includes Air Hong Kong and Dragonair extended their previous renewal period and will now renew on December 15, as a consequence November will generate a smaller share of the annual premium than the 19% produced last year.

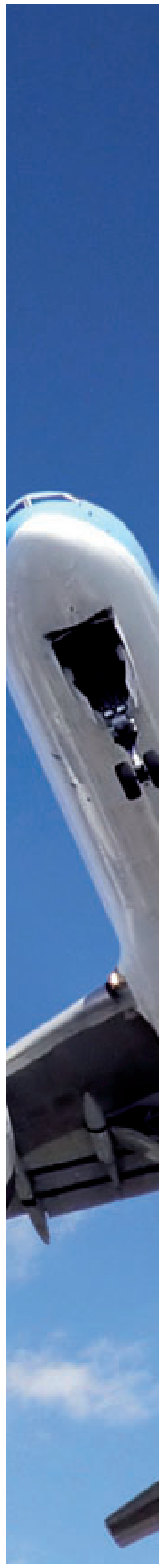
Despite the well documented economic downturn that has resulted in many of the worlds airlines seeing a reduction in passengers, the month's renewals have declared increased exposure projections for the next 12 months, the AFV is projected to increase by 8% or US$13 billion and passenger numbers increase by a smaller 3% or ten million passengers. Whether these increases in exposures will be achieved only time will tell. Based on these headline exposure increases, rates for those risks renewing in November are seeing increases that are amongst the highest seen during the year.

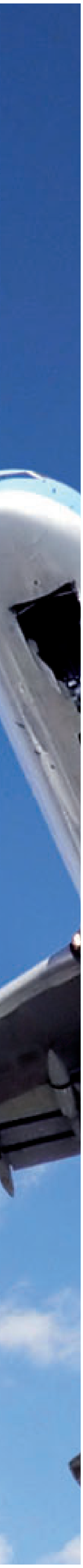
The lack of any catastrophe losses and theoretical amount of capacity available does not appear to have tempered the level of increase insurers are seeking and achieving rate increases in an environment where in the past, the downward trend would have continued. Additionally the overall level of percentage composite increase will be higher than our figures indicate as they are based on lead terms and the following markets continue to close the percentage differential between their and the lead terms. A trend that is likely to continue in future months.

The total of premium generated in 2008, including known December information to date is US$1,233 million, an increase of 9%, or US$101 million of additional premium on a like for like basis. However the 11 months to the end of November, 2008 have generated US$1,028 million in gross premium, compared to US$982 million for the same period in 2007, this is a much smaller 5% increase in premium for insurers. These figures are based on the premium income that incepted in the each of the years until the end of November.

Programme consolidation and airlines ceasing operations are continuing to offset some of the headway that insurers are making in their bid to increase premium levels. In addition the market is starting to see premium being returned to insured's as expiring policies are adjusted and the previously declared exposures were not achieved. These adjustments are not tracked in our analysis but best 'guestimates' at the impact are 3% or US$50 million of premium.

GROSS 2008 HULL & LIABILITY PREMIUM BALANCE





HULL AND LIABILITY

GROSS 4TH QUARTER 2007 AND 2008 % PREMIUM MOVEMENTS

2008	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2007 PREMIUM US$M	2008 PREMIUM US$M	US$M PREMIUM CHANGE	PREMIUM % CHANGE
JANUARY	3	41.6%	69.3%	3.7	4.8	1.1	29.5%
FEBRUARY	4	26.8%	25.8%	5.0	5.7	0.7	14.1%
MARCH	5	11.0%	1.4%	25.3	26.1	0.8	3.1%
Q1 SUMMARY	**12**	**17.5%**	**3.0%**	**34.0**	**36.6**	**2.6**	**7.6%**
APRIL	18	22.4%	16.8%	102.9	112.4	9.6	9.3%
MAY	13	12.4%	20.3%	48.9	54.0	5.1	10.5%
JUNE	12	28.9%	19.6%	43.2	45.4	2.2	5.1%
Q2 SUMMARY	**43**	**17.7%**	**16.0%**	**195.0**	**211.9**	**16.9**	**8.7%**
JULY	27	6.9%	12.5%	198.9	217.1	18.2	9.2%
AUGUST	7	3.9%	2.0%	38.4	35.5	-2.9	-7.6%
SEPTEMBER	7	12.4%	3.7%	34.4	36.0	1.7	4.9%
Q3 SUMMARY	**41**	**15.1%**	**8.8%**	**271.7**	**288.6**	**17.0**	**6.3%**
OCTOBER	14	3.0%	-9.5%	69.1	76.3	7.2	10.5%
NOVEMBER	18	8.4%	2.5%	249.9	290.4	40.6	16.2%
DECEMBER (TO DATE)	21	7.4%	3.5%	324.9	349.5	24.6	7.6%
	53	**7.1%**	**2.1%**	**643.8**	**716.2**	**72.4**	**11.2%**
2008 TO DATE	**149**	**9.7%**	**5.5%**	**1,144.5**	**1,253.4**	**108.9**	**9.5%**

Premium movement % derived from Airlines Renewing with Average Fleet Value US$100 million and greater.
Comparisons made from annual renewal figures year-on-year.

INSURANCE PERSONNEL CHANGES

XL Insurance has appointed Christopher A. O'Gwen as Chief Underwriting Officer, Global Aerospace. Prior to his appointment Mr. O'Gwen was Regional Manager of XL Insurance's U.S. Aviation team and has 12 years experience in the aviation insurance market. He will continue to be based in New York and report to Dermot O'Donohoe, Chief Underwriting Officer, Global Specialty at XL Insurance. Eric Donofrio will take over as Regional Manager of XL Insurance's U.S. Aviation team.

BADEN BADEN

The annual reinsurance conference recently took place in Baden Baden, in the past has enabled brokers to ascertain how reinsurers attitudes are likely to evolve in the following 12 months and the issues concerning them.

There was a clear realisation that both the insurance and reinsurance industry will continue to generate losses (realised or unrealised) on their investment portfolios. This is reducing the overall capacity available to write ongoing business. There was considerable discussion about raising fresh capital. In addition there was general talk about reinsurers needing to charge more for the cost of their capital. A few were talking openly about large across the board rate increases but many more were talking about differentiation by class, client and territory.

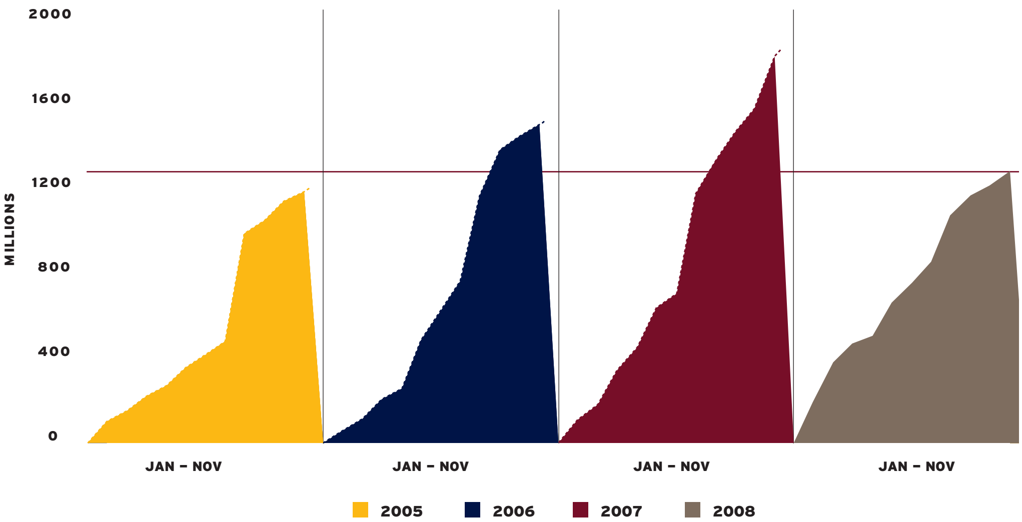
RATING OUTLOOK

The general consensus amongst attendees was of a flat market or marginal rate increases at January 1, 2009, outside the peak catastrophe zones and class specific capacity issues for those sectors with high capital requirements of which aerospace is one. It is therefore possible that direct aviation insurers will start to see their reinsurance costs increase in 2009 which will further increase the pressure on underwriters from their managements to continue increasing rates.

LOSSES UPDATE

The current loss figure for 2008 is US$1,289 million, composed of US$565 million hull, US$334 million liabilities and a pro-rata figure of US$390 million in respect of attritional losses. Despite some recent major losses, 2008 is showing a significant improvement over the same point in 2007 having incurred US$508 million less in claims to date. The year to date also shows improvement over 2006 with the current position US$43 million better off. This figure does not include reserves from some recent losses that are still to be confirmed and will therefore add to this total.

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



Recent incidents of significance are detailed below:

- On November 6, Express Air, Dornier 328, registration PK-TXL, landed short of the runway threshold at Fak Fak Airport, Indonesia. The aircraft suffered a collapse of the left main gear causing the aircraft to drift to the right before coming to rest near the runway edge. Damage occurred to the left wing and left engine, but all 32 passengers and four crew escaped without serious injuries.

- On approach to Rome Ciampino Airport, Italy, on November 10, a Boeing 737-800, registration EI-DYG, operated by Ryanair, suffered multiple bird-strikes to its nose, wings and engines. On landing the left hand main gear collapsed and the aircraft came to a stop on the runway threshold. None of the 166 passengers and six crew suffered serious injury and were evacuated safely. The aircraft has been declared a Constructive Total Loss.

- On November 13, Pinnacle Airways (Insured under the Northwest programme), Bombardier CRJ-440, registration N8698A, was hit by a tug whilst being parked in the non-movement area. The driver of the tug reportedly suffered serious injuries with damage to the aircraft described as substantial.

- On November 16 the crew of US Airways Express (operated by Piedmont Airlines), Bombardier Dash 8-300, registration N326EN, experienced problems extending the nose landing gear of the aircraft while on approach to Philadelphia International Airport, Philadelphia, USA. After several failed attempts to lower the nose gear the crew performed a controlled emergency landing using only the main gear. Whilst slowing down the nose gear extended causing some damage to the nose of the aircraft. The aircraft came to rest on the runway with all passengers and crew safely evacuated.

- On approach to Perpignan Airport, France, on November 27, an Airbus A320, registration D-AXLA, operated by XL Airways, crashed into the sea and broke up killing all seven occupants. At the time of the accident the aircraft was performing a test flight prior to its scheduled return off lease on December 1 to its owner Air New Zealand. On board were two XL Airways pilots, a senior Air New Zealand pilot, three Air New Zealand engineers, and a N.Z. Civil Aviation Authority (CAA) inspector.

DECEMBER RENEWALS

NAME	INCEPTION	EXPIRING AFV USD MILLION
CAAC	01-DEC-08	44,951
AIR FRANCE/KLM	01-DEC-08	28,752
JAL	01-DEC-08	15,369
ANA	01-DEC-08	10,637
THAI INTERNATIONAL	01-DEC-08	9,794
KOREAN AIRLINES	01-DEC-08	9,057
IBERIA	01-DEC-08	8,854
RYANAIR	01-DEC-08	6,183
JETBLUE	01-DEC-08	5,100
MALAYSIAN AIRLINES	01-DEC-08	4,854
ASIANA	01-DEC-08	4,825
WESTJET	01-DEC-08	4,521
AIR TAHITI NUI	01-DEC-08	1,589
TAT	01-DEC-08	1,507
RAM	01-DEC-08	1,505
GARUDA	01-DEC-08	1,430
HAWAIIAN AIRLINES	01-DEC-08	1,246
CSA	01-DEC-08	1,159
NIPPON CARGO	01-DEC-08	1,030
UNITED AIRLINES	15-DEC-08	13,281

NAME	INCEPTION	EXPIRING AFV USD MILLION
SKYWEST AIRLINES	15-DEC-08	6,354
PHILIPPINE AIRLINES	15-DEC-08	1,679
CONTINENTAL AIRLINES	15-DEC-08	20,436
QANTAS	15-DEC-08	11,648
CATHAY PACIFIC	15-DEC-08	11,646
AIR CANADA	15-DEC-08	11,620
SOUTHWEST AIRLINES	15-DEC-08	11,429
US AIRWAYS	15-DEC-08	10,324
REPUBLIC AIRWAYS	15-DEC-08	4,737
MESA	15-DEC-08	3,859
AIR NEW ZEALAND	15-DEC-08	3,856
DRAGONAIR	15-DEC-08	2,588
VIETNAM AIRLINES	15-DEC-08	2,299
EGYPTAIR	16-DEC-08	2,141
DELTA AIRLINES INC NWA	18-DEC-08	27,841
ROYAL JORDANIAN	20-DEC-08	1,480
EL AL	30-DEC-08	1,749
ALITALIA	31-DEC-08	5,475
FRONTIER AIRLINES	31-DEC-08	2,260
AIRTRAN	31-DEC-08	4,258

There are 55 risks scheduled to renew in December, including many of the world's larger carriers and these will obviously have a dramatic impact on the final figures for 2008 and will inevitably set the benchmark for renewals in 2009. We have listed those carriers with an AFV in excess of US$1 billion.

The month will see a wide variety of risks renewing from the largest risk in the world, in terms of expiring AFV, CAAC (China) to Pacific Airlines of Vietnam with an expiring AFV of US$120 million. Four programmes have an expiring AFV in excess of US$20 billion with eight having an expiring AFV greater than US$10 billion. In addition there are 28 with an AFV between US$10 billion and US$1 billion, with the remaining 20 below this point.

In 2007 the month generated more than US$745 million in premium or in excess of 40% of the annual premium income and although GOL and Alaska Airlines now renew earlier in the year, it is likely that 2008 will see these figures increase when the Cathay Pacific and Qantas programmes are taken into account.

Based on known December renewals, the market has continued to harden, with premium currently showing an increase of 8%, which is less than the increase seen during November. There is still a significant volume of data to be collated and little confirmed premium information on the North American carriers, the vast majority of which will renew in the second half of the month. In 2007 the North American carriers accounted for in excess of 40% of the months premium and as a consequence they will have a significant impact on the final percentage change figures for the month.

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