

SEPTEMBER RENEWALS

With just eight risks renewing during September, the level of activity remains low. Premium for the month totals US\$22 million, a 23% increase. This increase is influenced by the fleet value increasing by 27% and passengers numbers reducing by 5%. The hull exposure change goes against the industry trend. Due to the small sample of renewals this will result in these figures having very little impact on the 2009 annual figures.

The number of renewals in September was reduced as Aeromexico (previously the largest programme in terms of exposure to renew in September) elected to extend its period of insurance to December 1. Arik Air (Nigeria) has also extended until October 29, Lion Air (Indonesia) extended until October 7 and TAME (Ecuador) extended until October 16. Lion Air also changed broker from Aon to JLT.

These airlines join a small but increasing number of programmes that are electing to extend policy periods to later in 2009, presumably in the hope that the level of rating increase being incurred will lessen as the fourth quarter progresses. Offsetting these outward movements, Mexicana renewed during the month for the first time, having extended its expiring period of insurance by three months to September 1. No programme has thus far elected to extend its policy into 2010.

There is only one programme that renews in September with an AFV in excess of US\$1 billion (Mexicana). With ABC Interjet (Mexico), Aerorepublica (Colombia), Aerosvit Airlines (Ukraine), Azul Linhas Aereas Brasileiras (Brasil), Flyglobespan (UK) and Norwind Airlines (Russia) all renewing with an AFV below US\$1 billion.

AIRLINE RENEWALS - 2009 TO-DATE

There have been 104 renewals, with a fleet value in excess of US\$100 million, in the first nine months of the year. These range from Lotus Air with an AFV of US\$108 million to the British Airways programme with a AFV of nearly US\$19 billion. Exposure in terms of AFV currently totals US\$154 billion, an increase of 2%. This represents 23% of the total annual fleet value. It is expected that this increase will not be sustained in the next 12 months as the aircraft deferrals that airlines are implementing start to have a greater effect.

Passenger numbers for these renewals total 557 million, a reduction of 7%. It is likely that this level of reduction will rise as the larger programmes renew and the effects of the economic downturn are seen in the projected passenger numbers at renewal. This will also further reduce insurer's

ability to increase premium levels without further increases in rates. It remains to be seen how accurate the estimates of 2008/2009 policy passenger numbers were, as these were made with a greater understanding of the likely impact of the global economic downturn.

The fall in passenger numbers will have a greater impact on premium levels as for the majority of renewals the premium generated by liability risks is larger than for that of the hull. The split was 35% hull and 65% in respect of liabilities in 2008.

Despite the small increase in AFV and fall in passenger numbers, the level of premium in 2009 (to date) totals US\$508 million, an increase of 14%. Income generated since October 2008 totals US\$1,622 million, an increase of 9%. This increase is of course dependent on the exposure figures declared at renewal being achieved.

The attention of the market is now firmly focused on the fourth quarter. It is believed that the October renewals are continuing to incur significant increases in premium. This is likely to set the benchmark from which insurers will base renewals negotiations later in the fourth quarter. The decline in the volume of renewals and premium generated in October means that it will not be until the end of the month that a more reliable picture will emerge.

There have already been a number of broker and leader changes for some of the major renewals in the fourth quarter. These include NACIL (Air India & Indian Airlines), which has changed broker from Aon to Marsh and also leader from Ace to Mitsui. The Cathay Pacific programme which also includes Air Hong Kong and Dragonair has changed broker from Marsh to Willis. USA 3000 has also moved broker from JLT to Willis. Additionally Libyan Arab Airlines and Afriqiyah Airways, also of Libya have combined to form Libyan African Aviation and have elected to use Aon as their broker.

It is anticipated that there will be further account movements during the fourth quarter. Additionally there is likely to be programme consolidation and changes as the effects of consolidation in the airline industry are seen in the make up of insurance programmes.

The level of losses since June has been relatively benign, with no western jets having suffered a Total Loss in the past three months. The level of losses for the year to date currently stands at US\$1,993 million and is still the worst since records began (excluding the 9/11 incidents). Even without a major loss in the next three months this will likely result in insurers making a loss in 2009 despite the increases in rates and premium being seen.

In addition it is very unlikely that the 2008 premium estimate of US\$1.84 billion will be achieved when policies are finally adjusted due to the fall in passenger numbers. This will result in 2008 seeing an underwriting loss with 2009 creating three consecutive loss making years since 2007. This is the rationale for insurers attempting to increase premium levels into and including 2010 and possibly beyond.



HULL AND LIABILITY

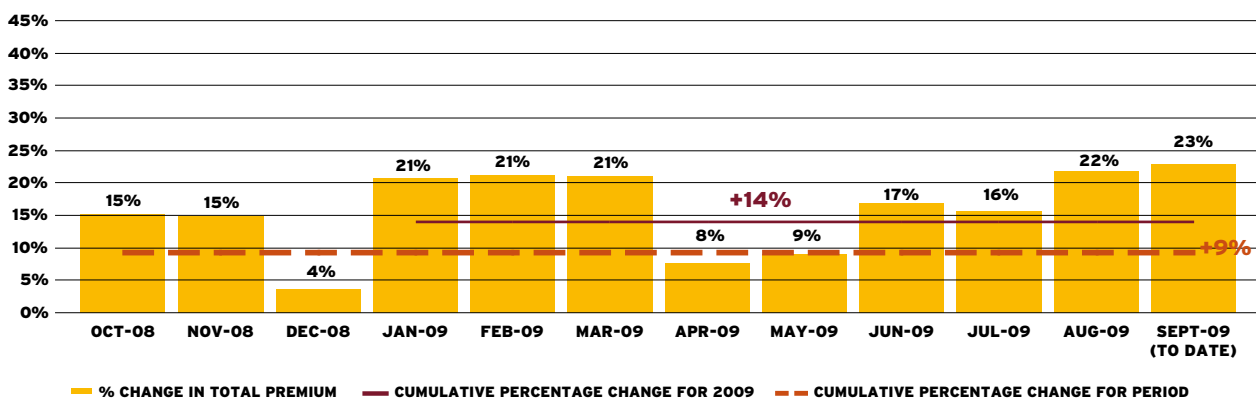
NET Q4 2008 AND Q3 2009 % PREMIUM MOVEMENTS

2008	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2007 NET PREMIUM US\$M	2008 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
Q4 SUMMARY	100	4.5%	-1.0%	1,040.8	1,113.7	72.9	7.0%
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	21.3%
FEBRUARY	3	37.4%	10.8%	4.2	4.5	0.3	7.5%
MARCH	4	12.1%	3.4%	17.0	20.6	3.6	21.2%
Q1 SUMMARY	11	22.5%	5.4%	27.3	32.5	5.2	19.2%
APRIL	19	0.1%	-6.1%	97.2	104.6	7.4	7.7%
MAY	17	9.9%	2.3%	58.2	63.6	5.4	9.3%
JUNE	11	-9.4%	-17.1%	30.3	35.4	5.1	16.9%
Q2 SUMMARY	47	1.2%	-4.6%	185.6	203.6	18.0	9.7%
JULY	31	2.1%	-11.9%	200.4	231.7	31.3	15.6%
AUGUST	5	4.6%	10.5%	15.1	18.3	3.3	21.8%
SEPTEMBER (TO DATE)	7	12.9%	-4.6%	18.1	22.2	4.1	22.6%
Q3 SUMMARY (TO DATE)	43	1.4%	-10.5%	233.6	272.3	38.7	16.6%
2009 (TO DATE)	101	2.1%	-4.0%	446.5	508.4	61.9	13.9%
OCTOBER 2008 - SEPTEMBER 2009 (TO DATE)				1,487.3	1,622.1	134.8	9.1%

HULL AND LIABILITY

NET Q4 2008 AND Q3 2009 % PREMIUM MOVEMENTS

AS AT SEPTEMBER 2009



MARKET MOVES

Jean-Claude Geze of Allianz (based in Paris) is to join QBE Insurance in Paris, France where he will be responsible for underwriting aviation business once his current contractual obligations are complete.

Graham Spencer-Brown of Allianz (based in London) has resigned and is to join CV Starr upon completion of his current contractual obligations.

REINSURANCE MARKET OVERVIEW

In the reinsurance market rates and retentions are generally rising for primary covers with clear differentiation due to programme diversity and loss experience. Reinsurers are facing the challenges of experiencing increased loss activity, deteriorating historical claims positions, cost of life inflation etc. They are therefore looking for significant increases where losses are higher, i.e. the primary layers where capacity is more restricted, with history and other factors likely to determine quantum. There is also a desire for increases in the higher, loss free areas but these are more modest.

LOSSES UPDATE

The current loss figure for 2009 is US\$1,993 million and continues to be the largest total at this time of year ever seen (excluding the losses arising from 9/11). This total is composed of US\$574 million hull losses, US\$1,081 million in liability losses and a pro-rata estimation of US\$338 million in respect of attritional losses. Reserves of some recent losses are still to be confirmed and will therefore add to this total.

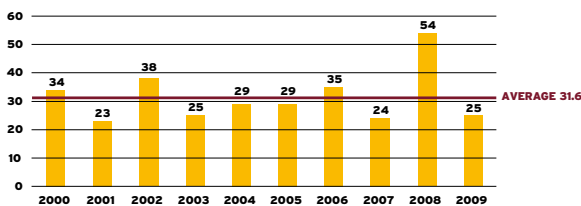
There have only been 25 western built jet and turboprop losses, killing 457 passengers thus far in 2009. As can be seen from the following charts this is not a particularly exceptional year in terms of the number of losses or fatalities and is below the average number of losses and fatalities over the period. From an insurance point of view there have been 14 incidents resulting in reserves being held by airline insurers in excess of US\$10 million, which is once again below the average seen since 2000, only 2004, with ten losses had seen a lower number of incidents.

What has made 2009 an exceptional year is the fact that despite seeing a below average number of losses, there have been a small number of 'shock losses' that have resulted in very large liability reserves and as a consequence have increased total reserves to record levels which proves how unpredictable airline insurance losses can be when looking at the balance between frequency and severity.

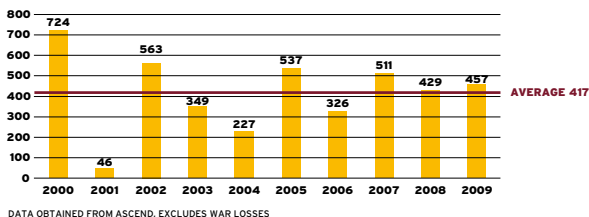
AIRLINE LOSSES

2000 - 2009 AS AT SEPTEMBER 30, 2009

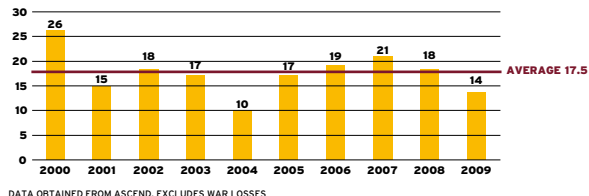
NO OF LOSSES



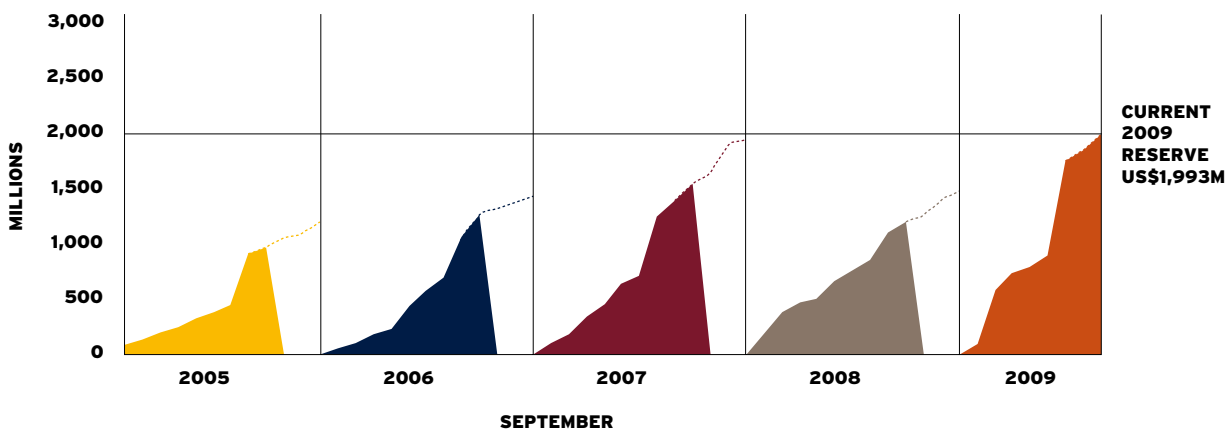
FATALITIES



LOSSES WITH RESERVES IN EXCESS OF US\$10 MILLION



CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



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

Recent incidents of significance are detailed below:

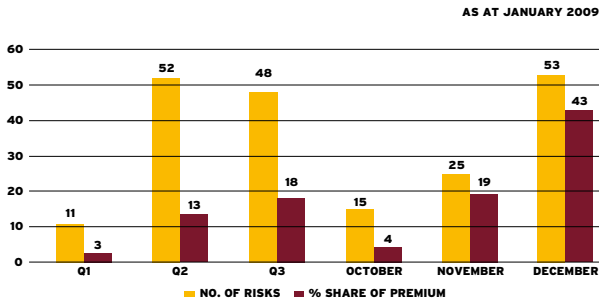
An Air India Boeing B747-400, registration VT-ESM suffered substantial damage at Chhatrapati Shivaji International Airport, Mumbai, India on September 4. According to reports, shortly after the engines were started fuel started to leak from the No.1 engine and created a pool on the ground beneath it. Shortly after this a large fire started around the No.1 engine and left wing. The airport fire service responded and quickly extinguished the fire. The passengers and crew evacuated the aircraft via the escape slides sustaining 21 minor injuries.

On September 24, a SA Airlink, BAE Jetstream 41, registration ZS-NRM, crashed in the grounds of a school shortly after take off from Durban Louis Botha, International Airport, South Africa. It broke into two parts before it came to a stop. The aircraft has been declared Total Loss. There were no fatalities among the three crew members who were all taken to hospital with serious injuries, together with a woman who was working on the ground at the site of the crash. The aircraft was operating an empty positioning flight to Pietermaritzburg, South Africa.

FORTHCOMING RENEWALS

HULL AND LIABILITY

2009 RENEWAL AND NET PREMIUM DISTRIBUTION



OCTOBER RENEWALS

Renewal activity in October shows a marked increase on the level seen in August and September. With 25 risks scheduled to renew it marks the start of the all important fourth quarter of the year. Although an important point in the renewal calendar, October is not as important in terms of the number of renewals and share of the premium income generated as it once was. At the start of the millennium it generated around 18% of the annual premium compared to the 5% it generated in 2008.

The NACIL programme (Air India & Indian Airlines) will be the largest renewal both in terms of exposure and premium of the month. This programme previously renewed in July 2008 and has changed broker from Aon to Marsh. This move has drawn a great deal of market interest especially when combined with a change of leader from Ace to Mitsui in London. Other significant renewals with a fleet values in excess of US\$1 billion are GOL Transportes Aereos (Brasil), Lion Air (Indonesia) and Pakistan International Airlines.

Afriqiyah Airways, Air Jamaica, Arik Air, Hello Airlines, Lion Air, NACIL, and TAME will renew in October for the first time having elected to extend their previous periods of insurance. These will be offset to some degree by the Synergy Group (Brazil/Colombia), which renewed in October for the first time in 2008, electing to return to its previous renewal date of the November 18, 2009. Air Algerie has also elected to extend its current period of insurance and will now renew on December 1, 2009.

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$M
NACIL - AIR INDIA & INDIAN AIRLINES	1-OCT-09	7,015
AIR JAMAICA	1-OCT-09	748
LIBYAN AFRICAN AVIATION	1-OCT-09	505
AIR MALTA	1-OCT-09	419
TRANSASIA AIRWAYS	1-OCT-09	306
ALLEGIAN AIR	1-OCT-09	245
CARGOJET	1-OCT-09	135
HELLO AIRLINES	1-OCT-09	120
IRAQI AIRWAYS	1-OCT-09	118
USA 3000	4-OCT-09	335
LION AIR	7-OCT-09	1,232
MK AIRCARGO	8-OCT-09	122
GOL TRANSPORTES AEREOS	10-OCT-09	3,300
PIA	15-OCT-09	1,689
TAME	16-OCT-09	244
SA AIRLINK	17-OCT-09	156
AIR CAIRO	20-OCT-09	168
GO AIRLINES	21-OCT-09	267
XL FRANCE/GERMANY	23-OCT-09	552
FINNISH COMMUTER AIRLINES	24-OCT-09	213
JAT YUGOSLAV AIRLINES	24-OCT-09	144
CEBU PACIFIC AIR	26-OCT-09	876
MAHAN AIRLINES	27-OCT-09	283
ARIK AIR	29-OCT-09	247

NOVEMBER RENEWALS

The markets attention is already being drawn towards the risks renewing in November. The 23 renewals expected, include some of the worlds largest insurance programmes, some of which have suffered large losses in their expiring policy periods. In 2008 the month generated nearly 18% of the year's income and will have a significant impact on the annual trends for 2009 and will be the first chance in the fourth quarter to gauge how the market will treat the large flag carrier and group programmes.

As we approach this busy and critical time for the market there is continued uncertainty at what level of increase in premium insurers will be able to generate despite the level of capacity available. We do believe however, that insurers will continue to be successful in increasing rates and should the market incur another major loss in the next four to six weeks it is possible that rates will increase at even higher levels.

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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
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