

AIRLINE RENEWALS

The October renewals witnessed thus far have demonstrated further hardening in the airline insurance market. As before premium levels appear the best position that is available from the leader with a further closing in the vertical market differential and therefore increased premiums for the buyers. In some cases there are a number of markets obtaining terms above the leader. This situation is a reflection of the uncertainty in the market regarding the extent of the hardening the market is going to witness and a different attitude between the lead and following markets. There is no doubt that hull and liability insurance pricing looks set to continue to increase as a result of general market hardening, however as the varied early October renewals has demonstrated the speed and extent of this remains to be seen.

For airlines the continued lack of financial confidence continues to translate into a downturn in passenger numbers in some regions which when combined with the recent spike in oil prices provide little short-term encouragement for the airline industry.

In the global financial markets the pace of change is perhaps the most startling issue. With billion dollar deals being done overnight the current environment seems vastly different to the traditionally pedestrian insurance market. With over half of the airline premium volume yet to come however, the market has the chance to change swiftly between now and the end of the year.

September was one of the quietest months in the renewal calendar, with just seven risks renewing, only one of which, Aeromexico, having an Average Fleet Value (AFV) in excess of US\$1 billion. Despite all the external activity, there was very little change in overall conditions during September. As the 2007 cycle came to a close premiums continued to increase, primarily as a result of exposure growth.

The recent total losses did not affect renewals as the majority of the renewal negotiations would have been completed before these incidents occurred. The percentage differential between the lead and following or vertical market rates and premiums continued to close.

It is believed that some renewals in September saw some markets obtain higher rates than the leader although this is extremely hard to confirm. If true, this inverted vertical marketing structure will likely generate challenges for the buyer, broker and leader at the next renewal.

September has generated USD 24 million in premium, an increase of 7%, approximately 2% of the annual total. Total fleet growth stands at 19% with the overall fleet value totalling USD 5 billion with passenger numbers totalling 23 million, an increase of 2%.

Programme consolidation and insolvency continues to offset any headway that insurers are making in their bid to increase premium levels.

The challenges being faced by Alitalia are widely documented, while both SAS and Austrian are subject to interest from their European rivals. The one thing that is certain is that any consolidation will further erode the available premium income.

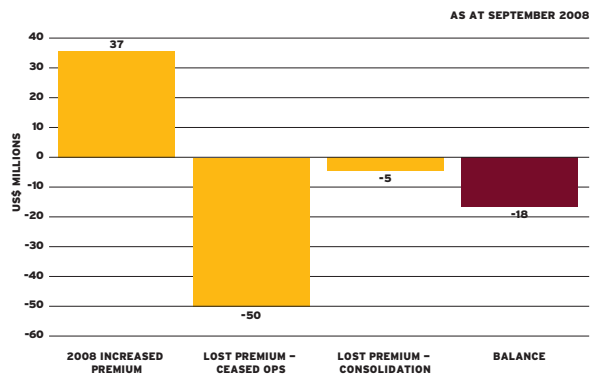
More airlines have ceased operations, with XL Leisure Group, an August renewal, being the largest carrier to stop flying, further increasing the premium eroded through insolvency.

With the premium being removed through consolidation and insolvency expected to increase sharply and already outweighing the premium volume increase being generated on renewals insurers still have considerable work to do to improve their overall position.

The total of premium generated in 2008 is USD 556 million, an increase of 8%, or just USD 42 million of additional premium.

Premium generated since October, 2007 which represents the '2007 cycle', totals USD 1,628 million, a premium reduction of USD 78 million or -5%. This compares with the reduction figure seen at the end of the fourth quarter of 2007, which stood at -10%.

GROSS 2008 HULL & LIABILITY PREMIUM BALANCE



HULL AND LIABILITY

GROSS 4TH QUARTER 2007 AND 2008 % PREMIUM MOVEMENTS

2007	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2006 PREMIUM US\$M	2007 PREMIUM US\$M	US\$M CHANGE PREMIUM	PREMIUM % CHANGE
OCTOBER	13	13.1%	13.2%	57.9	53.2	-4.8	-8.2%
NOVEMBER	21	14.0%	14.2%	331.4	303.5	-27.9	-8.4%
DECEMBER	50	5.4%	7.1%	827.4	744.7	-82.7	-10.0%
Q4 SUMMARY		8.0%	9.1%	1,216.7	1,101.4	-115.3	-9.5%
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		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		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	36.4	-2.0	-5.3%
SEPTEMBER (TO DATE)	4	19.0%	2.2%	22.6	24.3	1.6	7.2%
Q3 SUMMARY		13.7%	9.1%	259.9	277.8	17.9	6.9%
OCTOBER (TO DATE)	4	-2.7%	2.1%	25.5	29.7	4.2	16.5%
2008 TO DATE	97	14.4%	11.0%	514.5	556.0	41.8	8.1%
OCTOBER 2007-SEPTEMBER 2008	181			1,705.6	1,627.6	-78.0	-4.6%

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

AIG DEVELOPMENTS

The Willis Market Security Committee (MSC) continues to monitor the situation at AIG very closely and has produced a number of special reports on the situation. If you have not received the September 24 version please contact airline.insight@willis.com or your account executive.

MAPFRE JOIN GLOBAL AEROSPACE

Global Aerospace in September announced that Mapfre Empresas will be joining its underwriting Pool with effect from January 1, 2009. Mapfre will be joining a panel alongside other long standing Pool members, Berkshire Hathaway Group, Munich Re, Tokio Marine Nichido and Mitsui Sumitomo.

Tony Medniuk, the group CEO of Global Aerospace, commented:

“We are delighted to welcome Mapfre as a member of our Pool for 2009. Mapfre is a world class company with particular strengths in Europe and Central/South America.

They will be an excellent partner alongside our current Pool members both commercially and culturally. I have every confidence that Mapfre will make a significant contribution to Global's future development in key economic areas.

The long-term commitment of Global Aerospace to the overall aerospace industry is further strengthened and deepened by this important development.”

Mapfre Empresas will have a 10% participation in the Global Aerospace Pool.

REINSURANCE MARKET UPDATE

The last quarter sees the renewal of a significant proportion of aviation reinsurance renewals with 1/11 being the most prominent date. We will therefore have a clearer picture of reinsurer's intent for the next *Insight*.

As we have moved through 2008 however, the reinsurance market has, in general, continued to provide some degree of costing relief to direct writing clients. Reinsurers have additionally responded to exposure changes and where some

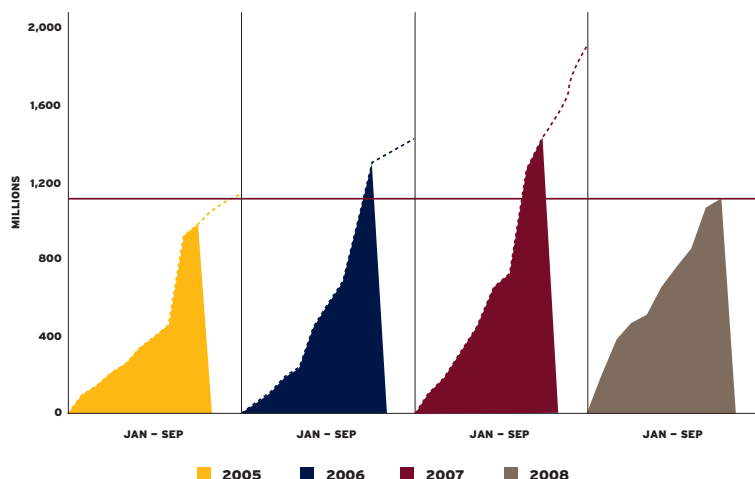
direct underwriters have taken steps to scale back their portfolio's this has additionally been reflected within reinsurance pricing.

In general terms reinsurance capacity remains in plentiful supply and with certain reinsurers seeking to further to develop their portfolios together with the return of Allianz to the reinsurance market from October 1 pressure on pricing is likely to remain.

LOSSES UPDATE

The current loss figure for 2008 is USD 1,102 million, composed of USD 490 million hull, USD 293 million liabilities and a pro-rata figure of USD 319 million in respect of attritional losses. Despite some recent major losses this total is USD 331 million better than at the same point last year and USD 193 million better than 2006. 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)



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

Recent incidents of significance are detailed below:

On August 27, Sriwiaya Air, Boeing 737-200Adv, registration PK-CJG overran on landing at Jambi Sultan Taha Syarifudn Airport, Indonesia, after reportedly suffering a hydraulic failure resulting in less efficient brakes on roll out. The aircraft suffered substantial damage to its nose, wings, undercarriage and both engines, but none of the 126 passengers and six crew sustained serious injury. The aircraft has been declared a Constructive Total Loss.

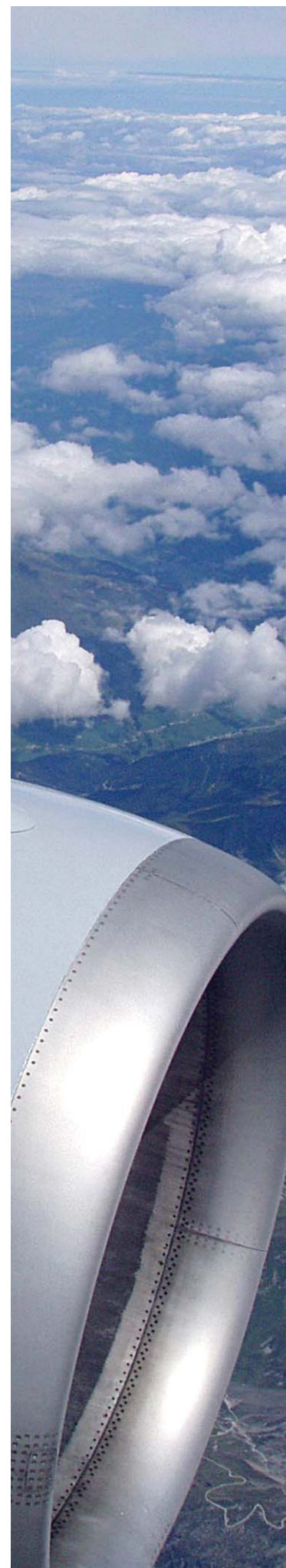
Whilst operating a ferry flight from Caracas, Venezuela to Latacunga, Ecuador, a Boeing 737-200, registration YV102T, operated by Conviasa, crashed in mountainous terrain approximately 30km west of Latacunga on August 31. All three crew members were killed in the accident.

A Beech 1900, registration ZS-OLD, operated by Cemair, struck a ridge while on approach to Bukavu Kamenbe Airport, DR of Congo, on September 1, following a humanitarian flight from Kisangani, DR of Congo. All 15 passengers and two crew lost their lives in the crash.

On September 13, MASwings, Bombardier Dash 6-300, registration 9M-MDN, sustained substantial damage when it undershot the runway on landing at Ba Kelalan Airport, Malaysia. All 12 passengers and two crew survived without serious injury.

On September 14, following a flight from Moscow, Russia, a Boeing 737-500, registration VP-BKO, operated by Aeroflot-Nord crashed into a ravine on approach to Perm International Airport, Russia. The aircraft hit the ground very close to the Trans-Siberian-Railway causing power lines to be knocked down by debris. Prior to the accident the crew reportedly made Air Traffic Control aware that the aircraft was suffering from engine problems and contact was lost shortly thereafter. All 83 passengers and five crew died in the accident.

Following an aborted take-off at Quito International Airport, Ecuador, on September 22, a Fokker 28, registration HC-CDT, operated by Icaro Air, ran beyond the end of the runway and down an embankment before crashing through the airport perimeter fence. None of the 66 passengers and crew suffered serious injury, but the aircraft suffered substantial damage.



FORTHCOMING RENEWALS

NAME	INCEPTION	EXPIRING AFV USD MILLION
OCTOBER		
AIR ALGERIE	01-OCT-08	1,819
SYNERGY GROUP	01-OCT-08	1,052
AIR MALTA	01-OCT-08	545
TRANSASIA AIRWAYS	01-OCT-08	307
SYRIAN ARAB AIRLINES	01-OCT-08	276
LIBYAN ARAB	01-OCT-08	157
USA 3000	04-OCT-08	459
GOL TRANSPORTES AEREOS	10-OCT-08	3,213
TAM	10-OCT-08	5054
PAKISTAN INTERNATIONAL	15-OCT-08	1,650
SA AIRLINK	17-OCT-08	149
AIR CAIRO	20-OCT-08	176
GO AIRLINES	21-OCT-08	212
SKYSERVICE AIRLINES	24-OCT-08	538
FINNISH COMMUTER AIRLINES	24-OCT-08	177
JAT YUGOSLAV AIRLINES	24-OCT-08	147
NOK AIRLINES	25-OCT-08	134
CEBU PACIFIC AIR	26-OCT-08	619

The October renewals begin the '2008' renewal cycle, which is expected to be one of the most challenging for some time.

The renewals are both diverse and distributed throughout the month and therefore present a challenge when developing trends for the future.

With the current loss total indicating another potentially loss making year there is no doubt that the market is showing signs of hardening with "as before" premiums potentially being the likely best result for many. With the exposure reductions being experienced by so many airlines insurers are looking for minimum premiums for liability risks to counter the fact that declared passenger and departure numbers may not be achieved and thus looking to give more financial certainty to the level of premium they can expect to earn.

Renewal activity in October has changed significantly in the past few years. Pre September 11 October was one of the years busiest months of the renewal calendar, with large programmes such as CAAC, United Airlines and U.S. Airways renewing, and contributing 17% of the hull exposure and 18% of the annual premium.

With a mixture of renewals migrating and programmes consolidating October activity is now much reduced contributing just 6% of the hull exposure and 3% of the premium.

In 2008, there are only five risks with an AFV in excess of USD 1 billion and two with an AFV in excess of USD 2 billion. In 2007 it was only the fifth busiest month in terms of premium volume.

The impact of industry changes continues to be reflected in some changes to renewals. MK Air Cargo has ceased operations but has been replaced by Synergy Group and GOL and TAM of Brazil who are renewing early as a result of regulatory change.

The rest of 2008 is going to involve the market working with "moving targets." Reduced exposures, insolvency and consolidation provide a challenging backdrop for both buyers and also insurers looking to increase their premium income and improve their loss making position.

The airline industry is changing shape and this will be reflected in the insurance buying requirements of many airlines. The economic changes are likely to result in some changes in a number of group programmes both in the U.S. and across Europe. There will be desire from the buyers and brokers to reflect the changes to secure competitive results at renewal. This could result in last minute changes and recalculations as acquisitions or mergers are sealed.

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