



AIRLINE INSURANCE MARKET OVERVIEW

The airline renewal season has, as predicted, seen the buyers benefit from soft market conditions. The level of capacity combined with a requirement for premium volume by insurers has generated unprecedented levels of competition. With the majority of premium obtainable at this time, the desire for continued and sometimes increased participation has fuelled premium reductions with market conditions being described by some as "the softest for a generation".

The anticipated acceleration of premium reductions is not necessarily illustrated by the lead terms at this renewal, as these terms are very much in line with the rest of the year. The impact of competition has however seen a significant increase in the level of vertical pricing differentials achieved. This increase in verticals has, in general, resulted in savings for buyers in excess of the lead market trend. There has also been an increase in the number of buyers looking to secure some portion of their programme on a two year basis to create a hedge against any possible market change.

Exposure levels continue to increase as the fortunes of the airline industry are boosted by the global economic recovery. Average fleet values have grown by 9% and passenger numbers by 8% in 2013. The inclusion of the majority or all of this increased exposure for the same or less premium continues to highlight the benefit of current market condition for buyers in a growth cycle. It is also clear that these increases in exposure do not correlate with an increase in claims but, have in

all likelihood, had a significant impact on the decrease in the average level of losses in recent years, underscoring the argument for including this growth without charge.

The fourth quarter has seen 78 renewals to date. Major airlines with good loss records and increased exposures are receiving rate reductions in the region of 10% - 20% depending on each individual airline programme. December information to date shows a 10% reduction in premium, but this includes one airline who received a large premium increase due to a substantial loss on the expiring policy. Excluding this airline the premium reduction is 13%.

There has been in excess of US\$100 million eroded from the premium volume to date and this looks set to increase to in excess of US\$150 million at the current trend. This will generate an overall premium volume for 2013 of less than US\$1.5 billion, the lowest it has been since 9/11.

Loss levels continue to track below the five year average. With the significant "miss factor" that exists in the market, it remains unlikely that a single catastrophe or even a number of significant losses will do anything to halt the downward trend.

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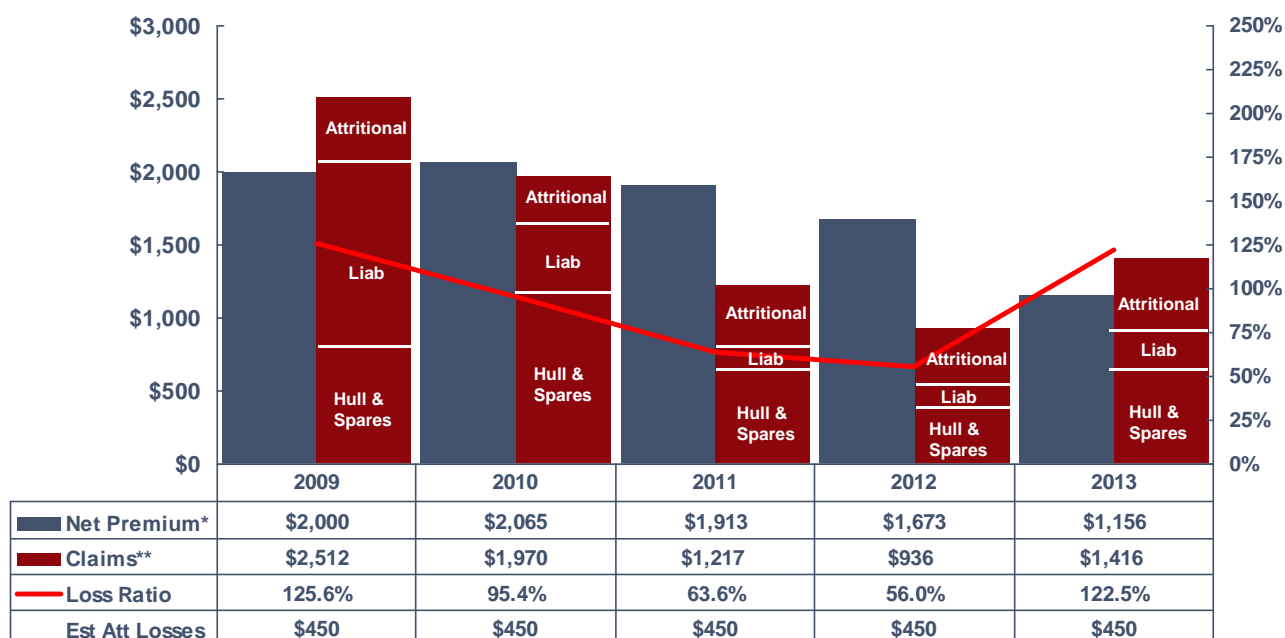
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2013 NET HULL & LIABILITY MARKET PREMIUM & EXPOSURE MOVEMENTS

	No. of Renewals	AFV % Change	PAX % Change	2012 Net Premium US\$ m	2013 Net Premium US\$ m	US\$ m Premium Change	Premium % Change
January	3	21%	n/a	\$ 5.55	\$ 7.95	\$ 2.40	43.3%
February	4	13%	-8%	\$ 8.05	\$ 9.42	\$ 1.37	17.0%
March	10	17%	9%	\$ 35.64	\$ 35.37	\$ -0.27	-0.8%
Q1	17	16%	6%	\$ 49.24	\$ 52.74	\$ 3.51	7.1%
April	13	7%	7%	\$ 99.31	\$ 95.91	\$ -3.40	-3.4%
May	14	9%	15%	\$ 62.39	\$ 56.16	\$ -6.23	-10.0%
June	17	1%	-2%	\$ 32.46	\$ 29.60	\$ -2.86	-8.8%
Q2	44	7%	9%	\$ 194.16	\$ 181.67	\$ -12.49	-6.4%
July	35	9%	9%	\$ 229.83	\$ 191.40	\$ -38.43	-16.7%
August	8	14%	12%	\$ 32.84	\$ 29.18	\$ -3.66	-11.1%
September	11	4%	19%	\$ 23.68	\$ 24.17	\$ 0.49	2.1%
Q3	54	9%	10%	\$ 286.35	\$ 244.75	\$ -41.60	-14.5%
October	13	3%	3%	\$ 96.44	\$ 88.05	\$ -8.39	-8.7%
November	35	7%	7%	\$ 312.11	\$ 280.63	\$ -31.48	-10.1%
December	30	11%	8%	\$ 340.45	\$ 308.23	\$ -32.22	-9.5%
Q4	78	9%	7%	\$ 749.00	\$ 676.91	\$ -72.09	-9.6%
2013 Total	193	9%	8%	\$ 1,278.75	\$ 1,156.07	\$ -122.67	-9.6%

WORLDWIDE AIRLINE MARKET HULL & LIABILITY PREMIUM AND CLAIMS ON A CALENDAR YEAR BASIS

■ Net Premium* ■ Claims** — Loss Ratio



* Premium includes all known airlines with an AFV in excess of US\$100m and is based on Net London Lead Terms; it is subject to change as more information becomes available.

** Claims shown include the estimated figure for attritional losses. Products/Airport/ATC portion of losses are not included, this data shows Airline Hull & Liability claims only. Claims are updated as more information becomes available.

MARKET NEWS

AXIS SYNDICATE 1686 TO START WRITING BUSINESS WHICH INCEPTS FROM 1ST JANUARY, 2014.

Lloyd's has given AXIS Syndicate 1686 permission to underwrite business incepting from 1st January 2014 onwards.

AXIS Syndicate 1686 underwrites special classes with stamp gross premium of £119 million for 2014. It is managed by Asta Managing Agency Ltd under a turnkey arrangement with capital wholly provided by AXIS as a Lloyd's Corporate Member. Alistair Robson, Active Underwriter, is supported by AXIS Insurance's skilled and highly experienced underwriting, claims, actuarial, modeling, finance

and risk management teams which provide services to AXIS Syndicate 1686.

Its renewal business will be shared between AXIS Syndicate 1686 and other AXIS underwriting entities, subject to clients' approval, licensing requirements and capacity demands.

BEN AMPHLETT TO JOIN ACE

We understand that Ben Amphlett has resigned from Global to join ACE and that he is currently on gardening leave. His notice period is three months.

INDUSTRY NEWS

AMERICAN AIRLINES AND US AIRWAYS COMPLETE MERGER

American Airlines and US Airways completed the merger of the two companies on December 9. The deal took almost ten months to complete, and the airlines will operate as separate entities for quite some time, even though they are now legally one company.

Please visit www.aa.com for more information.

BIG ORDERS AT DUBAI AIRSHOW

The biennial Dubai Airshow began with the Gulf region's major carriers announcing some of the biggest aviation deals in history. The region's three big players - Etihad, Emirates and Qatar Airways - announced orders for 393 new commercial planes. Boeing and Airbus shared the spoils, with high demand for the 777X, Boeing's next generation version of the existing 777.

The Abu Dhabi based airline Etihad was the first to lay down a marker at the event: a US\$25.2 billion deal for 56 new wide-bodied Boeing aircraft, including 25 777X planes, 17 of the biggest 777-9X variants and eight of the 777-8X version.

Later Hogan trumped his Boeing order with an announcement for 87 Airbus jets worth US\$26.9 billion at list price, including 50 A350 aircraft, the twin-aisle competitor of the 777X currently in development.

The airline is also set to be the biggest operator of the Boeing 787 Dreamliner, with a new order for 30 of the new planes to add its current deal for 41 of the composite, medium to long-distance jets.

But it was Dubai's Emirates that revealed the largest order with a US\$76 billion deal for 150 Boeing 777X planes, plus an additional 50 Airbus A380s, worth US\$23 billion, to bring its order of the superjumbo up to 101. The airline currently operates 39 of the world's largest commercial jet. Low-cost carrier FlyDubai committed to purchasing 111 Boeing 737 jets worth US\$11.4 billion.

Doha-based Qatar Airlines added to the impressive figures for Boeing's 777X with a US\$19 billion order for 50 of the aircraft. Lufthansa will be the fourth "launch airline" to receive the new model jet when delivery begins from 2020 onwards. It has 34 on order.

LOSSES OVERVIEW

Loss levels are continuing to reflect the improved safety performance of the industry. Hull losses to the end of November stood at US\$705 million and liabilities at US\$298 million. When we add our pro-rata of the annual attritional total the loss total for 2013 stands at US\$1,416 million.

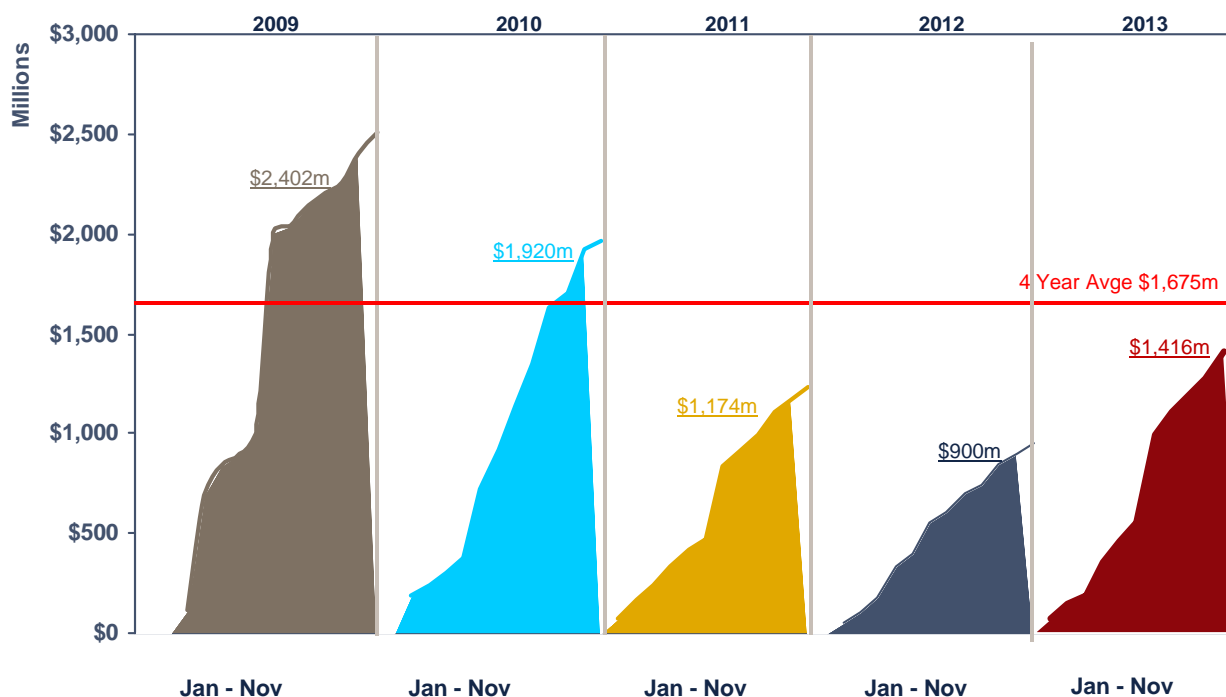
In the absence of a catastrophe between now and the end of the year, 2013 looks set to be another good year for underwriters from a loss perspective. There have, however, been 20 losses in excess of US\$10 million which is up from 13 in 2012 and 18 in 2011.

This increase in the number of losses in excess of US\$10 million continues to underline the challenges of balancing frequency and severity in a catastrophe market. There have been four losses over US\$50 million to date: The Lion Air crash in April which resulted in a total loss of a B737 aircraft but thankfully no fatalities, The Asiana Airlines crash in San Francisco which claimed the lives of three, although some surviving passengers were left with serious injuries which could impact the liability reserve, and the UPS crash near Birmingham Airport in Alabama which killed the only two crew members on board. The recent Linhas Aereas Mocambique crash, which killed 33 people, has also exceeded the US\$50 million threshold.

2013 HULL & LIABILITY LOSSES WITH A RESERVE OVER US\$10 MILLION

Date of Loss	Operator	Aircraft Type	Location of Loss	Fatalities
February 3	Asiana Airlines	B767	Incheon Airport, South Korea	0
April 13	Lion Air	B737	Bali, Indonesia	0
April 16	Aeromexico	B767	Madrid-Barajas Airport, Spain	0
April 29	National Air Cargo	B747	Bagram Airport, Afghanistan	8
May 16	Shandong Airlines	B737	Shandong, China	0
May 24	British Airways	A319	London Heathrow, UK	0
May 24	Air Via	A320	Varna International Airport, Bulgaria	0
June 2	Cebu Pacific Air	A320	Francisco Bangoy Airport, Philippines	0
June 8	Wizz Air	A320	Rome Fiumicino Airport, Italy	0
June 10	Merpati Nusantara	MA60	Kawthaung Airport, Myanmar	0
July 3	Petra Airlines	A320	Tripoli International Airport, Libya	0
July 6	Asiana Airlines	B777	San Francisco Airport, USA	3
July 12	Ethiopian Airlines	B787	London Heathrow, UK	0
July 22	Southwest Airlines	B737	La Guardia Airport, New York, USA	0
Aug 14	UPS	A300	Birmingham Airport, Alabama, USA	2
Sept 8	Thai Airways	A330	Suvarnabhumi Airport, Bangkok, Thailand	0
Sept 29	Alitalia	A320	Rome Fiumicino Airport, Italy	0
Oct 16	Lao Airlines	ATR 72	Near Pakse, Laos	49
Nov 17	Tatarstan Airlines	B737	Kazan Airport, Tatarstan	50
Nov 29	Linhas Aereas Mocambique (LAM)	E-190	Bwabwata National Park, Namibia	33

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (US\$m)



Significant losses that have occurred within the past month are outlined below.

On November 29, a Linhas Aereas Mocambique Embraer 190, registration C9-EMC, crashed in Bwabwata National Park, 200km east of Rundu, Namibia. All 27 passengers & 6 crew were killed in the accident. The hull reserve for this loss is US\$41 million.

On November 28, a Ural Airlines A320, registration VQ-BLO, suffered a runway excursion on landing at Domodedovo Airport, Moscow, Russia. The aircraft's right main undercarriage sank into soft ground causing the right engine to touch the ground and sustain damage. The hull reserve for this loss has yet to be established.

On November 17, a Tatarstan Airlines B737, registration VQ-BBN, crashed on approach to Kazan Airport. All forty-four passengers and six crew on board died in the accident. The hull reserve for this loss is US\$9.5 million.

On November 15, a Austral Lineas Aereas EMB 190, registration LV-CKZ, suffered damage after it overran & collided with a ILS system on landing at Aeropuerto Ministro Pistarini, Buenos Aires, Argentina. The hull reserve for this loss has yet to be established.

On November 10, a Bearskin Airlines SA227, registration C-FFZN, crashed after it struck power lines & trees on approach to Red Lake Airport, Red Lake, Ontario, Canada. Three passengers & two crew died on board. The hull reserve for this loss is US\$1.4 million.

On October 25, a MiniLiner F-27-500, registration I-MLVT, suffered damage when a propeller blade sheared off and passed through the fuselage after taking off from Charles de Gaulle, Paris, France. The pilots managed to return to the airport back to the airport safely. The hull reserve for this loss has yet to be established.

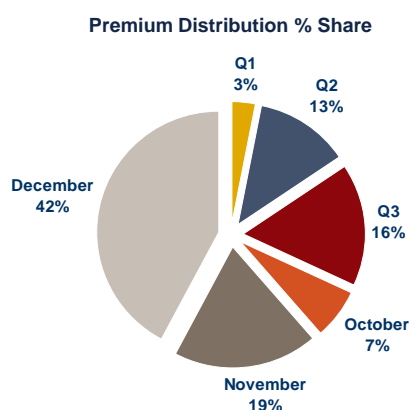
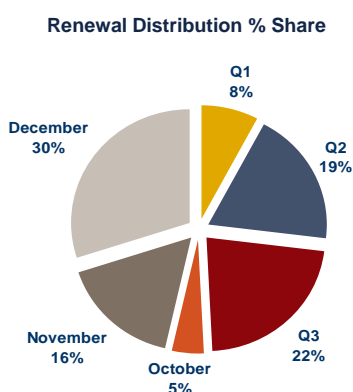
FORTHCOMING RENEWALS

While our data already includes many of the December 1st renewals there is significant premium volume yet to hit the market in December. The December renewals include many of the US carriers and include all three of the US "mega carriers" renewing their programmes. One of the most significant developments in the month was the combined US Airways/American programme cancelling and replacing the policy that was put in place back in July. The timing of the completion of the merger of these two airlines providing a perfect opportunity to capitalise on the prevailing market conditions.

With the market drivers of capacity and claims looking unlikely to change, the downward market

trend looks likely to continue into 2014. The substantial drop in both the number and size of programmes being placed in the early part of next year sees January with a mere three renewals. The first quarter contains just 17 in total which will likely generate less than US\$50 million in premium for three months activity, meaning that the next real milestone in the market is the April 1 renewals.

Looking further ahead at the premium volumes and loss levels, it is possible that at lead terms the market will fall to unprofitable levels heading into 2015. However, with each insurer's unique portfolio comes different results and capacity levels so there is no guarantee that this will result in significant market change.



AIRLINE MARKET RENEWALS FOR DECEMBER (AFV OVER US\$1BN)

Airline/Group Name	Expiring AFV US\$
CAAC	82,035,838,959
Air France / KLM Group	34,398,541,000
United Continental Holdings	20,912,710,055
Cathay Pacific	17,584,946,243
Southwest Airlines	15,589,646,935
All Nippon Airways	14,695,530,100
Delta Air Lines	12,618,796,848
Korean Airlines	11,351,329,172
Ryanair	10,553,326,985
FIN Group	9,770,052,365
Air Canada	9,536,118,325
Japan Airlines	9,191,711,585
Malaysia Airlines	8,628,446,362
Thai Airways International	8,548,153,437
SAS & TAP Group	6,538,669,587
Asiana Airlines	5,972,240,703
Jetblue Airways	5,788,932,877
Garuda Indonesia	5,079,886,095
Avianca-Taca Group	4,919,245,346
Lion Airlines	4,767,626,743

Airline/Group Name	Expiring AFV US\$
Vietnam Airlines	4,323,006,940
Westjet Airlines	4,303,556,165
Egyptair	3,578,668,427
Azul Linhas Aereas Brasileiras	3,320,916,313
Aeromexico	3,213,955,244
South African Airways	3,168,726,712
Philippine Airlines	2,969,390,821
Air Algerie	2,792,190,000
Copa Panama	2,777,473,973
Dragonair	2,532,871,616
Trans States Airlines	2,205,116,631
Hawaiian Air	2,125,018,500
Royal Jordanian	1,878,337,377
Air Tahiti Nui	1,739,484,264
Libyan African Holdings	1,521,198,899
Royal Air Maroc	1,458,559,940
El Al	1,391,190,174
Pakistan International	1,219,086,000
Tunisian Airline Team	1,083,268,469

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