

AEROSPACE FIRST QUARTER (Q1) 2011

The first quarter of 2011 has largely represented a continuation of the trend from 2010. The industry continues to improve economically while the level of capacity that exists in the market has delivered an improved premium result for many buyers. The attraction of the sector to Insurers is continuing to increase and driving competition as a result.

Our review of the London Aerospace Market Q1 2011 is based on 102 renewing programmes that generated a total premium of USD 95.3 million, which compared with the premium these same programmes generated in 2010, equates to an overall premium reduction of -4.04%. This is a significantly higher level of premium reduction than the -1.75% for Q1 2010 (based on virtually the same renewing programmes).

CONTENTS

Aerospace First Quarter (Q1) 2011	1
Manufacturers	2
Airport Operators	3
ANSP/ATC	4
Fuel	4

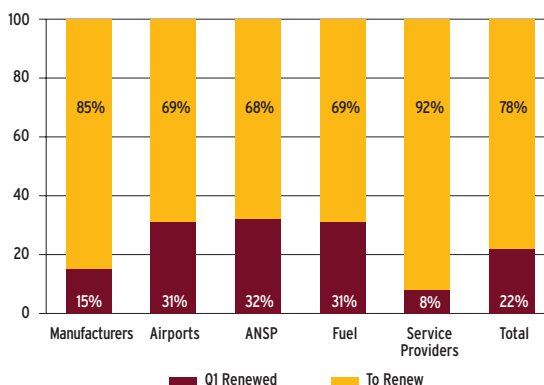
AEROSPACE SECTOR REVIEW: Q1 2011	NET PREMIUM USD		NET USD PREM CHANGE	EXPOSURE BASE	EXPOSURE VALUE 2011	EXPOSURE CHANGE 2011	NO. OF RENEWING PROGRAMMES
	2010	2011					
Manufacturers	36.53	36.82	0.80%	Projected Sales USD (Billions)	20.25	1.88%	28
Airport	42.40	39.99	-5.68%	Passengers (Billions)	1.20	4.77%	43
ANSP/ATC*	9.25	8.13	-12.20%	Aircraft Movements (Millions)	11.86	6.57%	11
Fuel	9.28	8.38	-9.70%	US Gallons (Billions)	21.35	11.13%	17
Airport Service	1.05	1.00	-4.76%	Projected Sales USD (Billions)	0.66	-6.85%	2
Other	0.80	0.98	22.13%	n/a			1
Overall Aerospace	99.31	95.30	-4.04%				102

* Pure ANSP/ATC programmes

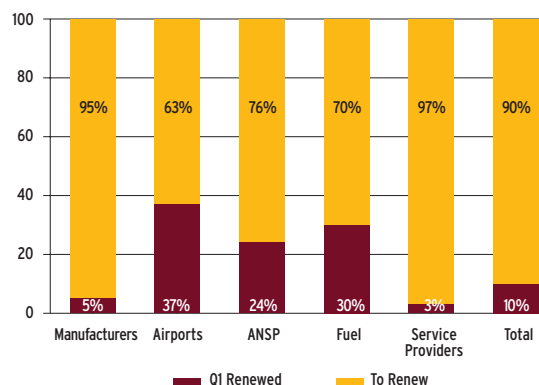
All currencies are converted to USD, ROE as at January 1, 2011

Q1 continues to be an important Airports and Air Navigation Service Providers (ANSP) period, seeing almost a third of the anticipated annual programme renewals of this sector occur. In terms of overall Aerospace premium for Q1 however, the quarter generates just 10% of the anticipated annual total (based on expiring volume).

Aerospace Renewing Programmes by Sector: Q1



Aerospace Renewing Premium Volume by Sector: Q1

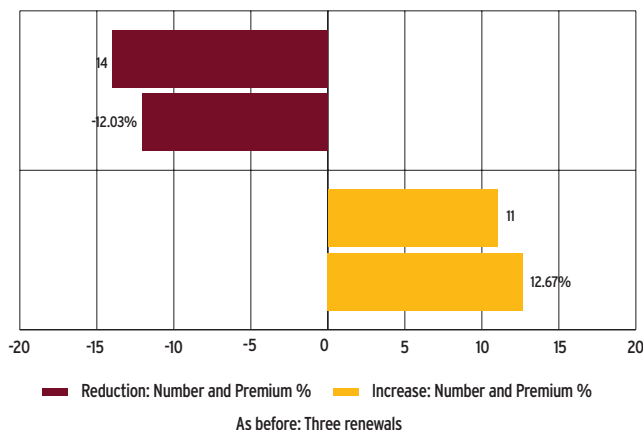


MANUFACTURERS

Manufacturer renewal activity during Q1 2011 was modest, with just 28 renewing programmes. A total renewal premium of USD 36.82 million was generated, which is a slight increase of 0.80%, when compared with 2010 premium amount. Estimated sales totalled USD 20.25 billion, which is a small 1.9% increase compared with the expiring estimated sales total of USD 19.88 billion.

The actual renewal experience was however mixed, continuing the trend of the past few years. Half of the programmes renewed achieved premium reductions, mostly due to a decline in projected sales, an excellent loss record or both. Those renewing programmes that experienced premium increases did so primarily due to growth of their projected sales estimates. In a couple of instances, the recent loss history was the primary cause of premium increase. None of the renewing programmes altered existing policy limits.

Q1 Manufacturers Renewals Change



WILLIS MANUFACTURERS INDEX REVIEW

SECTOR REVIEW: Q1 2011	NET USD PREM CHANGE	PROJECTED SALES CHANGE 2011	RATE ON SALES CHANGE 2011	NO. OF RENEWING PROGRAMMES
Aircraft Prime Manufacturer	12.66%	-10.13%	25.35%	2
Sub Manufacturer	-	-	-	0
Engine Manufacturer	32.06%	11.24%	10.22%	1
Electronic/Avionics	6.21%	-0.10%	6.21%	2
Component Manufacturer	0.26%	-5.58%	6.91%	3
MRO	-1.49%	53.11%	-35.66%	1
Overall Index	9.30%	-1.71%	11.00%	9

All currencies are converted to USD, ROE as at January 1, 2011

Q1 is a period that sees relatively few manufacturer products liability renewals, just 28 in total and of this number, just nine are monitored within the Index.

Of the nine renewing Index programmes four achieved premium reductions, one renewed as expiring and four received premium increases.

The above table records an overall Index premium increase of 9.30% compared with the 2010 expiring premium base. This is a marked difference to the overall Index position of 2010, where a premium reduction of -2.10% was recorded.

The above Q1 Index results represent a very small proportion of the anticipated total Index values for 2011, numerically just over 7.5% of the years anticipated total, in

terms of estimated premium volume approximately 2% of the years anticipated total.

The Q1 Index renewal outcome, because of the small number of programmes, cannot be used to access the renewal intentions of Insurers for 2011. It does however underline the fact that Insurers are setting renewal prices after thorough review of each programme, and we see clearly that recent poor loss records and/or significant estimated sales growth are likely to result in increased premium. The renewals that possess excellent loss histories are likely to see premium reductions, the level of which will be influenced by the estimated sales projections and capacity for the individual risk.

AIRPORT OPERATORS

As already noted, Q1 is an important period for Airport programmes, with almost a third of the anticipated annual total premium renewing during this period. There were 43 Airport renewals that generated a premium of USD 39.99 million, a reduction of -5.68% compared with the expiring premium base. Overall exposure, in passenger terms, recorded a modest increase of 4.77% compared with expiring estimates. Of 43 renewing programmes, just nine failed to achieve a premium reduction. Their increased premiums, cumulatively 11.65% compared with their expiring premium base, was due not only to estimated passenger growth, but also as a result of opting to purchase higher limits.

The renewing programmes that achieved premium reductions, cumulatively amounting to -7.5% compared with the expiring premium base, enjoyed these reductions despite the projected growth in passenger numbers of 4.4%.

The Q1 2011 level of premium reduction is greater than the -3.1% achieved in Q1 2010, however, 2010 as a year saw a premium reduction of -5.80%. The market trend can therefore be considered stable. Competition remains positive with capacity levels high and stable as Insurers seek to maintain their existing levels of participation. It is, however, worth noting that influencing the markets current renewal position is the sectors good loss record and the importance of emerging markets. Another important factor influencing overall renewal premium levels is the fact that the European region, a key exposure/premium generator to the market, has for a host of reasons seen actual passenger numbers fall significantly below estimated levels for the past three years, a fact that the market has recognised.

WILLIS AIRPORTS INDEX REVIEW

REGION REVIEW: Q1 2011	EST. ANNUAL PASSENGERS	% CHANGE	PREMIUM** USD	% CHANGE	PASSENGER RATE USD	% CHANGE	NO. OF RENEWING PROGRAMMES*
Europe	813,113,835	3.71%	27,738,068	-6.84%	0.03441	-10.17%	16
Far East	132,060,000	9.66%	1,267,349	-0.13%	0.00960	-8.93%	3
South America and Caribbean	51,300,440	-8.20%	1,361,224	-4.85%	0.26530	3.64%	3
Pacific Region	-	-	-	-	-	-	0
Middle East	63,680,000	13.87%	1,235,265	2.42%	0.01940	-10.06%	4
Africa	28,600,000	-2.53%	1,486,243	10.97%	0.05197	13.85%	3
Overall Index	1,088,754,275	4.13%	33,088,149	-5.52%	0.03039	-9.26%	29

* Renewing placements known as at 31/3/2011

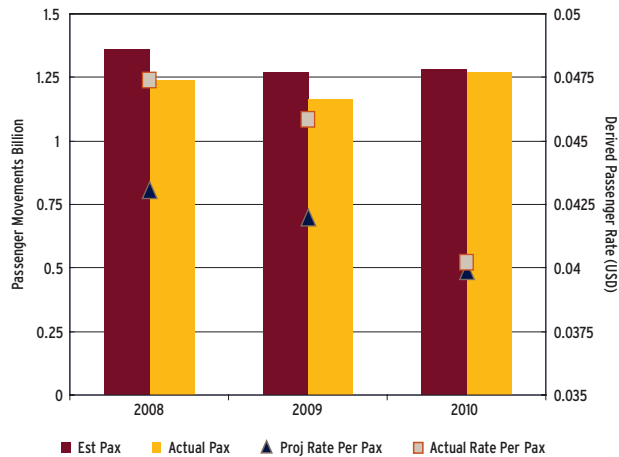
** All currencies are converted to USD, ROE as at January 1, 2011

A total of 29 airport programmes monitored within the Willis Airports Index renewed during Q1 2011. They accounted for 91% of the projected passenger numbers and 83% of the total premium of the overall airports sectors renewal base.

European programme renewals dominated the quarter. There was a significant premium and derived passenger rate reduction, whilst the estimated passenger numbers show modest growth on last year. With the exception of one renewing programme, premium reductions were universally achieved, however, there was considerable variation in the level of reduction of each individual programme, showing that Insurers continued to be disciplined in their approach.

A review of Q1 for the European regions renewal experience could be interpreted as a soft market response driven by abundant capacity, however, other important factors are influencing Insurer's decisions at renewal.

Willis Airports Index Europe



The excellent loss record of the majority of the airport programmes has increased the attraction of the European region to Insurers and reflects the success of the drive towards standardisation and the establishment of solid safety awareness/avoidance procedures and reporting culture. Another important factor is the actual impact on the regions airports operations over the past few years, of the economic downturn, adverse climatic condition, airspace closure and political upheaval. The majority of airport buyers have historically reported their anticipated exposures very accurately, however, it can be seen from the chart that the last few years have been difficult at best.

Looking at the renewal experience of the other regions, the Middle and Far East have continued their recent respective trends by projecting growth resulting in strong derived rate reductions. Competition amongst Insurers is strong and is reflecting a relatively small number of programmes, a good loss record, strong growth and resultant stable premium base.

South America and the Caribbean have recorded a surprise fall in projected passenger numbers, causing a derived passengers rate increase despite a premium

reduction. Over the full year however we anticipate projected passenger numbers will show growth and a modest derived passenger rate reduction.

Finally the African region is still feeling the impact of recent political situations that have depressed growth but make Insurers more cautious in their approach.

ANSP/ATC

There were 11 pure ANSP/ATC sector programmes which renewed during Q1 2011, showing a decline of 12.20% in renewal premium compared with the expiring premium base. This level of reduction is double that seen not only in Q1 2010, but for the whole of 2010. Just one programme received an increase in renewal premium due to a significant rise in its liability limit. Projected movements increased by 6.57%, this is a significant reversal in the position of Q1 2010 which recorded a -2.7% reduction and -2.4% for the year.

The renewal trend in this sector is premium reductions, despite exposure growth, reflecting a competitive market stance influenced by an excellent loss record and significant capacity.

FUEL

Q1 2011 recorded a premium reduction of -9.70% compared with the expiring premium base of 17 programme renewals. Two programmes received premium increases; one as a consequence of a 35% increase in throughput in US Gallons, the other due to a doubling of the limit purchased. Cumulative projected throughput is up by over 11%, with all but three renewing programmes projecting throughput growth.

The overall excellent loss record, abundant capacity coupled with Insurers' determination to retain market share in the Airport, ANSP/ATC and Fuel sectors has resulted in premium reduction levels above those seen in 2010.

CONTACTS

Steve Lodge
Tel: +44 (0)20 3124 7456
Email: lodges@willis.com

Steve Doyle
Tel: +44 (0)20 3124 7208
Email: steve.doyle@willis.com

Kelly Crudgington
Tel: +44 (0)20 3124 7377
Email: kelly.crudgington@willis.com

This is the Willis Aerospace Insurance Index our vehicle to keep our clients and others informed of developments in the aerospace insurance market. We welcome any comments or suggestions you may have to improve this publication. All data and analysis within this newsletter includes all known information at the time of production and is based on the net London lead terms and structure of the renewing insurance programmes monitored. 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 A Lloyd's Broker, Authorised and regulated by the Financial Services Authority for its general insurance mediation activities only.