

AIRLINE INSURANCE MARKET OVERVIEW

The airline insurance market renewal season is now well progressed and conditions continue to be favourable for buyers. The market has developed during the past month with some increased resistance to buyers or brokers demands if they are considered to be unrealistic and therefore too aggressive.

The ability to achieve a positive result remains though as market conditions continue to be favourable. Most programmes are coming to market predicting significant exposure growth, there continues to be an absence of major losses and excess capacity continues to exist. At a time of both growth and consolidation there is differentiated treatment being applied to organic growth rather than growth through consolidation and the erosion of actual premium that the latter brings.

There continues to be a differentiation in attitude between the leader and much of the following market but competition remains. Leaders are looking to address the requirements of their 'core' accounts while the following markets look to improve their position while still maintaining their ongoing participation. The market has established a threshold that recognises the market conditions but does not threaten its long term sustainability.

The key for brokers is therefore to manage the expectations of buyers when it comes to what can be achieved within the current market conditions and strive to achieve a result that is at the boundary of market tolerance.

The continuing propensity for losses to be increasingly dealt with through the use of Loss Additional Premiums (AP's) is allowing greater utilisation of the capacity available and is reducing the overall impact as markets that have not paid the loss do not receive the additional premium associated with the loss.

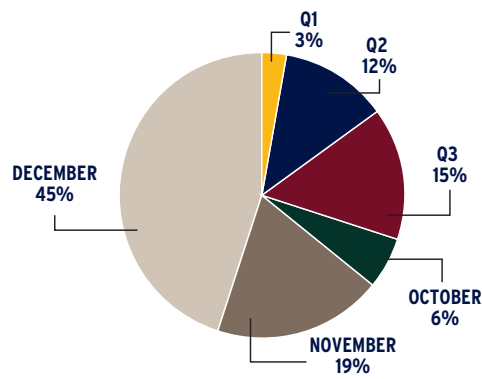
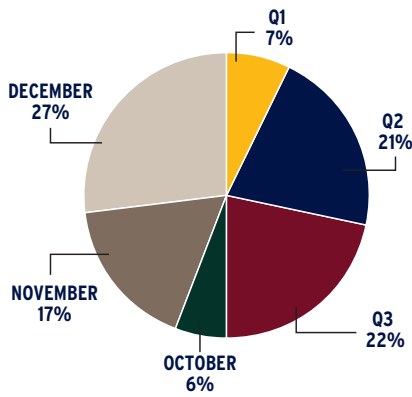
Recent renewals have included the majority of the former Gulf consortium carriers which continue to renew in mid November. Some of these Middle Eastern carriers have made moves to distance themselves from what was one of the largest group programmes in the market. This has been done through either a change of renewal date such as Qatar Airways which purchased a longer term policy in 2010 and now renews in April 2012 or a change of lead with Etihad Airways changing leader from Ace to Allianz.

Other major renewals in November include the DHL led cargo airline pool programme that has consolidated both Nippon Cargo and Southern Air into the group. New additions to the November renewals are the Qantas Group and Air New Zealand who chose to cancel and renew their policy early rather than running to expiry in December.

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RENEWAL DISTRIBUTION % SHARE & PREMIUM DISTRIBUTION % SHARE



2011 NET % PREMIUM & EXPOSURE MOVEMENTS (HULL & LIABILITY)

	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2010 NET PREMIUM US\$ M	2011 NET PREMIUM US\$ M	US\$ M PREMIUM CHANGE	PREMIUM % CHANGE
January	6	-59%	-49%	16.08	17.43	1.35	8.4%
February	3	41%	9%	3.98	5.19	1.21	30.4%
March	7	7%	-1%	16.59	17.29	0.70	4.2%
Q1	16	-31%	-24%	36.65	39.90	3.25	8.9%
April	19	11%	14%	130.01	125.07	-4.94	-3.8%
May	17	10%	11%	71.74	71.92	0.18	0.3%
June	22	3%	7%	41.35	44.77	3.42	8.3%
Q2	58	10%	13%	243.10	241.76	-1.33	-0.5%
July	35	7%	13%	235.19	228.61	-6.58	-2.8%
August	10	10%	25%	40.03	44.19	4.16	10.4%
September	11	39%	41%	32.69	33.97	-1.28	3.9%
Q3	56	9%	17%	307.91	306.77	-1.14	-0.4%
October	13	2%	21%	147.79	139.90	-7.89	-5.3%
November	38	8%	9%	343.34	346.91	3.56	1.0%
Q4	51	7%	12%	491.14	486.81	-4.33	-0.9%
2011 Total	181	8%	13%	1,078.79	1,075.24	-3.55	-0.3%

MARKET NEWS

MARKET MOVERS

Nick Vine has left Marsh and is to join Boston Marks in Houston. Nick is currently on gardening leave whilst completing his current notice period.

Ed Louth is leaving Aon to join Marsh. Ed is currently on gardening leave whilst completing his 12 month notice period.

Ian Krise has resigned from JLT to go to Colemont.

David Sales and Alan Webb have resigned from Colemonts and are to join Locktons once their notice periods are complete.

Thomas Thompson is joining Colemont from Cooper Gay.

2012 WILLIS AEROSPACE INTERNATIONAL AVIATION INSURANCE COURSES

The dates for the 2012 Willis Aerospace Aviation Insurance Courses have now been established. As in recent years there will be two identical courses which cover the operation of the Aerospace Insurance market and will take place in the Willis Building in London. The first will take place between May 14 and May 18, 2012 and the second will take place between June 11 and June 15, 2012.

Please contact your account executive regarding securing a place on either course.

LOSSES OVERVIEW

2011 continues to be a standout year in terms of airline loss performance. The relative loss position has continued to improve with the level of losses at the end of November being the best for seven years.

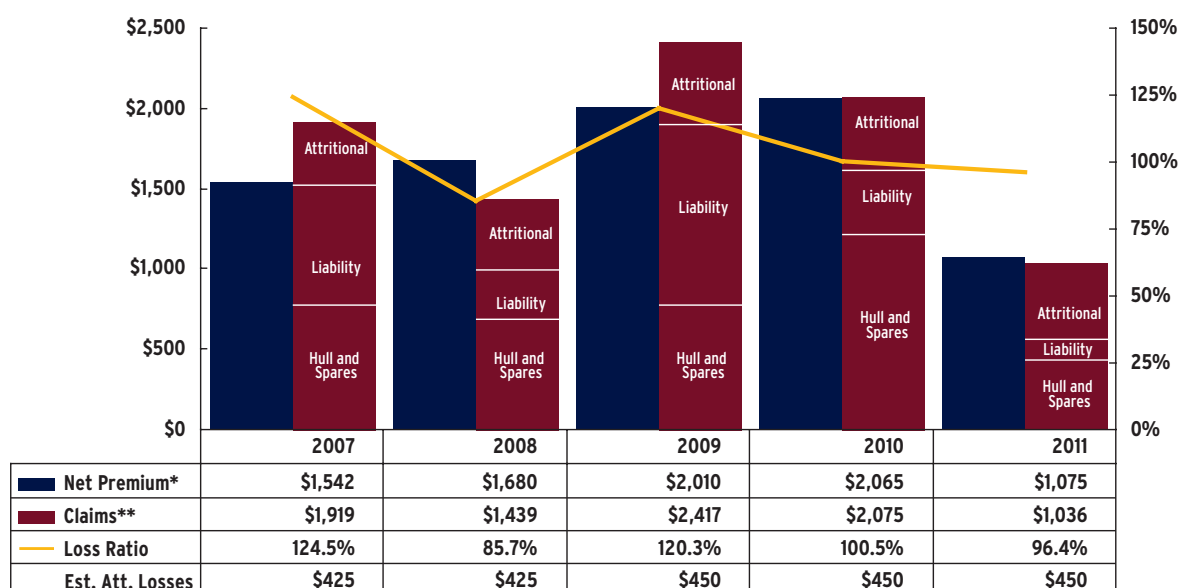
With a hull loss total of US\$522 million and liability reserves totalling just US\$102 million the attritional total remains a significant portion of the US\$1,037 million overall loss total.

The industry safety performance has been exemplary over the past 30 months with no major catastrophe since the Air France loss in June 2009. The industry safety performance

continues to improve and all market stakeholders can only hope that this continues to translate into low loss levels.

The challenge that remains when dealing with a catastrophe market is establishing a premium volume that addresses the increasingly significant attritional and hull losses whilst at the same time building a fund to pay for the rare catastrophe loss that will inevitably come. The number of underwriting units and not just the capacity levels create an increased 'miss factor' and make it less likely that there will actually be a market reaction to a single major airline market catastrophe.

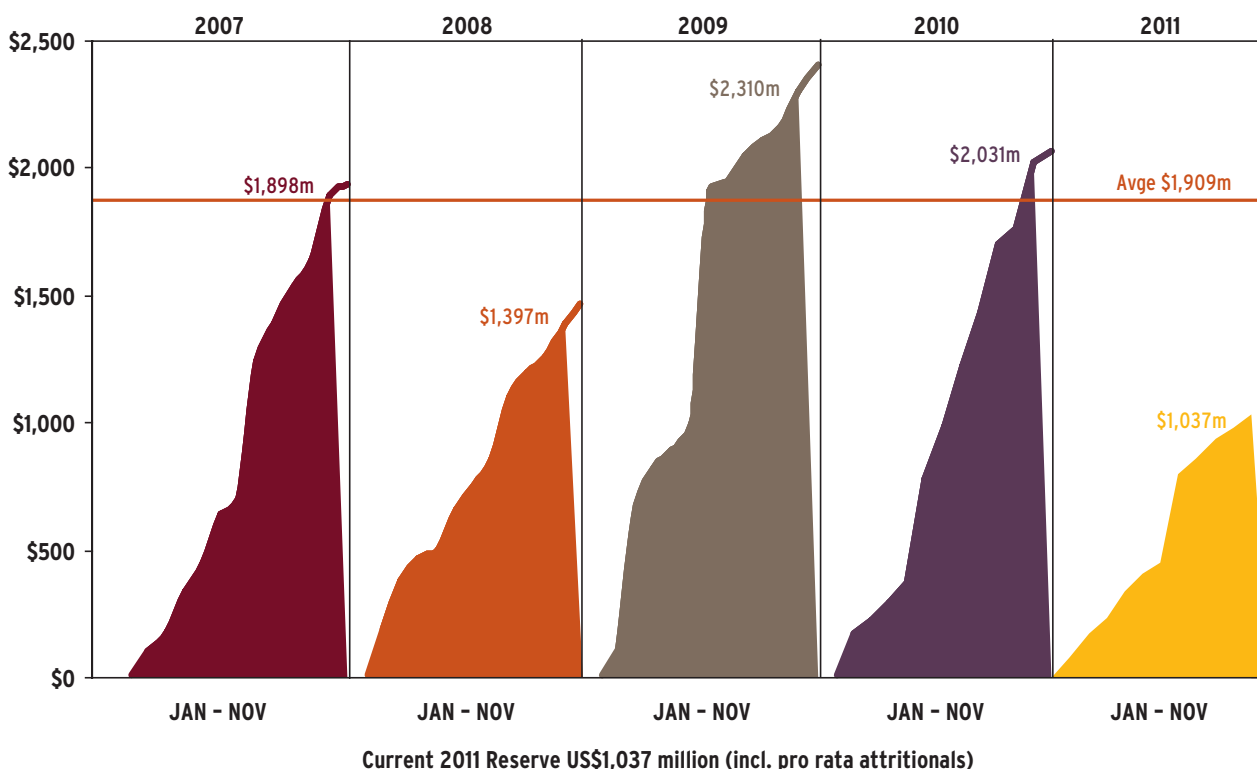
WORLD WIDE AIRLINE HULL & LIABILITY PREMIUM AND CLAIMS ON A CALENDAR YEAR BASIS 2007 - 2011 (NET LEADERS TERMS US\$M)



* Premium includes all known airlines with an AFV in excess of US\$100 million 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. Claims are updated as more information becomes available.

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (US\$M)



Significant losses that have occurred since our last publication are outlined below.

On November 15, a GOL B737 aircraft, registration PR-GTN, received substantial damage on landing at Salgado Filho Airport when its tail came into contact with the runway surface. No one on board was hurt. The hull reserve is to be established.

On November 8, a SA Airlink Avro RJ85 aircraft, registration ZS-SSH, encountered problems with the nose gear soon after take off and elected to return to land. Later it was confirmed that the nose gear failed to be lowered. The hull reserve is to be established.

On November 3, a Singapore Airlines B777, registration 9V-SWQ, landed on the runway at München-Franz Josef Strauss Airport, it veered right and came to a stop with all three gear on the grass. The hull reserve is to be established.

INDUSTRY NEWS

UK RESEARCHERS UNVEIL SILENT AIRCRAFT CONCEPT

Reducing noise from a Boeing 767-sized aircraft to levels so low that take-offs and approaches would not be audible beyond an airport's perimeter is possible with a blended wing body airframe powered by three-fan fully ducted engines, British researchers have concluded.

Cambridge University head of engineering Dame Ann Dowling, presenting the findings of the Silent Aircraft Initiative at the Royal Aeronautical Society on 15 November, said the goal of reducing aircraft noise by 25dB – equal to the reduction already achieved since the start of the jet age and taking noise down to a level less than 1% of today's aircraft – could be achieved by ditching wing-and-tube airframes for slatless, flapless blended wing bodies.

AMERICAN AIRLINES FILES FOR BANKRUPTCY PROTECTION

American Airlines has filed for Chapter 11 bankruptcy protection and announced that its president, Thomas Horton, has succeeded Gerard Arpey as chief executive.

The carrier filed voluntary petitions for reorganisation with the Southern District of New York bankruptcy court, citing the move as being 'in the best interest of the company and its stakeholders'.

American intends to carry out its operations as normal during its restructuring process, and will "maintain a strong presence in domestic and international markets, including our cornerstones in Dallas Fort Worth, Chicago, New York, Miami and Los Angeles", said Horton.

The airline has \$4.1 billion in unrestricted cash reserves and short-term investments, which it said will be "more than sufficient to assure that its vendors, suppliers and other business partners will be paid timely and in full for goods and services provided during the Chapter 11 process".

IATA WARNS OF CHALLENGING ENVIRONMENT AHEAD

Global airlines that posted a strong third quarter performance face an increasing challenging environment during the next few quarters, warned IATA.

In its Airline Financial Monitor examining performance for October and November, IATA concluded a sampling of 60 airlines reported third quarter net profits of US\$5 billion. Profits have dropped year-over-year, but only roughly 20% on a pre-tax basis.

For Europe, "where the economic outlook is dire", said IATA, airlines limited their third quarter profitability decline to 5%.

But IATA stressed those are backward-looking indicators, and 'the future does look considerably worse than the situation that generated these third quarter profits'.

IATA stated jet fuel prices during the last month have risen to \$130 per barrel as oil market supply was squeezed by lower than expected non-OPEC output and the loss of Libyan supply.

"Forward cover of oil inventories at the global level has fallen by 9 days since the start of 2009, which shows the extent of the tightness," said IATA.

The association warned the tight oil supply could result in higher break-even load factors even as carriers saw stable loads in the third quarter due to rising yields and non-fuel cost efficiencies.

IATA concluded in service seat expansion is slowing to an annual rate of 2 – 3%, 'which will have helped passenger airlines match capacity with demand. If air travel slows sharply, as we expect, this matching will become more difficult'.

The air freight market continues to remain weak as IATA estimated it has shrunk 5% since mid-year as shippers opt for cheaper modes of transport. Even as air freight capacity has stabilised resulting from reductions in freighter capacity offsetting new belly capacity, utilisation rates for freighters are down sharply, adversely affecting cargo profitability, the association said.

FORTHCOMING RENEWALS

December is, without question, the most influential month of the year in terms of the number of renewals and the volume of premium generated. This impact and influence is dramatic, with in excess of 50 major renewals, generating approaching 50% of the annual premium expected to renew.

The migration to renewal dates later and later in the year has created an unprecedented concentration of activity and premium volume. The subsequent 'no worse than average' mentality delivers the market a challenge when it comes to delivering any form of differentiation.

The concentration is now so great that it could now be perceived as providing buyers and the market with a level of activity and a pace of change that is increasingly unmanageable. As airlines, brokers and insurers go through the process of assessing each airline in its peer group, 'run it through their model' and deliver or respond to the argument of why each airline is better than average, the challenge is to do each programme justice.

The final part of the year sees the vast majority of the North American Airline renewals come to market. The large domestic market participation on this cluster of carriers has historically meant that they are loosely tied together in terms of loss and renewal performance. The consolidation

that has taken place in recent years has made the North American programmes many of the largest in the market and significant premium volumes are available. The threat of US liability awards means that capacity available is reduced when compared to the majority of international airlines but recent years have seen the region deliver excellent results for the market.

There are also a huge number of Asian airline programmes that renew in December including the Chinese CAAC programme which is the largest programme in terms of both fleet and passenger exposure. The programme continues to demonstrate significant year on year growth, highlighting the different industry experiences taking place across the globe.

The level of growth that is taking place across Asia continues to bring significant exposure growth for the market. The market conditions do however mean that this explosive growth is largely not seeing any increase in premiums for underwriters.

As 2012 approaches it appears little that is likely to change in market conditions. The level of activity will fall dramatically in the first quarter of the year when there are going to be between fifteen and twenty renewals.

DECEMBER RENEWALS

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
CAAC	01-Dec-11	63,445,582,168
Air France/KLM Group	01-Dec-11	34,478,731,669
All Nippon Airways	01-Dec-11	12,556,738,055
Korean Airlines	01-Dec-11	10,096,704,981
Ryanair	01-Dec-11	10,025,539,399
Japan Airlines	01-Dec-11	9,959,527,187
Thai Airways International	01-Dec-11	8,466,937,636
Jetblue Airways	01-Dec-11	5,500,000,000
Malaysia Airlines	01-Dec-11	5,137,671,489
Asiana Airlines	01-Dec-11	4,819,650,714
Westjet Airlines ltd	01-Dec-11	3,858,202,740
Garuda Indonesia	01-Dec-11	3,569,153,457
Aeromexico	01-Dec-11	2,706,600,119
Air Tahiti Nui	01-Dec-11	2,066,463,895
Royal Air Maroc	01-Dec-11	1,983,857,171
Air Algerie	01-Dec-11	1,707,930,500
Tunisian Airline Team	01-Dec-11	1,377,142,750
Azul Linhas Aereas Brasileiras	01-Dec-11	1,215,103,314
Caribbean Airlines	01-Dec-11	818,011,874
TAAG	01-Dec-11	636,566,136
Blue Panorama	01-Dec-11	419,263,186
His Majesty The Sultan of Oman	01-Dec-11	369,833,333
Europe Airpost	01-Dec-11	339,100,000
Air Niugini	01-Dec-11	267,450,000
Air Do	01-Dec-11	181,938,534
IBEX Airlines	01-Dec-11	156,983,771
Air Namibia	01-Dec-11	149,765,479
UT Air	05-Dec-11	286,910,000
Star Flyer	12-Dec-11	209,754,456
Arik Air	13-Dec-11	811,910,266
Blue Air Transport (Romania)	13-Dec-11	101,491,781

DECEMBER RENEWALS (Continued)

AIRLINE	RENEWAL DATE	EXPIRING AFV US\$
Metro Batavia	14-Dec-11	741,796,713
Cathay Pacific	15-Dec-11	14,338,895,443
Air Canada	15-Dec-11	11,023,749,369
Southwest Airlines	15-Dec-11	10,930,000,000
Vietnam Airlines	15-Dec-11	3,216,219,902
Dragonair	15-Dec-11	1,939,270,466
Philippine Airlines	15-Dec-11	1,891,322,500
Trans States Airlines	15-Dec-11	1,831,792,940
Global Aero Logistics	15-Dec-11	1,628,821,525
Pakistan International	15-Dec-11	1,605,618,092
Mesa Airlines	15-Dec-11	1,245,853,687
Air Hong Kong	15-Dec-11	532,286,339
Air Malta	15-Dec-11	409,786,119
Omni Air International	15-Dec-11	385,635,885
Air Pacific	15-Dec-11	199,240,000
USA 3000	15-Dec-11	183,000,000
Enter Air	15-Dec-11	161,019,452
Nok Airlines	15-Dec-11	150,762,740
Egyptair	16-Dec-11	3,638,671,746
Air Cairo	16-Dec-11	160,000,000
Sun Country	17-Dec-11	413,514,920
Hawaiian Air	20-Dec-11	1,622,742,000
Delta Air Lines	21-Dec-11	15,157,785,756
US Airways Group, Inc	22-Dec-11	10,103,200,000
Royal Jordanian	22-Dec-11	1,971,695,102
Centurion Air Cargo	25-Dec-11	344,630,137
El Al	30-Dec-11	1,446,350,256
United Continental Holdings	31-Dec-11	26,240,118,581
Copa Panama	31-Dec-11	1,910,790,500
Cubana	31-Dec-11	376,628,228
Aer Arann Express	31-Dec-11	107,121,184

THE WILLIS 50

The December renewals dominate The Willis 50 with 53% of the overall premium volume from the group. The Willis 50 have thus far demonstrated that size does make a difference, although at this stage minor, when it comes to airline insurance purchasing achieving premium reductions of -2% against a market average of -1%. The growth of the Willis 50 has been significant as they continue to rebound from the economic downturn, with average fleet values increasing by 8% against a market average of 9% and passenger numbers up by 11% against a market average increase of 11%. This variation from the market trend is anticipated to increase between now and year end.

The Willis 50 has also seen significant change in the programme make up through both consolidation and fragmentation. There are now just 46 programmes that remain unchanged from the start of 2011. There have been two programmes that have 'disappeared' through consolidation while two new programmes that meet the criteria for the 50 have been formed from programmes that were already in the group.

There will be a full summary of the developments within the Willis 50 at the end of the year.

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