

AIRLINE RENEWALS

The extremely low level of renewal activity continues into February, with just three renewals during the month. This means activity is even lower than the four renewals that took place in January. The February renewals are Hi Fly (Portugal), Lotus Air (Egypt) and Sky Net Asia (Japan). None of these renewals has an Average Fleet Value (AFV) in excess of US\$200 million. Unsurprisingly it is extremely hard and unwise to draw any meaningful conclusions from the minimal amount of renewal data collated.

The number of renewals in February has reduced in comparison with 2008, with both Aer Arran (Eire) and Air Finland 'cancelling and replacing' their 2008 policies in December. In 2008 February generated just 0.4% of the year's annual premium, this figure will fall in 2009 as a consequence of these changes. In addition, EOS the U.S. based business class airline, also previously a February renewal ceased operations in April last year.

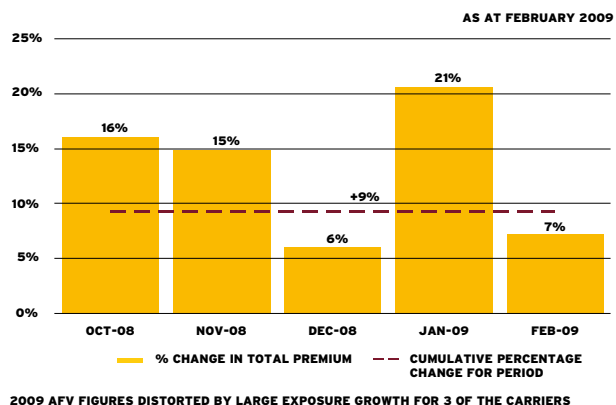
This lack of renewal activity is reflected in the level of premium volume generated during February which totalled just US\$3.3 million, a 7% increase in premium on a like-for-like basis. The largest risk to renew during the month is Skynet Asia Airways with an AFV of US\$193 million which saw fleet growth of 20%, with passenger growth of 7%. The total AFV for the month is just US\$471 million, an abnormally increase of 47%. Not all the carriers renewing have declared passenger numbers and therefore we cannot give details of the percentage changes. With all the talk of industry challenges it is clear that these renewals are unlikely to be reflective of the global airline experience due to the size and diverse nature of their programmes.

In addition to all the renewals receiving increases in premium the level of differential between lead terms and following markets continued to narrow generating higher increases in the actual premium than our averages suggest. The continuation of this trend is likely to continue through to the final quarter of the year when the market will have established a greater consistency to the vertical structures.

Our only conclusion is therefore that insurers seem to be being successful in their continued efforts to increase premium levels, with just seven renewals thus far in 2009 however this could change after the renewal of one large risk. With a cluster of sizeable programmes coming to market in April no meaningful analysis can be made until then.

A more meaningful figure is the premium generated since October 2008, which totals US\$969 million, an increase of 9% compared to the same period 12 months ago.

HULL AND LIABILITY NET Q4 2008 AND Q1 2009 % PREMIUM MOVEMENTS



HULL AND LIABILITY

NET Q4 2008 AND Q1 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
OCTOBER	15	4.1%	6.1%	52.8	61.3	8.5	16.1%
NOVEMBER	25	8.5%	3.0%	241.6	277.6	36.1	14.9%
DECEMBER	53	4.6%	0.5%	583.2	619.0	35.8	6.1%
Q4 SUMMARY	93	0.7%	0.7%	877.6	957.9	80.3	9.2%
2008	209	7.5%	4.4%	1,330.3	1,446.7	116.4	8.8%
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	20.6%
FEBRUARY	3	47.2%	-10.0%	3.1	3.3	0.2	7.2%
Q4 SUMMARY	7	36.0%	2.6%	9.2	10.7	1.5	16.1%
OCTOBER 2008 - FEBRUARY 2009 (TO DATE)				886.8	968.7	81.6	9.2%

2009 AFV Figures distorted by large exposure growth for 3 of the carriers



WILLIS IATA AAPA ASIA PACIFIC AVIATION CONFERENCE

The conference was held on February 24 – 27, 2009 in Malaysia. The event was sponsored by Allianz, Asia Capital Reinsurance Group, the Association of Asia Pacific Airlines (AAPA), Charles Taylor aviation (CTa), Beaumont & Son – Aviation at Clyde & Co, IATA, Kenyon, Malaysia Airlines and Munich Re Group.

Unlike any previous Willis Aerospace conference, this year's gathering generously hosted by Malaysia Airlines was held against the backdrop of markedly different conditions in both the world economy and the aviation industry sector. Despite the very considerable challenges facing airlines and the fact that Asia is clearly not immune to the downturn, many commentators remained positive about the prospects for long-term aircraft and passenger traffic growth in the region.

Andrew Herdman, Director General of AAPA identified how fuel cost volatility, foreign exchange fluctuations and weaker passenger demand was affecting airlines and summarised how Asia's carriers were responding by rationalising routes, grounding aircraft or seeking referrals in deliveries. Echoing the opening remarks on enhancing and protecting reputation made by the Malaysia Airlines Chairman, Andrew concluded by stating the need to enhance the reputation of the industry through regulatory oversight, addressing ownership issues and pursuing a commitment to safety.

Robert Martin, Managing Director and CEO of Bank of China Leasing and John McKean, SVP Aviation Capital Group highlighted the opportunities in sale and leaseback as opposed to the tough trading environment witnessed in the aircraft placement business. John stated the likely losses over the next two years would be offset by the huge requirement to implement growth over the next twenty.

The insurance debate was begun by Tom Fadden of Allianz Global Corporate & Speciality on why insurers would be increasingly unwilling to sell capacity below cost and Tom urged the audience to depart from the overly simplistic debate of premium and claims ratios, to instead appreciate how the capital costs burdening insurers will put upward pressure on pricing.

Hans Sandstrom, Asia Capital Reinsurance Group analysed the cost cycle showing it was difficult to determine a correlation between the hull rate index and industry claims or other natural hazards such as windstorm damage that hit the insurance industry. He stated the prevailing competitiveness in the market is likely as a result of the surplus capital looking for returns in the insurance market, and the corresponding growth in the airline industry growth driving rates downwards. In addition to which, the good investment income environment which allowed insurers to sustain competitive risk rates over a prolonged period at the expense of technical underwriting profit. His paper concluded that economic and financial factors are the key drivers in the rating model of aviation insurance.

Steven Schmidt and Christopher Jobmann from the Munich Re attempted to add some transparency to their rating methodology, identifying the key pricing components on which they apportion premium spend. Challenging airlines to purchase the best levels of security available, they emphasised the necessity to protect their own balance sheets in order to continue contributing positively to their clients' expectations and future demands. They also identified the inherent conflict in the aviation insurance market insofar as their customers expect a long-term commitment from their insurers whereas the market continued to deliver only short-term solutions.

The broker's view was represented by Ed Bond and David Boyle of Willis Aerospace who both acknowledged the strengthening resolve of aviation underwriters to increase the premium base but in viewing the profitability of the market over time, suggested there was room to moderate the apparent requirement for what insurers consider to be more sustainable levels of income to the class.

On the issue of security, airlines were encouraged to recognise the exposure they may unwittingly pass on to their policy issuing companies, where capacity has been selected for its competitive nature as opposed to its capitalisation and financial integrity. They concluded by stating there is a greater need for airlines to understand the role that local insurers play and not to underestimate the trading risk they run in the event of the insolvency of an a Reinsurer.

Philip Bass and David Clark of Beaumont & Son – Aviation at Clyde & Co addressed the worldwide phenomenon of damages inflation, forum shopping, negligent entrustment and the increasing complexity of losses. David suggested far more could be done by airlines in preparing an effective infrastructure to cope with emergency response operations.

David Johnston of Gates & Partners held a workshop on the Rome Convention and the developments in the liability of airlines for damage to third parties on the ground. Despite acknowledgement that a convention on the Terrorism liability aspect would provide certainty and a viable international framework, it appears the chances of ratification will depend on considerable further debate to find resolution to controversial issues such as a viable funding mechanism and the emphasis on liability of operators rather than state and the apparent exoneration of other participants.

Other papers included an overview of FOQA by Robert McParlin, Chairman of CTa, and by Robert Jenson CEO of Kenyon International Emergency Response who stressed the need for a working, cohesive system of information and data collection in a post accident environment.

Alistair Lester from Willis FINEX spoke of how due diligence and advisory work in the Mergers and Acquisitions area, provides operational insight as well as a better understanding of ownership liability to respective parties involved in a deal. His paper went on to show case studies of how transactional solutions and products had contributed to M&A deals in the aviation sector. Aruna Rajaratnam, from Willis Singapore updated the audience on the D&O market identifying the policy as a multi-million dollar asset protection and not a commodity and cautioned buyers to be more aware of policy language that may negate the insured's ability to protect personal assets.

Finally, Olivier Marre, SVP Max Re provided an entertaining and thought provoking discussion on Cyber Risks alluding to the threat of a multi-aircraft risk and why it is a specific threat to new generation aircraft structured with digital architecture and the ability to upload potentially damaging programmes into an airline's computer system from the ground.

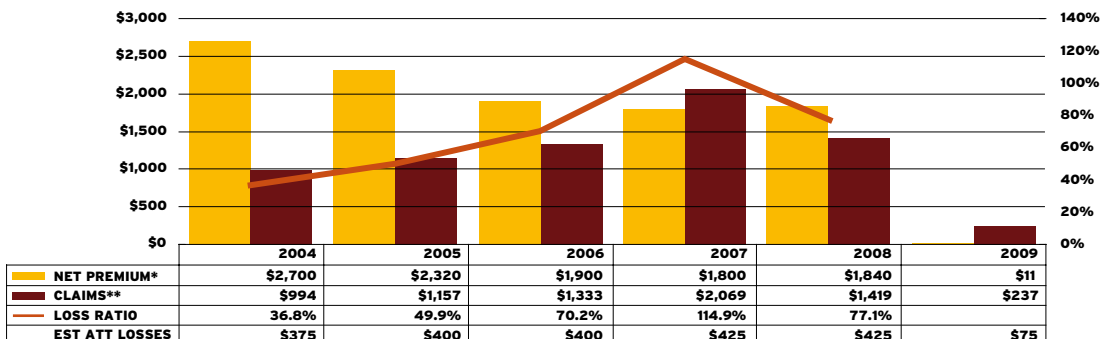
The conference was concluded by Joe Trotti, CEO of Willis Global Specialities who provided the audience with an informed perspective on the wider insurance industry sector in the face of the economic turmoil, stating the aviation insurance market itself continues to offer choice and diversity and would continue to act as a cornerstone to the airline transport system in Asia. We would like to thank our Malaysian colleagues and all our sponsors and speakers including those not mentioned above for their valuable support to the conference agenda this year.

LOSSES UPDATE

WORLD WIDE AIRLINE HULL AND LIABILITY PREMIUM AND CLAIMS 2004 - 2008 (NET LEADERS TERMS US\$M)

AS AT FEBRUARY 2009

5 YEAR TOTALS (2004 - 2008)
PREMIUM: US\$10,560M
CLAIMS (INC ATTRITIONAL): US\$6,969M
PROFIT TO THE MARKET: US\$3,591M
LOSS RATIO: 66%



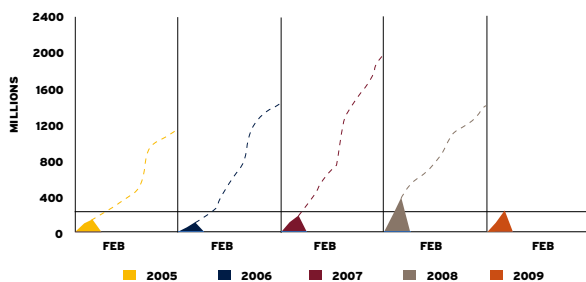
2009 DOES NOT INCLUDE ANY LIABILITY RESERVE IRO THE COLGAN AIR LOSS IN FEBRUARY

The current loss figure for 2009 is US\$164.2 million, composed of US\$89.2 million hull and a pro-rata figure of US\$75 million in respect of attritional losses. This figure does not include reserves from some recent losses that are still to be confirmed and will therefore add to this total.

This early in the year it is difficult to draw significant conclusions from the loss activity to date. At this point, and despite some significant recent losses, 2009 shows improvement over the same point in 2008 at the time of writing having incurred US\$216.2 million less to date. With the exception of 2008, at this point in the year 2009's loss position is at a similar level to the previous four years.

Despite the comparative good start to the year, in terms of known loss reserves it is worth noting that following the recent Colgan Air loss (detailed later in this section) a sizeable incurred liability reserve is due to be imminently set by the market. This award will drastically effect 2009's position relative to previous years.

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (USD)



2009 DOES NOT INCLUDE ANY LIABILITY RESERVE IRO THE COLGAN AIR LOSS IN FEBRUARY

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

Recent incidents of significance are detailed below:

On February 12, a Colgan Air Bombardier Dash 8-Q400, registration N200WQ, (insured under the Delta Northwest programme) crashed on approach to Buffalo International Airport, New York, USA. The aircraft was cleared for an ILS approach when it reportedly lost altitude and crashed into a suburban residential area about 6km northeast of the airport. There were no survivors among the 44 passengers

and four crew on board the aircraft, with one fatality on the ground. Twelve houses were destroyed or severely damaged by the aircraft.

Shortly after touchdown at London City Airport, UK, on February 13, an Avro RJ100, registration G-BXAR, operated by British Airways, sustained damage when its nose undercarriage collapsed. None of the 67 passengers and five crew was seriously injured with only one minor injury reported. At the time of writing the full extent of the damage sustained by the aircraft is not yet known.

During landing at Ain Amenas Airport, Algeria, on February 16, a Saga Airlines Boeing 737-400, registration TC-SGD, went off the runway by more than 100 metres before coming to a stop on soft soil. The aircraft was evacuated where an unconfirmed number of injuries occurred to the occupants. According to reports the undercarriage was severely damaged, but the full extent of the damage sustained to the aircraft is not yet known.

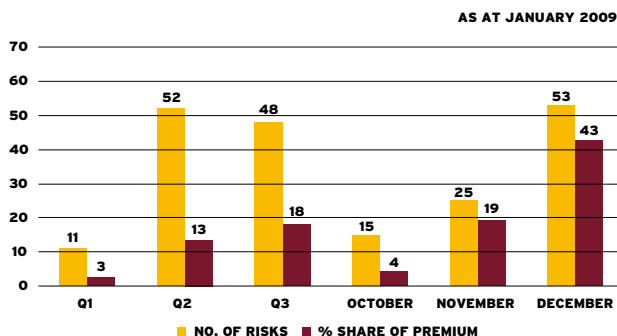
An Atlasjet Airlines Airbus A320, registration TC-OGL, somehow detached from its tow bar during the pushback manoeuvre from its gate position at Istanbul-Ataturk International Airport, Turkey, on February 19. The aircraft continued to roll rearwards at moderate speed for about 60 metres until it knocked down a lamppost causing severe damage to its left inner stabilizer and tail cone. There were no injuries reported to either the passengers onboard or ground crew working in close proximity of the aircraft.

During approach to Amsterdam Schiphol International Airport, on February 25, a Turkish Airlines Boeing 737-800, registration TC-JGE, crash landed in open ground approximately 1km short of the runway threshold. The aircraft was destroyed, breaking into three sections during the impact. Of the 126 passengers and six crew onboard, six passengers and three crew perished. A further 25 occupants were reported as seriously injured with six of these described as critical.

FORTHCOMING RENEWALS

HULL AND LIABILITY

2009 RENEWAL AND NET PREMIUM DISTRIBUTION



FOR PROGRAMMES WITH AN AFV IN EXCESS OF US\$100M

The level of renewal activity increases slightly in March, although it remains low, with just five renewals. These are Bangkok Airlines (Thailand), Freebird Airlines (Turkey), Iranair, Jett8 (Singapore), KD Avia (Russia).

The first quarter has seen four carriers removed from the renewal calendar as a result of insolvency. Avolar a Mexican carrier being one that previously renewed in March. As a further sign of programme consolidation Air Nostrum previously the month's largest renewal in terms of fleet value and passengers, which flies many domestic routes for Iberia has been included within the Iberia programme. Tradewinds a U.S. based cargo operator is now included as part of the Skylease one programme and will no longer renew in March.

By the end of the first quarter of 2009 just eleven risks are expected to have renewed. This lack of activity inevitably results in attention becoming drawn to the renewals in April, with 20 programmes scheduled to renew including some of the world's largest insurance programmes. The largest renewal in April will be the British Airways programme which includes Aer Lingus (Eire) and the Lan Group (Chile) and has an expiring AFV in excess of US\$21 billion. In addition Hainan Airlines (China) will renew with an expiring AFV in excess of US\$7 billion with Jet Airways (India) having an AFV in excess of US\$5 billion and Air Berlin (Germany) with an AFV in excess of US\$3.8 billion.

April will offer the first real chance to see how insurers will treat a wide selection of renewals, both in terms of size and type of operation. With the cycle running from October we believe that there will be little change in sentiment they will likely continue to seek to continue moderately increasing premium levels.

APRIL RENEWALS

AIRLINE	RENEWAL DATE	AFV US\$M
AIR MADAGASCAR	1-APR-09	195
AIR MAURITIUS	1-APR-09	692
AIR PLUS COMET	1-APR-09	1,786
AIR TAHITI	1-APR-09	405
BRITISH AIRWAYS	1-APR-09	21,161
COMPAGNIE CORSE MEDITERRANEE	1-APR-09	208
EVERGREEN INTERNATIONAL	1-APR-09	753
ISRAIR AIRLINES	1-APR-09	160
MERIDIANA GROUP	1-APR-09	923
NEOS	1-APR-09	272
SRILANKAN AIRLINES	1-APR-09	965
TACV CABO VERDE	1-APR-09	149
AIR BERLIN	4-APR-09	3,894
ARIK AIR	7-APR-09	442
HAINAN AIRLINES	8-APR-09	7,169
SKY AIRLINES	9-APR-09	206
HOLA AIRLINES	16-APR-09	100
JET AIRWAYS (INDIA)	16-APR-09	5,592
SPICEJET	20-APR-09	955
AIR ASTANA	26-APR-09	743

With the pace of change in the global economy and the widely publicised challenges facing the airline industry April will also offer an opportunity to gain further understanding of the impact on the exposures being declared by the renewing airlines and whether the expected reduction in exposures on the expiring policies is actually occurring.

The annual renewal profile with the dominance of the final quarter along with the clustering of renewals around April and July does little to assist in the understanding of market sentiment throughout the year. With such uncertainty in the global economy and varied economic forces being applied to the insurance market, 2009 is however unlikely to offer a clear picture regarding premium change and overall volume until much later in the year.

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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.

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