

AIRLINE RENEWALS

Renewal activity in May reduced in comparison with the volumes of April. The month remained of interest however, as the fourteen renewals included a sizeable and diverse selection of programmes, including UK low cost carrier easyJet and the Virgin package, which includes Virgin America, Virgin Atlantic and Virgin Blue. This alignment under the Virgin brand forms the largest 'programme' to renew during the month with a combined Average Fleet Value (AFV) in excess of US\$10bn and passenger numbers in excess of 98m which are up by 15% and 31% respectively against last year.

The consolidation of the Travel Servis programme within the SAFIT group programme saw the removal of 2% of the 2007 premium volume for May while Air Jamaica boosted the figures by renewing in May for the first time having extended its expiring policy by one month.

In a further sign of the consolidation taking place within the market, Kingfisher Airlines, which was scheduled to renew during the month has extended its period of insurance and will now renew in June when its programme will be combined with that of Air Deccan, following its purchase by Kingfisher.

So far May has generated over US\$46m in premium. This is an increase of 14%, although the average fleet value total saw growth of 15% and passenger numbers increased by 24%, indicating that rate reductions continue to be negotiated. Following markets continue to close the gap in percentage differential from the leader's price,

with the result that overall premium changes will generally be higher than the market average figures outlined.

A number of risks have renewed with an increased AVN52 limit of US\$250m which should have secured a pricing benefit in the already sharply reducing excess AVN52 market.

While on the surface things may be looking more encouraging for insurers it is important to put these renewal results into perspective. Just over 10% of the world's fleets have renewed their insurance programmes this year, including just 12 Airlines with fleet value in excess of US\$1bn.

Insurers' attitudes to pricing have yet to be tested with a large sample of major carriers. In particular it remains to be seen how the market will treat major risks with no significant exposure increases but stellar records at their renewals.



HULL & LIABILITY

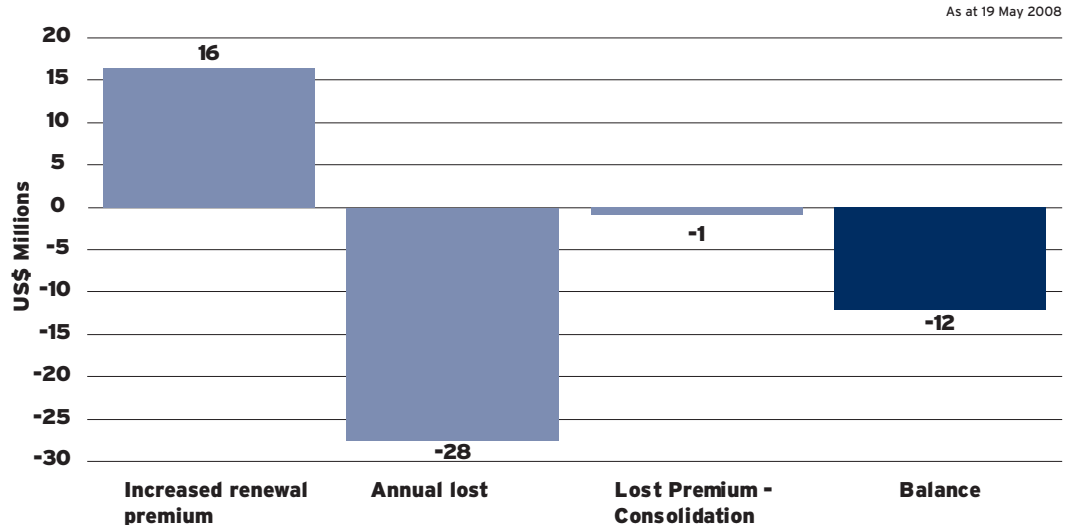
GROSS 4TH QUARTER 2007 & 2008 % PREMIUM MOVEMENTS

2007	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2006 PREMIUM US \$M	2007 PREMIUM US \$M	US\$ M PREMIUM CHANGE	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	7.9%	1.4%	24.5	25.1	0.6	2.6%
Q1 SUMMARY		14.7%	3.0%	33.2	35.6	2.4	7.3%
APRIL	16	22.4%	16.7%	95.4	103.8	8.4	8.8%
MAY (TO DATE)	10	15.0%	24.2%	40.2	45.8	5.5	13.8%
Q2 SUMMARY		21.0%	19.3%	135.6	149.6	14.0	10.3%
2008 TO DATE	38			168.8	185.2	16.4	9.7%
OCT 07 -							
MAY 2008 (TO DATE)	122			1,385.5	1,286.6	-98.9	-7.1%

The market challenge is further underlined when looking at the total of premium generated. The 2008 total is currently US\$185m, an increase of 10%, or just over US\$16m of additional premium. This is more than offset on an annual basis by the industry insolvencies and insurance programme consolidation that is taking place. The real position continues to see premium erosion on an

annual basis and this is outlined in the graph. The premium generated since the start of the current cycle in October 2007 totals US\$1,287m, or a reduction of nearly US\$100m and therefore a more significant change than that experienced so far in 2008 will be required for the market to return to profitability.

GROSS 2008 HULL & LIABILITY PREMIUM BALANCE



MARKET AND INDUSTRY NEWS

The Aviation Insurance Clauses Group (AICG) has produced their Consultation Draft 17 which is focussing on fraudulent claims. The Consultation Draft adopted by the Group and associated documents are now being submitted for Third Party

consultation. Parties have until June 8 to submit comments to the AICG Chairman or Secretary. Willis will obviously monitor the situation and will keep our readers up to date with developments.

INDUSTRY TRAFFIC CONTINUES TO SLOW

As further evidence of projected exposure not being realised and impacting premium volumes, this month IATA released international traffic data for April. Year on year passenger demand grew by 3% but with capacity growth of 5% load factors fell by 1.5%, the third monthly year on year decline.

There are however some distortions in the figures due to an early Easter and the impact of the capacity growth due to US-EU Open skies which have meant that underlying passenger demand rose by 4%. Africa

was the only region to see a contraction in traffic with the Middle East seeing the largest level of growth as a result of soaring oil revenues, tourism development and additional airline and airport capacity.

Commenting on the figures, IATA Director General Giovanni Bisignani said, "The impact of skyrocketing oil prices and weaker economies has made its way to traffic growth. At this time last year we were talking about 6.7% growth for the first four months of the year. This year it's 4%. There has been a step change downwards," said Bisignani.

LOSSES UPDATE

The current loss figure for 2008 is US\$540m which consists of US\$260m from hull losses and US\$102m in respect of liabilities, and a pro rata figure of US\$178m 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 total is US\$63m better than at the same point last year when the volume of losses stood at US\$603m.

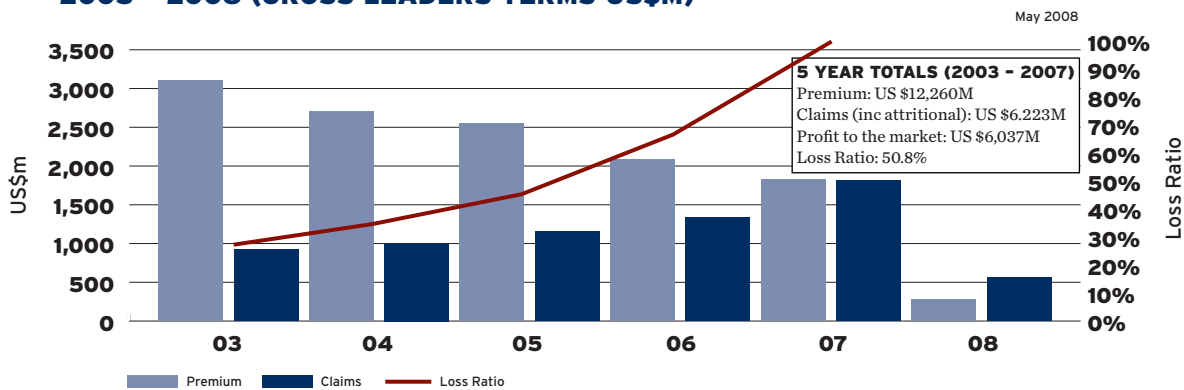
Reflecting the recent market experience this month IATA outlined in their report on 2007 accident rates that the overall number of fatalities fell by nearly a fifth, to 692, despite the number of accidents rising to 100 from 77 in 2006. Jets were involved in 57 accidents, turboprops in 43. IATA director general Giovanni Bisignani says that,

while the accident rate rose last year, it has halved over the previous decade. "That's good news," he stated.

With the excellent experience of recent years it can be difficult to remember that frequency and severity do not necessarily correlate in insurance terms and this is a catastrophe market that can change overnight with a single event.

With this in mind, the challenge for underwriters is to respond to the fact that despite this improvement in industry performance the market has still produced a loss making year in 2007 and is looking likely to do the same in 2008.

WORLD WIDE AIRLINE HULL & LIABILITY PREMIUM & CLAIMS 2003 - 2008 (GROSS LEADERS TERMS US\$m)



Recent incidents that may result in significant reserves are detailed below.

On April 27, an Air Bridge Cargo, Boeing 747-400ERF, registration VP-BIG, sustained damage to its rear fuselage at Frankfurt International Airport, Germany when a tail-post, used to support the aircraft during loading, was struck by a ground vehicle. There were no reported injuries following the incident.

On May 2, a Flex Air, Beech 1900, registration 5Y-FLX, reportedly suffered a double engine failure whilst on en-route from Wau to Juba before crashing near Rumbek, Sudan. All of the 21 passengers and crew were killed in the accident. It is not believed that this is placed in the international market.

An Air Blue Airbus A321, AP-BJA, suffered a tail strike at Quetta International Airport, Pakistan on May 4. None of the passengers and crew sustained injury.

The tornado that hit Greensboro Piedmont Triad International Airport, North Carolina, USA on May 10 caused several aircraft to suffer varying degrees of damage. Those aircraft known to have sustained damage include two Federal Express ATR42s (N904FX & N950FX), one Delta Connection, one Continental Express, two US Airways and various private aircraft.

An Air India, Boeing 777-200ER, registration VT-AIK, suffered a nose undercarriage collapse while parked at the stand at Mumbai International Airport, India on May 16.

On May 25th a Kalitta Air Boeing 747-200F, registration N704CK, broke in two following an aborted take-off and subsequent overrun at Brussels Zaventem Airport, Belgium. The five crew escaped with minor injuries; the aircraft is a Total Loss.

FORTHCOMING RENEWALS

NAME	INCEPTION	EXPIRING AFV US\$m
MEXICANA	1-JUN	2,239
ETHIOPIAN AIRLINES	1-JUN	1,035
EVA AIRWAYS	1-JUN	3,747
WIND JET	4-JUN	303
VIM - AVIA AIRLINES	10-JUN	333
BULGARIA AIR	11-JUN	185
ATLASJET INTERNATIONAL	11-JUN	488
UZBEKISTAN AIRWAYS	15-JUN	457
KINGFISHER AIRLINES	15-JUN	1,400
EUROATLANTIC AIRWAYS	17-JUN	103
AEGEAN AIRLINES	18-JUN	683
LIAT	27-JUN	215

June has 12 major renewals. The largest risk in terms of fleet value is Eva Airways of Taiwan with an expiring AFV of US\$3.7bn, and only three other carriers, Mexicana, Ethiopian Airlines and Kingfisher Airlines (India) having average fleet values in excess of US\$1bn.

These four renewals will disproportionately influence the overall average figures for June and therefore like many of the averages in the early part of the year they need to be viewed in context.

In 2007 the month generated less than 2.5% of the year's annual premium, a figure that is unlikely to show any significant change in 2008.

The comparatively low level of activity during June inevitably results in the markets' attention becoming drawn to the renewals of July, which will be negotiated and placed during June. Indeed in many cases negotiations have already commenced.

Recent years have witnessed a migration of renewals to July making it the third busiest month in terms of renewals with in excess of 25 risks and 12% of the annual premium being generated in 2007.

Alaska Airlines is the latest renewal to have made the move having cancelled and replaced a programme that renewed in December to renew on July 1.

July sees some of the world's largest programmes renew with the first of the US majors, American Airlines coming to market. The early part of the year has seen many airlines with significant growth renewing their insurance. With the challenges faced by the North American carriers being well documented such a major renewal will probably start to reflect the impact of this industry change on the market and act as an indicator of how insurers intend to make a bid to at least maintain premium levels.

We believe that reductions in rate will continue to be negotiated, at least until the end of the current cycle in September, especially for those risks showing significant exposure growth. For those airlines without growth, there are some inconsistent signs that there may be room for small premium reductions. As we enter the third quarter, the market remains finely balanced. Loss performance continues to be good while the level of premium continues to be viewed as uneconomic with underwriters seemingly unable to halt the premium erosion.

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