



AIRLINE INSURANCE MARKET OVERVIEW

As the first quarter comes to a close the uncertainty regarding the direction of the airline insurance market remains. The small number of renewals that have taken place so far in 2010 offer little indication of what can be expected by the time the larger programmes start to renew in the second quarter.

The average premium change would, at first sight, indicate that the market is simply continuing the cycle that began in the middle of last year with double digit premium increases being received. The premium change of 14% is lower than seen in the previous quarter and translates into just an additional US\$5.5 million in premium and there is undoubtedly a feeling of the market softening its attitude to clean renewals with static or growth in exposures. Although the market remains loss sensitive and will react to another very large loss.

The global airline industry continues to face challenges and therefore as a result there remains significant variation in exposure changes. The first quarter renewals have demonstrated double digit fleet growth and significant swings in monthly passenger volumes.

The variety of the type, domicile and size of the risks during this quarter means that during this period a single renewal can significantly influence or distort the overall exposures or market premium volume.

The largest renewal during March in terms of premium and passenger volume is Iran Air which is also the largest renewal of the quarter. Its AFV has increased by 12% whilst passenger numbers are reduced by 19% resulting in the premium showing an increase of 1%. If this renewal is excluded the average premium increase is 19%.

Air Nostrum, previously the quarter's largest risk in terms of exposure, has continued the trend of programme consolidation and is now part of the Iberia programme which renews in December. NAS Air extended its policy in January and has changed broker from Marsh to Aon. The programme will not renew in March however as it has been included within one of the region's group programmes.

The low level of activity that has taken place will mean that it will be the end of April or even May before any firm indications of market direction are achieved.

HULL AND LIABILITY

Q4 2009 AND 2010 NET % PREMIUM AND EXPOSURE MOVEMENTS

2009	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2008 NET PREMIUM US\$M	2009 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
OCTOBER	19	18.7%	4.1%	101.6	135.6	34.0	33.5%
NOVEMBER	22	-0.3%	-7.1%	270.5	307.6	37.0	13.7%
DECEMBER	64	0.3%	1.6%	768.4	923.3	155.0	20.2%
Q4 SUMMARY	105	0.6%	0.2%	1,140.5	1,366.5	226.0	19.8%

2010	NO. OF RENEWALS	AFV % CHANGE	PAX % CHANGE	2009 NET PREMIUM US\$M	2010 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
JANUARY	4	19.1%	-14.3%	8.6	10.5	1.9	22.7%
FEBRUARY	5	27.7%	7.9%	5.7	7.1	1.5	26.1%
MARCH	6	6.3%	-5.6%	26.4	28.5	2.1	8.0%
Q1 SUMMARY	15	12.2%	-5.8%	40.7	46.1	5.5	13.6%
OCTOBER 1, 2009 - 2010 TO DATE				1,181.1	1,412.7	231.5	19.6%

THE WILLIS 50 INDEX

The airline industry consolidation that has taken place in recent years has had a significant knock-on effect to the airline purchasing arena. The general increase in insurance programme size and in particular the rise of group programmes along economic, regional or alliance lines has developed what we believe to be very much a two tier and perhaps even three tier market for airline insurance purchasing.

It is with an understanding of this change in market dynamics that Willis Aerospace have chosen to split our market trending and analysis between the largest 50 programmes, by passenger volume, and the overall market programme population and created the Willis 50 Index.

The table below highlights the full year 2009 market result for the Willis 50 and the programmes outside these 50 programmes. It can be seen that whilst the premium change percentage is very similar the exposure and loss experience over the year are substantially different.

HULL AND LIABILITY 2009 % CHANGES

		AFV % CHANGE	PAX % CHANGE	2008 NET PREMIUM US\$M	2009 NET PREMIUM US\$M	US\$M PREMIUM CHANGE	PREMIUM % CHANGE
MARKET RISKS EXCLUDING WILLIS 50 PROGRAMMES	2009 ADJUSTED	14.7%	5.6%	565.4	675.9	110.5	19.54%
WILLIS 50	2009	2.3%	-2.2%	1,057.2	1,265.6	208.5	19.72%
ALL PROGRAMMES EXCESS \$100M		4.9%	-0.6%	1,622.6	1,941.5	318.9	19.66%

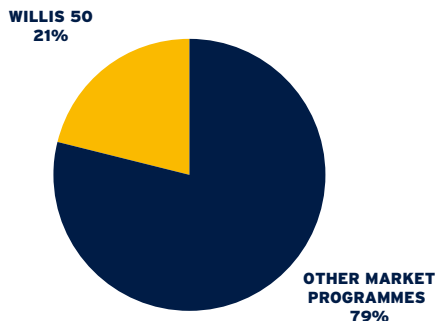
This change in our approach to market analysis is in no way designed to diminish the importance of the airlines and/or the programmes outside the Willis 50 but is reflective of the fact that economies of scale deliver an increasingly distinct market treatment and influence between the largest programmes and the overall market result. This change is therefore designed to be of greater relevance to our clients and prospects in either segment.

To highlight the market impact and influence of the Willis 50 the following charts use the 2009 market data to highlight the relative exposure and premium contributions to the overall market.

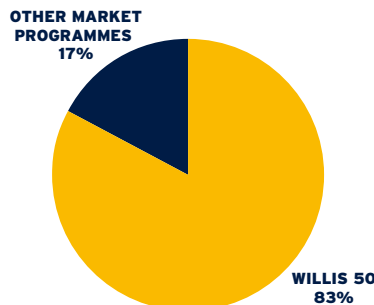
HULL AND LIABILITY

2009 WILLIS 50 AIRLINE PROGRAMMES vs OTHER MARKET PROGRAMMES

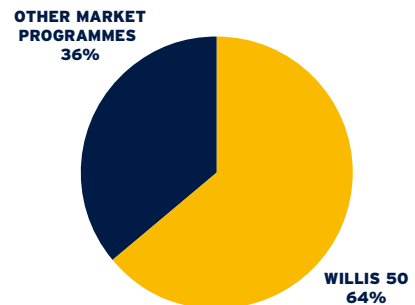
NUMBER OF PROGRAMMES % SHARE



PASSENGER % SHARE



PREMIUM % SHARE



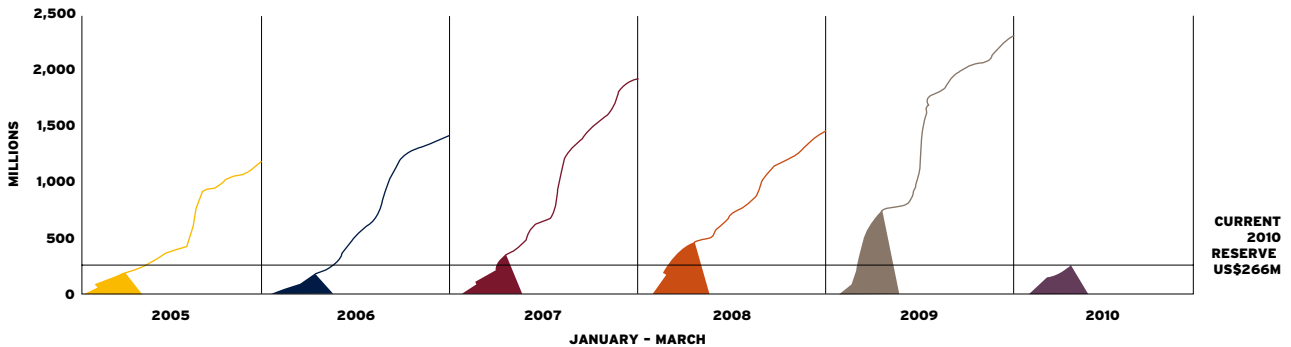
Based on 237 Programmes with an AFV in excess of US\$100 million

A summary of the Willis 50 and the impact they have on the market is available on request from airline.insight@willis.com or via your client advocate.

LOSSES

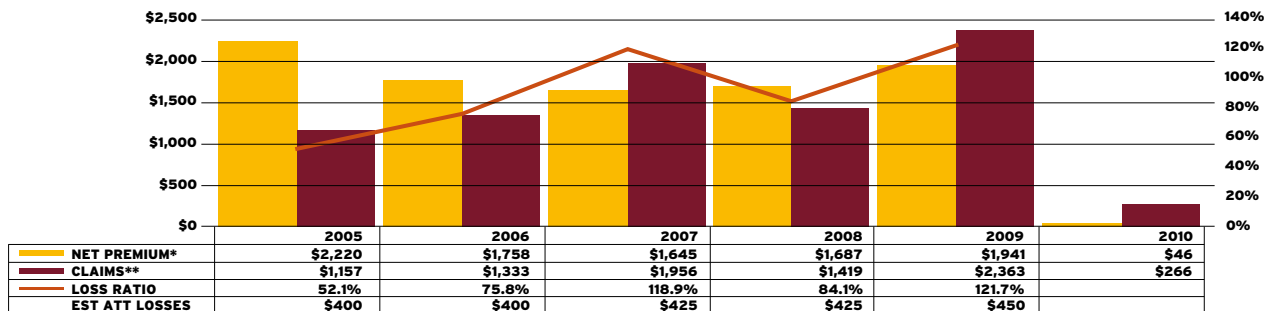
The industry safety record continues to be excellent and this is currently being reflected in the loss experience of the airline insurance market. In contrast to 2009 this year has seen one of the best starts to the year in terms of losses. The hull loss total currently stands at US\$87 million and liabilities US\$66 million. With the addition of the pro rata of our annual attritional estimate the first quarter loss total is US\$266 million. Although as witnessed in 2009, the catastrophe nature of the market can see this position change extremely quickly.

CUMULATIVE MONTHLY INCURRED RESERVE DEVELOPMENT (US\$)



WORLD WIDE AIRLINE HULL AND LIABILITY PREMIUM AND CLAIMS ON A CALENDAR YEAR BASIS

2005 - 2009 (NET LEADERS TERMS US\$M)



* Premium includes all known airlines with an avf in excess of \$100m and is based on net london lead terms; it is subject to change as more information becomes available.

** Claims on expired years include the estimated figure for attritional losses.

5 Year Totals (2005-2009)
Premium: US\$9,251M
Claims (inc attritional): US\$8,228M
Profit to the market: US\$1,023M
Loss Ratio: 88.9%

MARKET DEVELOPMENTS

ASIA CAP RE

With effect from April 1, 2010 Antoine Lamy, Deputy Head of Underwriting Aviation, will be promoted to Head of Underwriting, Aviation and Space of Asia Cap Re. Hans Sandstrom is reducing his working hours and will become Senior Advisor, Aviation and Space.

STARR AVIATION ACQUIRES INTERNATIONAL AEROSPACE INSURANCE SERVICES, INC.

It was announced on April 7, 2010 that Starr Aviation is to acquire International Aerospace Insurance services, Inc and that the current book of business written through International Aerospace, on behalf of other carriers will continue to be serviced through the new Starr Aviation office of Santa Barbara, California. It was also announced that over the next 30 days the General Aviation and Complex Risk business would be integrated into a new regional servicing structure through the Atlanta, Santa Barbara and Scottsdale offices.

FORTHCOMING RENEWALS

April sees a significant increase in both the level of renewal activity and also the size of the programmes renewing. As an indication of this, the first quarter had just one renewal in the Willis 50 while April has four of eight in the second quarter. With renewal dates spread throughout the month April contributes more premium than the whole of the first quarter renewals combined. The variation in operation types, size and geography should allow a much better view of the market landscape by the end of the month.

The British Airways group programme is the largest renewal of the month, in terms of fleet value, passengers and premium volume. It is also the largest renewal in the first half of the year and will therefore undoubtedly represent a barometer for many of the largest programmes in the market.

FORTHCOMING RENEWALS (CONTINUED)

The renewal profile of the month has been changed by the disappearance of the Spanish carrier Air Comet which ceased operations in its expiring policy. Aerolineas Argentinas which had in the past been placed on a combined basis with Air Comet has changed broker from Marsh to Willis. In addition Olympic Air has changed broker from JLT to Willis.

As we try to look further ahead to the rest 2010 the level of uncertainty increases. With capacity levels so high and market loss levels reflecting the excellent industry safety record, the challenge for insurers to continue increases in premium levels seems highly unlikely. The level of capacity prevented insurers achieving their objectives in 2009 and this is looking likely to be the case once more in 2010. The excess levels of capacity have existed in the market for some time but now there is increasing evidence, such as increases in vertical pricing differentials on certain select risks, that the capacity available is being increasingly deployed.

Last year the 'cycle management' strategy that insurers adopted stopped premiums increasing at the significant levels expected following the losses in the early part of the year. This year in the absence of significant losses the capacity levels will probably lead to loss free programmes renewing on an as before basis and potentially even reducing premium levels by the middle of the year.

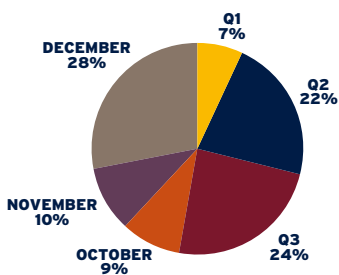
AIRLINE	RENEWAL DATE	EXPIRING AFV US\$M
BRITISH AIRWAYS	1-APR-10	18,808
AEROLINEAS ARGENTINAS	1-APR-10	1,289
MERIDIANA GROUP	1-APR-10	973
EVERGREEN INTERNATIONAL	1-APR-10	821
AIR MAURITIUS	1-APR-10	684
AIR TAHITI	1-APR-10	389
NEOS	1-APR-10	316
AIR MADAGASCAR	1-APR-10	253
COMPAGNIE AERIENNE CORSE MEDITERRANEE	1-APR-10	208
TACV CABO VERDE	1-APR-10	149
AIR BERLIN	4-APR-10	4,228
HAINAN AIRLINES	8-APR-10	9,125
SKY AIRLINES	9-APR-10	355
JET AIRWAYS (INDIA)	16-APR-10	4,960
SPICEJET	20-APR-10	861
JEJU AIR	25-APR-10	232
AIR ASTANA	26-APR-10	793
FLYBABOO	26-APR-10	115
WEBJET LINHAS AEREAS	29-APR-10	231
SATENA	29-APR-10	191

The counter cyclical relationship between the insurance market and the airline industry looks set to continue. Airlines, whilst far from full recovery, are starting to see increases in passenger numbers in many regions and sectors and it is likely that this increased exposure will at some point in 2010 be covered for a decreasing amount of premium.

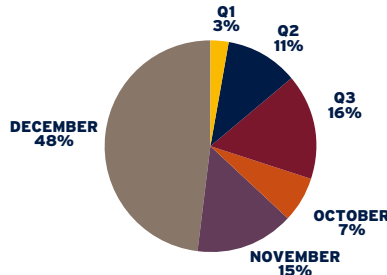
HULL AND LIABILITY

2010 RENEWAL AND NET PREMIUM DISTRIBUTION

RENEWAL DISTRIBUTION % SHARE



PREMIUM DISTRIBUTION % SHARE



For Programmes with an AFV in excess of US\$100 million

CONTACT DETAILS

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

Brad Ottolangui
Tel: +44 (0)20 3124 8122
Email: ottolanguibg@willis.com

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

Gemma Li
Tel: +44 (0)20 3124 6555
Email: lig@willis.com

airline.insight@willis.com

This is the Willis Airline Insurance Insight, which is our vehicle to keep our clients and others informed of developments in the airline 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 lead terms of airline insurance programmes renewing with fleet values in excess of US\$100 million. The analysis does not take into account any coverage changes and is not weighted in relation to the size of the programme's exposure or volume of premium paid. Loss information includes western built equipment and our attritional loss threshold is below US\$1 million. These figures are based on a like for like basis and exclude those risks that inceptioned in 2009 and are no longer in operation and those risks that have commenced operations in 2010 as these will distort the percentage change figure.

This newsletter offers a general overview of its subject matter. It does not necessarily address every aspect of its subject or every product available in the market. It is not intended to be, and should not be, used to replace specific advice relating to individual situations and we do not offer, and this should not be seen as, legal, accounting or tax advice. If you intend to take any action or make any decision on the basis of the content of this publication you should first seek specific advice from an appropriate professional. Some of the information in this publication may be compiled from third party sources we consider to be reliable, however we do not guarantee and are not responsible for the accuracy of such. The views expressed are not necessarily those of the Willis Group. Copyright Willis Limited 2010. All rights reserved.

Willis Limited, Registered number: 181116 England and Wales. Registered address: 51 Lime Street, London EC3M 7D0 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.