

Plane Talking

JLT AEROSPACE

JULY 2010

Executive Summary

Tentative talk of recovery

- IATA are now forecasting profit and showing that passenger numbers are growing once more but not universally
- Start-ups by far and away outstripped the number of closures this month as a further hint at recovery
- Farnborough air show provoked a large number of orders to be announced but only time will tell whether this is a true turn in the economics of the industry
- Two major losses have been recorded in the last few days of July with around 140 fatalities, full details are yet to be confirmed for both accidents
- As fleets and passenger numbers grow, this increase in exposure is resulting in rate reductions on airline insurance renewals

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Lead Lines

Rod Mearing, Head of Aerospace, Talbot Underwriting Limited

“Every so often a new ‘standard’ practice starts in the Aviation market and this time it is the use of a ‘Loss Additional Premium’ or ‘Loss AP’ for a renewal following a significant loss. Historically the market would simply have increased the renewal base rates for the account but this is now resisted by brokers and clients.

The broker can argue that this allows the underlying rate levels to be compared with more accuracy from year to year and it is apparent that risks placed on this basis can be completed in the current market. Of course, from the point of view of ‘dollars into the market’ there is little difference between ‘rates plus loss AP’ as against loading the ‘loss AP’ into the rating. The insured can argue that they are paying more and therefore that they are meeting

their obligation to the market to repay some of the amount they have taken out.

However, there are two key weaknesses with the Loss AP approach. Firstly, it is quite common to hear the broker advise that those who did not pay the loss will not get the benefit of the Loss AP. The inference is that by moving from underwriter to underwriter an insured does not need to pay more for his insurance subsequent to a loss. Secondly, Aviation policies are generally adjustable and the use of a Loss AP simply means that the insured can adjust at a lower rate. This, of course, may be a plus or a minus but given that most insureds are forecasting growth it can be assumed to work in favour of the insured.

Whilst the commercial (Continued on page 3)



Airline News

Comment

The tentative recovery now being seen in some areas of the airline sector was given more credence by IATA recently with their forecast of a profit for the industry for 2010. Their cautious optimism is a turnaround from earlier in the year when yet another loss was predicted after three years of red ink.

Traffic is now reckoned to grow by 7% but caution remains with Europe being singled out for more near-term pain.

In this respect the recently announced approval of an alliance between British Airways and American Airlines which has been gestating for 14 years, gives both partners immunity from anti-trust laws in America meaning that they (and their partner Iberia) are free to undertake a merger of their transatlantic operations. This may be the foundation for the major European airlines to concentrate on the North Atlantic profile and leave areas such as the Asian segment to the fast-growing Middle and Far East carriers.

Start-Ups

- Air Bucharest, Romania, launched services on 3rd July 2010 using a Boeing 737-300 aircraft wet-leased from Tiriac Air. The carrier's initial routes are from Cluj and Sibiu in Romania to Antalya, Turkey.
- AlbaStar, Spain, has taken delivery of its first aircraft, a Boeing 737-400. The carrier plans to commence charter operations shortly from its base at Milan (Malpensa).
- Belle Air Europe, Italy, has been created as a new subsidiary of the Albanian low cost carrier Belle Air. The new carrier is planning to launch services this summer using a single new build ATR72-500 aircraft to link Bergamo with 8 domestic destinations, and offer international services to Prishtina, Skopje, Spalato and Tirana.
- My WINGS, Germany, plans to launch services on 11th August 2010 using a wet-leased MD-87 aircraft. Services will link its Friedrichshafen base with various European destinations.
- Regent Airways, Bangladesh, plans to launch services in August 2010 using two Bombardier Dash 8-300 aircraft. The Dhaka-based start-up plans to initially operate domestic services and later plans to add a pair of Boeing 757-200s followed by two widebody types to start

international services, initially to the Far and Middle East.

- Hebei Airlines, China, has begun operations using the assets of Dongbei Air (Northeast Airlines). The airline will operate one Airbus A319 aircraft and two Embraer ERJ-145 aircraft. Initial routes identified are from the capital of Hebei Province, Shijiazhuang, to Qinhuangdao, Guilin, Shanghai, Chengdu and Hohhot. The carrier has plans to expand its fleet to 20 by 2015.
 - RIO Linhas Aéreas, Brazil, launched cargo operations this month using three Boeing 727-200F aircraft. The carrier will operate in partnership with Smart Cargo, a Brazilian logistics company which will collect and distribute cargo transported by the airline.
 - Sideral Air Cargo, Brazil, part of the Adorno Express Group, is poised to commence cargo operations shortly using a single Boeing 737-300 aircraft. The aircraft has been converted into a nine-pallet freighter by Aeronautical Engineers (AEI) in Miami.
 - Noar Linhas Aéreas (Nordeste Aviação Regional Linhas Aéreas), Brazil, has commenced operations from its headquarters in Caruaru. The carrier will operate services to Aracaju, Caruaru, Maceió, and Recife using a single LET L-410 turboprop aircraft configured in all-economy class.
- ## Closures
- The civil aviation authority of the Turkish Republic of Northern Cyprus is reported to have suspended all flights by Kibris Turk Hava Yollari (KTHY) on 22nd June. Operations will be taken over by Atlasjet International who will also take a 51% share of the carrier.
 - Arrow Air, the largest all cargo carrier based in Miami, shut down operations on 1st July and filed for bankruptcy following months of financial turmoil. The company stated that it had experienced significant operating losses due to increased costs and declining revenues in recent years. The company was founded in 1950 and operated more than 60 flights each week to and from Central and South America and the Caribbean.
 - The Nigerian Civil Aviation Authority grounded Chanchangi Airlines on 5th July due to its lack of equipment. Its only aircraft in

service, a 27 year old Boeing 737-200, recently suffered engine problems and this left it unable to fly due to four of its other Boeings being away for heavy checks which it was subsequently struggling to pay for.

Orders

It is usual, leading up to one of the major aerospace trade shows, for new equipment orders to be kept back for a release in the opening days of the show. This time, Farnborough 2010 was no different though given the dire state of the industry over the past 2 or 3 years, the analysts were perhaps surprised at the number of new deals announced. There was something for most airliner manufacturers with a few surprises amongst those expected orders.

Manufacturer	Orders Announced	%
Boeing	277	34
Airbus	255	31
Sukhoi	82	10
Embraer	81	10
Irkut	50	6
ATR	34	4
Antonov	20	2.5
Bombardier	15	2

NB Some of the orders shown in this table had already been placed but were announced for the first time at the Farnborough air show.

The Boeing 737-800 received the most orders of any aircraft type with 237 announced, closely followed by the Airbus A320 family with 201.

The leasing companies placed the largest individual volumes of orders with Air Lease Corp, the new company set up by Steven Udvar-Hazy (formerly Chairman and CEO of ILFC), leading the way with a total of 136 aircraft from 4 different manufacturers, including some turboprops. They are followed by GECAS with 120 narrowbodies from Boeing and Airbus. There were also two new entrants to the leasing market with Avolon and Pearl Air Corp placing orders for the first time.

28 different airline operators accounted for 423 of the 814 orders noted and were widely distributed from across the globe and included everything from large flag-carriers to low cost carriers

Among the more unusual orders was a new project from Russia, the Irkut MS-21 which attracted an order for 50 of the 150-170 seat jets from Malaysian Company, Crecom for delivery from 2016.

Expect a quiet month during August unless you're in the manufacturer's contracts team!

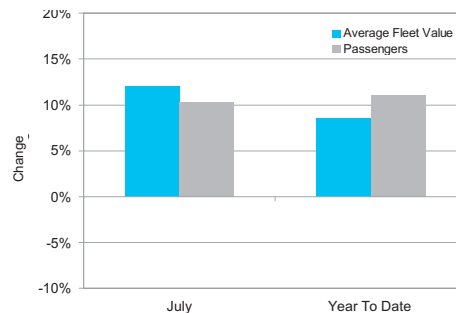
Renewal Analysis

Exposures

July continues the overall pattern of significant forecast growth in both AFV and passenger numbers. This growth seems to be regaining the trend after exposure reductions last year in the wake of the economic crisis.

Year on Year % Exposure Change

July / Year to date. Based on latest Information at 26 July 2010



Source: JLT Database

Premiums*

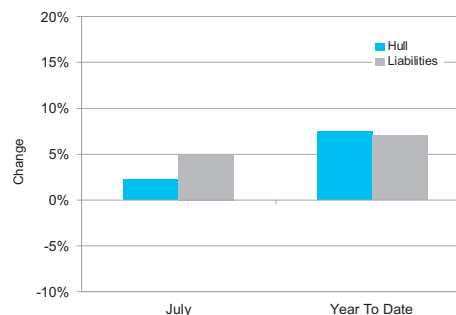
Although July has seen major exposure growth, the rate reductions have resulted in premium increases below the year to date average. The exposure increases are largely dictating the rate reductions with premium levels close to flat.

Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2009	173	257	430
2010	186	276	461
% Change	7%	7%	7%

* Net of brokerage and at lead terms

Year on Year % Premium Change

July / Year to date. Based on latest Information at 26 July 2010



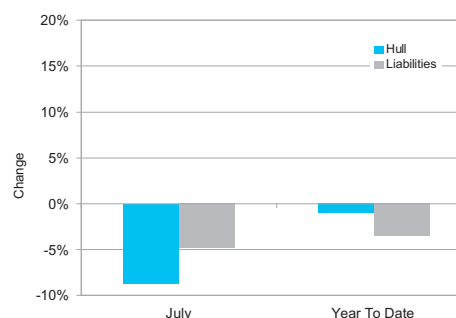
Source: JLT Database

Rates

Rate reductions continue and indeed are increasing. Half of the renewals in July received a rate reduction in excess of 10%. The average is tempered by just one significant increase, unsurprisingly seen on Ethiopian after their loss at the beginning of the year.

Year on Year % Rate Change

July / Year to date. Based on latest Information at 26 July 2010



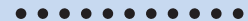
Source: JLT Database

Insurance Market News

AM Best has affirmed Lloyd's of London financial strength rating of A (Excellent).

Arrivals and Departures

- Ace UK has named Matthew Shaw as president for Ace Global Markets and active underwriter for syndicate 2488
- Paul Maguire is moving from Aspen to Faraday
- Lisa Crow is joining Faraday from CV Starr
- Richard Bayman is moving from Ace to Argo



Lead Lines

(continued from page 1)

objectives of Loss APs are perhaps obvious, a move away from the basic principles of insurance should be treated with caution, unless we as a market are really prepared for a potential shift in the fundamentals of our products.



Loss Analysis

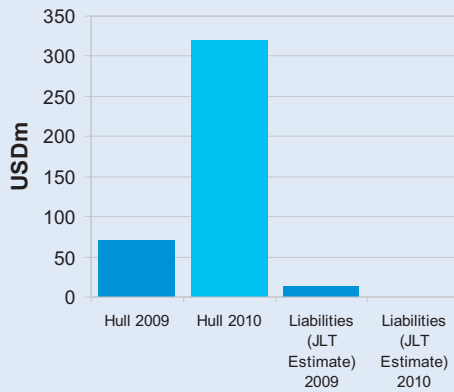
Losses Summary

June

- Hull and spares losses of USD 319.5m
- Nil airline fatalities
- Liability loss estimate nil

June Losses

All Known Losses Net of deductible

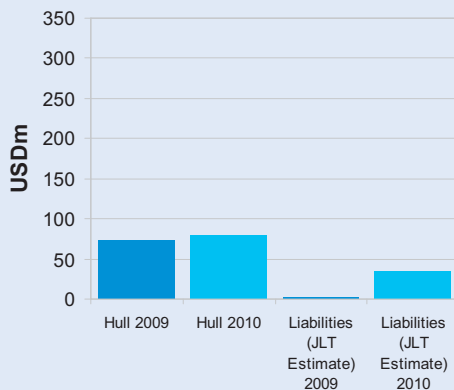


July

- Hull losses USD 78.75m
- Approx 140 fatalities
- Liability loss estimate USD 35m

July Losses

All Known Losses Net of deductible



Known Losses in July

17th	Phuket Airlines (operating for Saudi Arabian Airlines)	Boeing 747-300 (HS-VAC)	Egypt
Taking off from Cairo on a positioning flight to Jeddah, the aircraft suffered an uncontained engine failure dropping a large portion of the number 4 engine onto the runway and surrounds. The takeoff was rejected and the aircraft brought to a stand.			
18th	Merpati	Bombardier DHC-6 Twin Otter (PK-NUH)	Indonesia
On departure from Bintuni, a tyre burst causing the crew to abort takeoff. The aircraft veered off the runway where the nose undercarriage collapsed.			
27th	Lufthansa Cargo Airlines	McDonnell Douglas MD-11F (D-ALCQ)	Saudi Arabia
On approach to Riyadh, reports suggest a fire developed in the underfloor cargo area. The aircraft landed normally but the fire destroyed the fuselage.			
28th	AirBlue	Airbus A321-231 (AP-BJB)	Pakistan
Descending into Islamabad on a flight from Karachi in poor weather conditions, the aircraft impacted Margalla Hills and was destroyed. A small number of survivors from the 146 passengers and 6 crew have been reported.			

The JLT liability estimates are provided merely as a guide.

PlaneTalking

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