

Plane Talking

JLT AEROSPACE

DECEMBER 2010

Executive Summary

A fine balance

- More than adequate capacity, but disciplined
- Positive industry outlook, with start-ups exceeding closures
- IATA predict industry profits for 2010 and 2011
- Passenger and fleet value growth continues, particularly in the Asian and South American regions
- Premiums holding although rates down
- Market poised to harden further in 2011
- The frequency and aggregate of market losses during 2010 have been similar to recent years, some surprises but thankfully lacking any very large liability loss events

Lead Lines

Nigel W. Weyman, Chairman, JLT Aerospace

“Capacity has been surprisingly tight in 2010, with the new capacity taking an extremely cautious approach. This growth in capacity has been effectively offset by smaller lines offered and more underwriting selectivity from the established markets. Despite the increasing corporate and market oversight, it is unlikely that we will see any major players pulling out of Aviation over the short-term.

There is the potential that the requirements under Solvency II might provide further pressure to reduce market capacity, however the general financial quality and rating of many of the key markets, together with the relatively small impact that aviation has on multi-line insurers' internal models, will make this a remote possibility.

Underwriters are more resistant and are

holding out for lower differentials/reductions. Airlines are being treated much more individually rather than following market trends with surplus capacity available for some but extremely limited for others. Previously, an increase in underwriting selectivity has acted as a bellwether for a period of market hardening. 2010 has had its own surprises for the market, with perhaps the Saudi Airlines' spares loss that resulted from a fire and the Washington (Dulles) hangar collapse that followed a severe snowstorm perhaps stand out as examples of significant and unexpected losses that resulted from 'peripheral' coverages or surprising risk sources.

These type of losses have not only fuelled the reinsurance market's resolve to

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Seasons
Greetings and
Best Wishes for
2011 - JLT Aerospace



Airline News

Comment

For some months now the feeling has been that airlines are returning to much better health than has been the case over the last few years.

Traffic statistics have generally improved on a world-wide basis with some startling performances from operators in China and the Middle East.

Orders for new aircraft continue to bolster this confidence with production rates at Boeing and Airbus remaining robust.

IATA are predicting an overall industry profit of about US\$15 billion for 2010 but warn that the threat of overcapacity and high costs will catch up with airlines in 2011 and lead to a drop in profits to US\$9 billion.

This figure is underpinned by an expectation that oil prices will rise to around US\$84 per barrel.

Start-Ups

- East Coast Airways, Canada, has been established as a division of the commuter and charter carrier Integra Air. The airline launched services at the end of November 2010, and offers flights to the cities of Halifax, Charlottetown, Yarmouth, Saint John NB, and Sydney NS. East Coast Airways has plans for the expansion of routes starting in 2011, covering further cities in New Brunswick and to new destinations in the United States. The carrier currently operates two Jetstream 31 aircraft but has plans to increase this number to a total of five aircraft in the coming months.
- Illyrian Airways, Kosovo, launched scheduled services from Pristina using a single wet-leased Boeing 737-300 aircraft. The carrier is operating from Pristina and Skopje to Rome, Brescia and Treviso in collaboration with Alitalia. Future plans call for the acquisition of two aircraft of its own, the first of which looks set to be a Boeing 737-500 aircraft for use on international services starting early next year. The planned network includes Dusseldorf, Liege, London Gatwick, Munich and Sharm El Sheikh. The second aircraft, due in April 2011 is set to be an Embraer ERJ-145 aircraft for services to Balkan, Greek and Italian destinations.
- Mega Global Air, China, has been established by MG Charter, an integrated air charter service provider specializing in holiday travel within Asia. The new carrier is planning to start seasonal and ad hoc charters, primarily between Thailand, the Maldives and China in the coming months. Mega Global Air plans to operate a small fleet of leased Boeing 767 aircraft.
- Pan American Airways, a Texas-based cargo carrier has been established by World-Wide Consolidated Logistics, a group whose primary business is supplying swimming pools and other aquatic products. The new carrier plans to transport these products from Brownsville, initially into Monterrey, with further Mexican and Latin American destinations planned later. Pan American Airways is looking to launch services early in the New Year using a pair of leased Boeing 727-200(F) freighters.
- SunExpress Germany, based in Frankfurt is looking to commence flights in May 2011. Initial operations will centre on three aircraft, serving routes between Germany and eight destinations in Turkey. The airline also intends to operate charter services in the winter season between Germany and resorts in Egypt and northern Africa.

Closures

- Romavia, has now ceased all commercial operations and reverted to its former role of offering VIP transport for the Romanian government. In addition the airline has returned both its BAe 146-200 aircraft to BAe Systems Asset Management.

Orders

A small but mixed bag of orders this month. Initially announced as a Memorandum of Understanding at the Farnborough International Airshow in July, Latin American airline grouping LAN has now signed a firm order for 50 new Airbus A320 family aircraft.

Avolon, the Dublin based aircraft leasing group, announced an order for eight Airbus A320 aircraft.

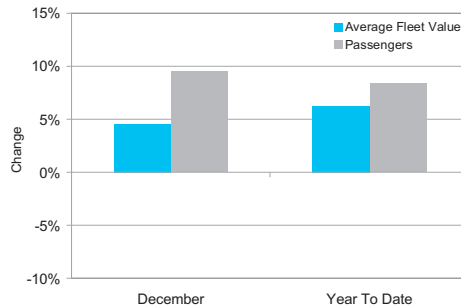
Lufthansa has committed to an additional 8 Embraer E-195 aircraft for its regional airline partners and Spicejet, India has ordered 15 DHC8-Q400 aircraft with options for 15 more from Bombardier.

Renewal Analysis

Exposures

As has been the case for quite some time, passenger number increases have been the most realistic evidence of growth for airlines. December has two of the biggest placements in the world and therefore their double digit growth in passenger numbers greatly influences this change. There has been distinct evidence of exposure increases throughout 2010 following the decline during the economic crisis.

Year on Year % Exposure Change
December / Year to date. Based on latest Information at 24 December 2010



Source: JLT Database

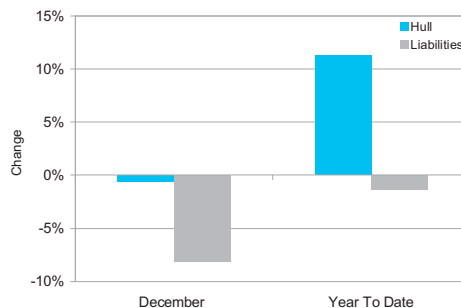
Premiums*

Despite the exposure growth in December the overall change in premiums is generally negative. This is due in part to airlines with significant growth and clean records having been given rate reductions. In addition others have reverted back to the norm in 2010 following loss Additional Premiums paid in 2009.

| Year to Date (Like for Like) | Hull USDm | Liability USDm | Total USDm |
|---------------------------------|--------------|-------------------|---------------|
| 2009 | 528 | 890 | 1,418 |
| 2010 | 587 | 878 | 1,465 |
| % Change | 11% | -1% | 3% |

* Net of brokerage and at lead terms

Year on Year % Premium Change
December / Year to date. Based on latest Information at 24 December 2010

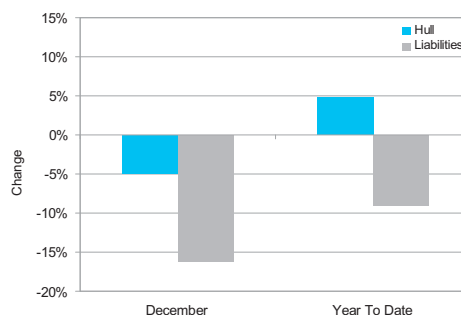


Source: JLT Database

Rates

The view that differentiation is growing in the market is supported by the rate change shown opposite. There are clearly a number of accounts in the market that have received major rate increases yet the majority of loss free airlines, and those which are forecasting growth, have received more favourable renewal terms and have held the average down. Again the extent of this rate change has been enhanced by the shedding of loss Additional Premiums.

Year on Year % Rate Change
December / Year to date. Based on latest Information at 24 December 2010



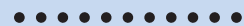
Source: JLT Database

Insurance Market News

Standard & Poor's has upgraded the financial strength rating of Ace Group's US, European and Bermudian operating companies from A+ to AA- with a stable outlook.

Arrivals and Departures

- Phil Taylor has left Aon Benfield to join Novae Syndicate's Aviation Reinsurance Team
- Stuart Farrington has left UIB and has joined Aspen Syndicate's Aviation Reinsurance Team
- Chartis have appointed ex Boeing senior director Mark Meyerhoff as president of their Aerospace Insurance division.



Lead Lines

(continued from page 1)

maintain pricing levels but also leads underwriters to question the risks presented in ever-greater detail, selecting against those unable to provide the requisite level of exposure detail.

It is becoming even more important for insureds to provide their brokers with much breadth and depth of information about all aspects of their operation, as some of the coverage that was previously provided, almost as an afterthought, is now very much under the spotlight.

2011 has the potential to be a difficult year but buyers have the chance to prepare for it and the key aspects for an airline going into renewal will be to ensure that they are able to provide the level of risk detail requested for their operations and of course to ensure that their chosen broker has the ability to fight the fight for the client, representing them fairly but also backed up by extensive industry knowledge, a wealth of experience and a proven ability to innovate and deliver.



Loss Analysis

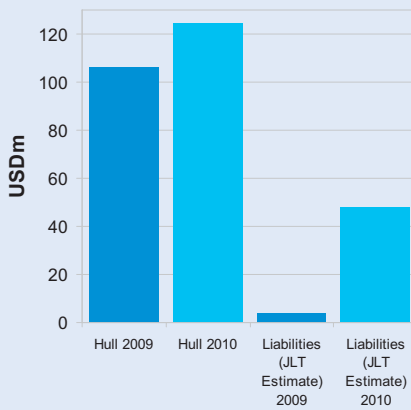
Losses Summary

November

- Hull and spares losses of USD124.69m
- 107 airline fatalities
- Liability loss estimate of USD48.25m

November Losses

All Known Losses Net of deductible

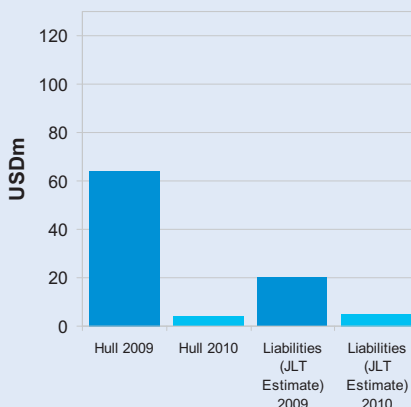


December

- Hull losses USD4.20m
- 24 airline fatalities
- Liability loss estimate of USD5.00m

December Losses

All Known Losses Net of deductible



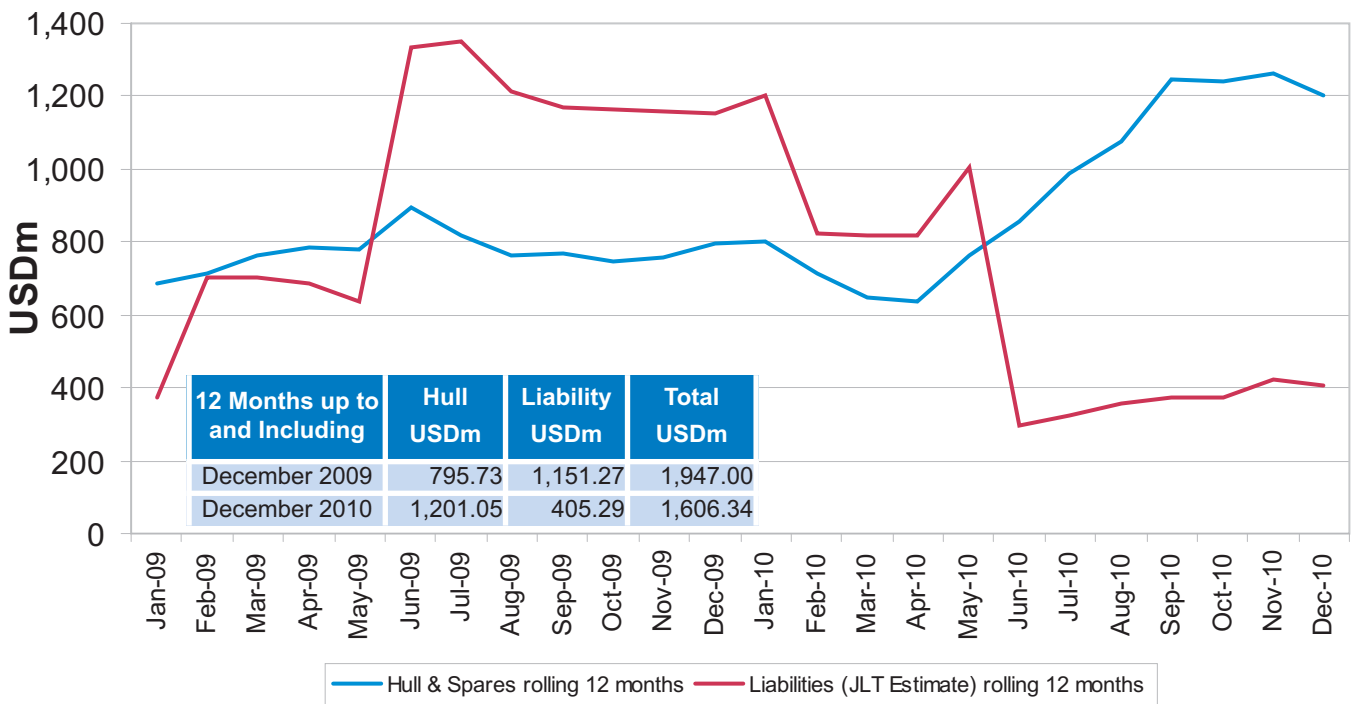
Known Losses in December

| Date | Airline | Aircraft | Location |
|---|---------------------|-------------------------------|------------|
| 3rd | Kaya Airlines | Beech 1900C (C9-AUO) | Mozambique |
| On approach to Maputo International airport in darkness and in poor weather conditions, the aircraft touched down short of the runway and ran over rough ground causing substantial damage to the hull, wings and engines. | | | |
| 4th | South East Airlines | Tupolev Tu-154M (RA-85744) | Russia |
| Shortly after takeoff from Moscow - Vnukovo all three engines failed in turn. One was recovered and the aircraft performed an emergency landing at Domodedovo, touching down half way down the runway and running off the end breaking into several pieces. Only two fatalities occurred. | | | |
| 6th | Emirates | Airbus A380 (A6-EDE) | Canada |
| Whilst being serviced at Toronto, a catering truck loading through the forward upper starboard door, suffered a technical malfunction. This caused the raised part of the truck to lower onto the upper wing root causing considerable damage. | | | |
| 14th | Nordavia | Antonov An-24 | Russia |
| The aircraft overran the runway on landing at Rogachevo causing the starboard undercarriage to collapse and damage the fuselage. | | | |
| 15th | Tara Air | Bombardier DHC-6-300 (9N-AFX) | Nepal |
| En-route from Lamidanda to Kathmandu on a charter flight, contact was lost with the aircraft. The wreckage was found on Mount Palunge the following day. All 22 passengers and crew perished. | | | |

* The JLT liability estimates are provided merely as a guide.

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to December, 2010

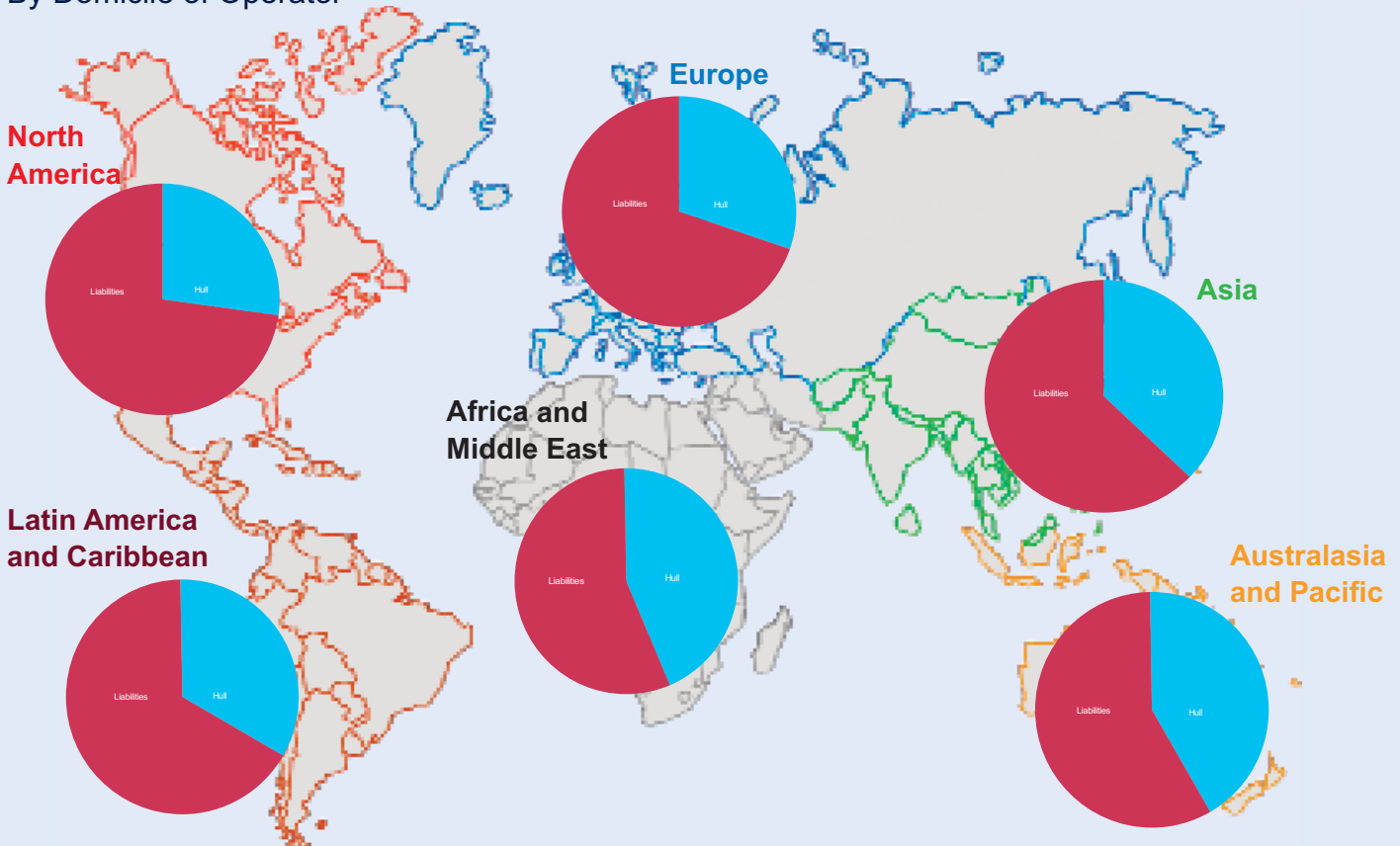


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Regional Chart

Premiums - Hull versus Liability - Average last 5 years

By Domicile of Operator



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