

Plane Talking

JLT AEROSPACE

NOVEMBER 2010

Executive Summary

Aboard the Orient Express

- Growth in passenger traffic seems to be reflecting global economics; most of Asia is performing strongly whereas Europe is more circumspect with underlying currency, tax and fuel concerns
- Start-ups are once again exceeding closures suggesting a broader confidence in the airline industry recovery
- The number of orders for aircraft placed in Asia reinforces the picture of growth in the region
- Airline insurance renewals have shown little change this month except for loss-affected accounts which have incurred significant additional premiums
- Insurance capacity remains widely available and several markets have had their financial strength rating confirmed or upgraded
- Seven significant losses have occurred this month affecting hull, liability and airport portfolio results

Lead Lines

Oliver Dlugosch, Head of Aviation & Space Single Risks, Swiss Re

“The bombs found in cargo aircraft bound for the United States and an uncontained engine failure, averted by the crew on the A380 aircraft, are a gruelling reminder of the loss potential our industry faces at any second we speak. In our view, the current rates softening on airline insurance business is not sustainable due to "claims inflation" (i.e., the high loss frequency and large loss severity observed). In fact, with roughly USD 1.6 billion of large losses plus USD 0.6 billion of annualized attritional losses, the airline insurance market is already "under water" for 2010.

In hindsight, the Airline segment has not produced an underwriting profit for the last four years. And still, rates continue to go down. From a microeconomic view, there

is no fundamental reason within the airline insurance sector to reduce rates. There is no reason either, from a macroeconomic standpoint, to expect an improvement due to the low interest rate environment, as well as the high capital amounts required.

So, simply speaking, the numbers are not adding up for the industry from any angle. In my view it is also not necessarily down to the management in the respective companies to make the call whether to write a risk or not, to blame the reinsurance providers, or even the brokers. Every responsible underwriter has the delicate task to simultaneously preserve and make his employer's capital work. It all boils down to making the decision to deploy capacity or not -- and at which price. This is a call we have to make and there is no escape

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Airline News

Comment

With third quarter results continuing to be posted by airlines, there seems on the face of it, a continuing impetus towards a passenger traffic recovery such has not been seen for a long time. Interestingly, legacy carriers in the US have produced some of the best results on record.

However behind this statement lurks the spectre of another fuel price hike that could destroy this new found momentum. Expenses in the third quarter were relatively stable marking the industries focus on cost control and the shift to ancillary revenues rather than increased production to generate higher yields.

Many of these US carriers admitted that their increased profits were due to their international performance, especially on the Asia-Pacific region and South American routes.

European carriers were also buoyed by some generally positive results. UK airlines however displayed disappointment at the recent government imposed increase in Air Passenger Duty, suggesting the increase will curtail tourism in an already difficult marketplace thus putting the UK at a competitive disadvantage.

Start-Ups

- FirstNation Airways, Nigeria, aims to commence services out of Lagos operating Boeing 767-300ER and Airbus A320 aircraft on routes within Africa and Europe. The airline is currently recruiting for operational personnel.
- Northern Cyprus Turkish Airlines, Turkey, plans to start services in March 2011. The government of Northern Cyprus, the de facto Turkish Republic, will own a 51 percent shareholding, and will seek to encourage further investment via the private sector. The new carrier will be based on the Turkish mainland but will primarily serve the Island's Ercan Airport. Northern Cyprus Turkish Airlines are planning to acquire aircraft from Turkish Airlines, who are also expected to become a minority shareholder.
- People's Vienna Line, Switzerland, plans to launch services next spring using Embraer E-170 aircraft. The carrier is preparing to operate services to Vienna from 27th March 2011.
- Solitaire Air, Jordan, has taken delivery of its first aircraft a Boeing 737-4Q8 which passed through Shannon on delivery to Amman on 16 October 2010. The carrier has indicated a launch date of 1st May 2011.
- SP Cargo Air, Brazil, has plans to launch cargo services shortly using a Boeing 727-200F freighter.
- Swedish Moose Airlines, Sweden, is planning to launch services by year end using a single Airbus A320 aircraft. The carrier plans to add a second aircraft in April 2011. Swedish Moose Airlines plans to concentrate on providing ACMI leasing services to other carriers as well as providing charter flights.

Closures

- Bremenfly, Germany, the charter and ACMI specialist suspended operations and had its AOC revoked on 2nd November 2010. The airline

had been operating two leased Boeing 737-400 aircraft.

- EuroCyprus Airlines, which is owned by the Government of Cyprus, was closed on 13th November 2010. The loss making charter carrier was initially going to merge with Cyprus Airways but in the end this proved not to be an option. The carrier operated a fleet of five Boeing 737-800 aircraft all of which will be returned to lessors ILFC and CIT.

Orders

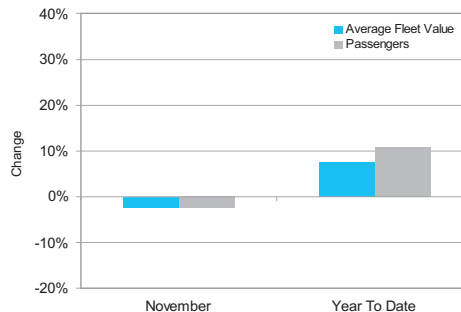
A flurry of orders this month highlights the star beginning to ascend in the East. Egyptian carrier Midwest Airlines has ordered its first owned Boeing 737-800 aircraft. The airline currently has two of the same model in its fleet with a further example due in 2011. Saudi Arabian Airlines ordered 12 Boeing 777-300ERs plus 10 options and has agreed with Kuwait lessor ALAFCO to transfer the 8 Boeing 787 orders to the Saudia order book. SpiceJet, India, has placed an order for 30 Boeing 737-800s. Singapore lessor, BOC Aviation, has finalised its order for 8 Boeing 777-300ERs and announced these will be leased to Thai Airways. BOC also ordered 30 Airbus A320s for delivery from 2012. China Aviation Supplies finalised with Airbus an order for 102 aircraft, 66 of them being newly announced. The new orders are for a mix of A320 family, A330 and A350XWB and are for various airlines in mainland China. Transasia Airways, Taiwan, has ordered its first widebody aircraft, two Airbus A330s as well as 6 Airbus A321s to cater for the growth in mainland China/Taiwan traffic and to expand regional services. Japanese carrier Skymark Airlines perhaps surprised most analysts with a Memorandum of Understanding for four Airbus A380s to start long haul services from Tokyo. The only announcement from the Americas this month was Republic Airways Holdings finalization of 24 Embraer E190 jets and a further 20 options.

Renewal Analysis

Exposures

Despite the fact that there are some significant movements on the smaller airlines within the November placings, the overall monthly average in fact shows little change.

Year on Year % Exposure Change
November / Year to date. Based on latest
Information at 26 November 2010



Source: JLT Database

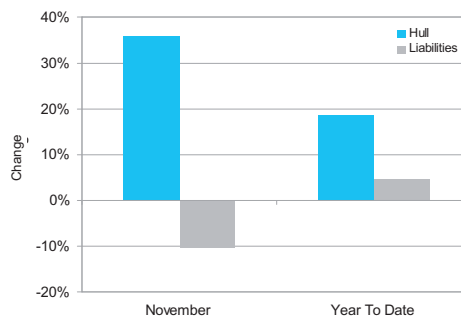
Premiums*

Large penalty premiums on two significant accounts which came to renewal with major hull losses have caused a massive increase in hull premium. Without these losses the premium would have decreased in line with the liability premium change.

Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2009	200	298	498
2010	218	316	534
% Change	9%	6%	7%

* Net of brokerage and at lead terms

Year on Year % Premium Change
November / Year to date. Based on latest
Information at 26 November 2010

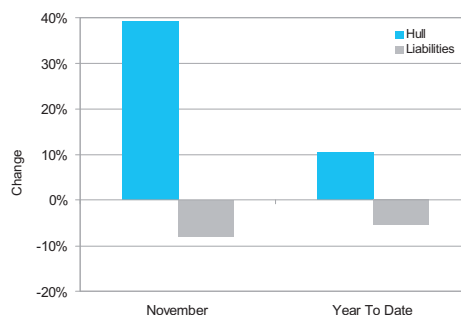


Source: JLT Database

Rates

As with the premium figure the average hull rate change in November is hugely distorted by the additional loss premiums.

Year on Year % Rate Change
November / Year to date. Based on latest
Information at 26 November 2010



Source: JLT Database

Insurance Market News

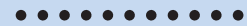
AM Best has affirmed the following financial strength ratings:

- A for Axis Specialty and its operating affiliates.
- A for Hiscox Insurance Company (Bermuda), Hiscox Insurance Company and Hiscox Insurance (Guernsey), all operating companies of Hiscox Ltd (Bermuda).
- A for Hannover Re.

In addition AM Best have upgraded the financial strength rating of Zurich Insurance Company from A to A+.

Arrivals and Departures

- James Gilbert is leaving Aon to start at CV Starr where he will be working along side Graham Spencer-Brown on their airline book.



Lead Lines

(continued from page 1)

from it.

At Swiss Re we continue offering large capacity for our aviation customers under strict underwriting guidelines. Although we remain as competitive as we can be for every account, there is also a line in the sand we need to draw. If we cross this line, we are either ignoring reality or undervaluing the product we sell.

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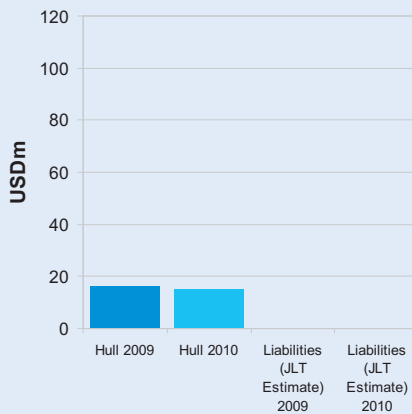
Losses Summary

October

- Hull and spares losses of USD 15m
- 10 airline fatalities
- Liability loss estimate nil

October Losses

All Known Losses Net of deductible

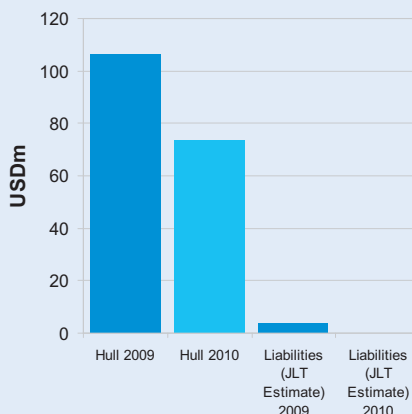


November

- Hull losses USD 86.79m
- 95 airline fatalities
- Liability loss estimate is under investigation*

November Losses

All Known Losses Net of deductible



Loss Analysis

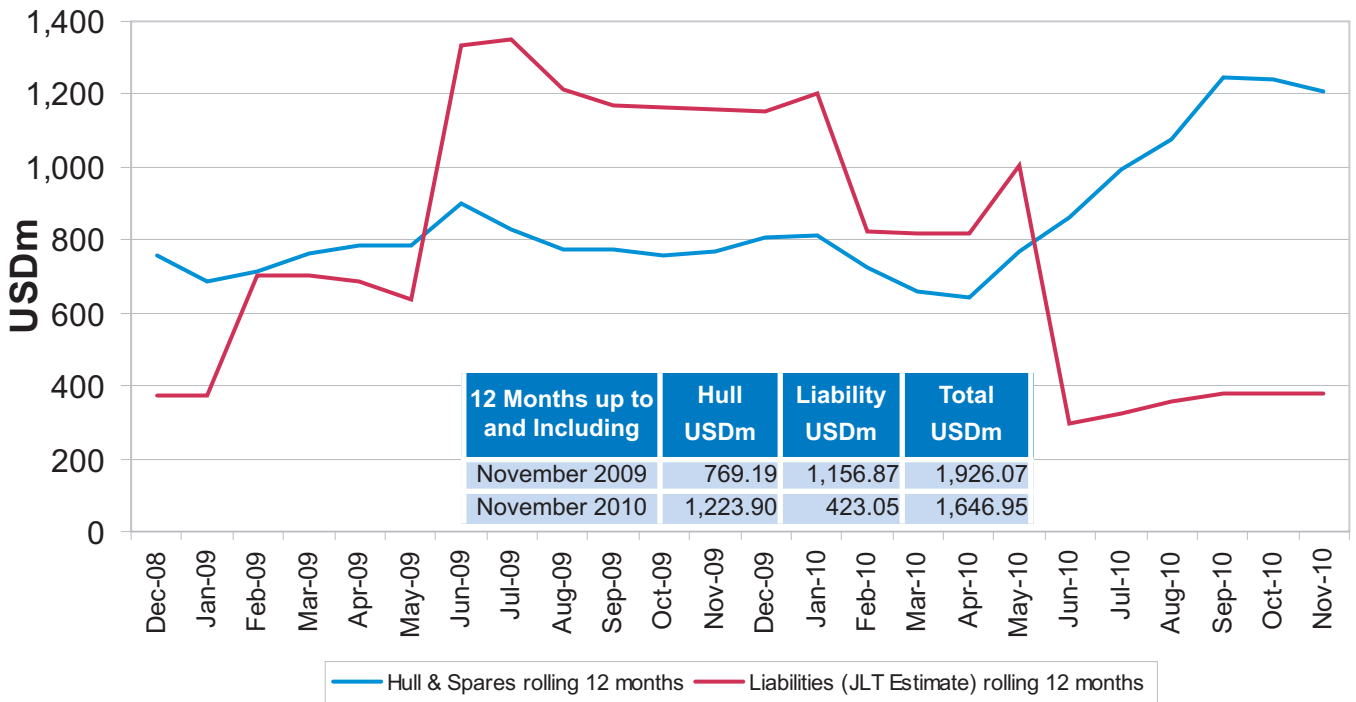
Known Losses in November

2nd	Lion Air	Boeing 737-400 (PT-MFT)	Indonesia
Landing at Pontianak-Supadio International Airport in wet and windy weather at the end of a scheduled domestic flight, the aircraft skidded off the end of the runway. No fatalities occurred but there was significant damage to the aircraft.			
4th	Aklak Air/ Kenn Borek Air	DHC-6, Beech 99 & Beech King Air	Canada
Three aircraft of Aklak Air and Kenn Borek Air were destroyed when an Aklak Air hangar at Inuvik Mike Zubko Airport was destroyed by fire.			
4th	Qantas	Airbus A380 (VH-OQA)	Singapore
Whilst climbing out of Singapore on a flight to Sydney, the aircraft suffered an uncontained engine failure resulting in significant damage to the wing.			
4th	Aerocaribbean	ATR72-212 (CU-T1549)	Cuba
The aircraft crashed in mountainous terrain near Guasimal whilst on a domestic scheduled passenger flight. All on board perished.			
4th	Global Air	Boeing 737-200 (XA-UHY)	Mexico
The aircraft landed at Puerto Vallarta International Airport at the end of a domestic passenger flight with the nose undercarriage retracted.			
5th	JS Air Charter	Beech 1900C (AP-BJD)	Pakistan
Shortly after takeoff from Karachi on a charter flight with oil workers, the aircraft suffered an engine failure and crashed whilst returning to the airport. All on board perished.			
11th	Tarco Airlines	Antonov An-24 (TBC)	Sudan
The aircraft made a heavy landing at Zalingei, on a domestic charter flight, causing the tyres to burst, control to be lost and the aircraft subsequently to break up. 6 of the 44 on board were killed.			

* The JLT liability estimates are provided merely as a guide. The A380 and ATR losses this month are still under investigation and no assessment has been made for the liability reserve. Therefore, no estimate has been included in our loss figures for November.

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to November, 2010

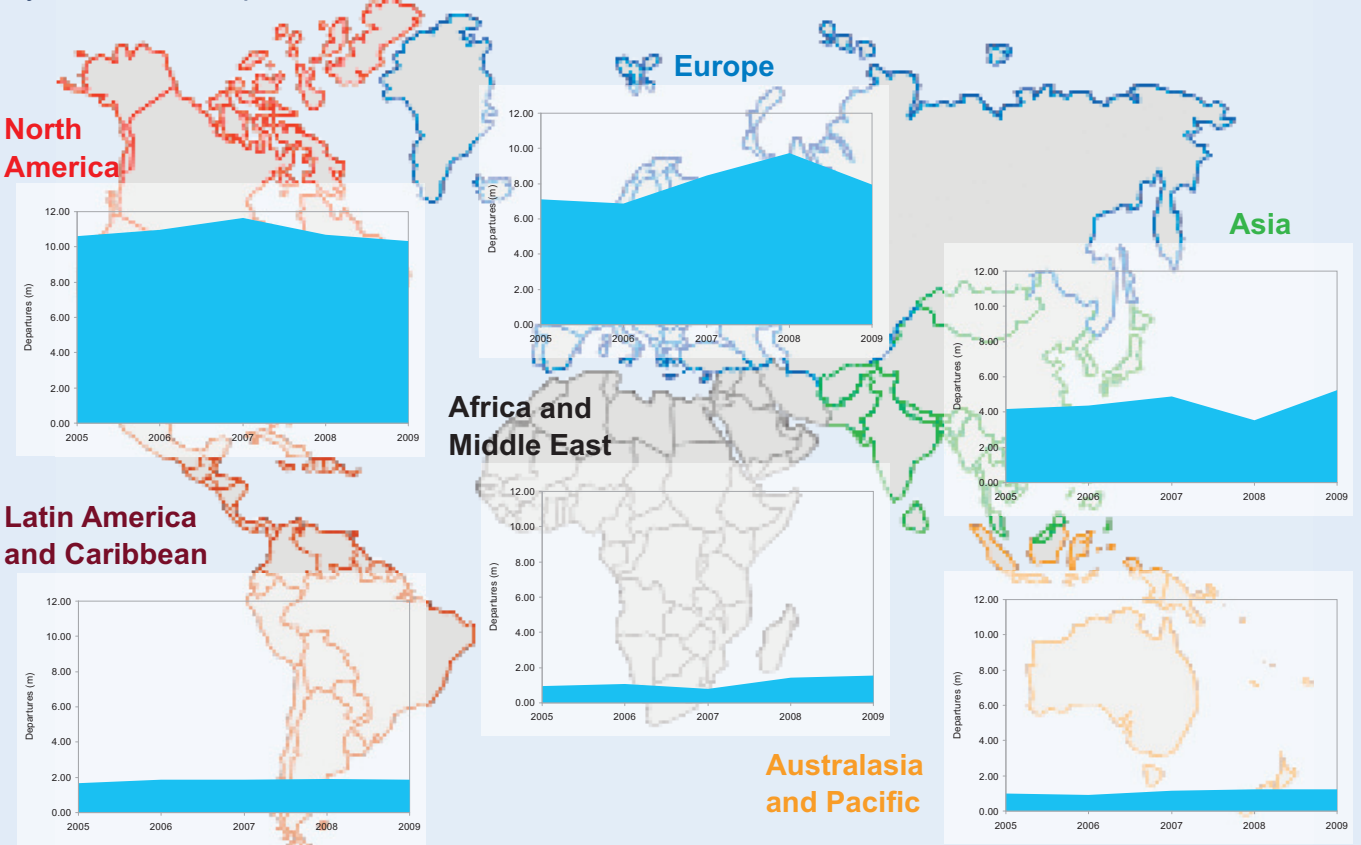


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Regional Chart

Exposures - Departures last 5 years

By Domicile of Operator



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