

Plane Talking

JLT AEROSPACE

DECEMBER 2009

Executive Summary

In the Bleak Mid-Winter

- The airline industry is predicted to make a loss of USD11bn in 2009 according to IATA (International Air Transport Association)
- Threatened strike action seems to be the latest consequence in the airlines' fight to reduce costs
- There has been just a trickle of new orders in December
- Losses have been relatively low although bad weather has provoked a couple of significant over-runs
- Premiums have increased 10-15% which is less than the predictions half-way through this year
- Recent results show that airline insurers are maintaining or improving their financial strength ratings
- Airline insurance capacity remains relatively bouyant

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Lead Lines

Nigel Weyman, Chairman, JLT Aerospace

“ 2009 has been a surprising year and 2010 looks set to be even more interesting. After the shock of the A330 loss in June it was widely expected that rates would harden significantly but we have witnessed a softening in the last month. Strong competition arising from overcapacity in the market means rate increases have been much smaller than predicted. Consequently 2009 has been a disappointing year for underwriters but has been a better year than expected for buyers of airline insurance. Meanwhile, there has been considerable personnel movement in the broking arena.

If the current levels of overcapacity persist, pricing will very much depend on the

severity of losses experienced in the first 6 - 9 months of the new year. As we go into 2010, airlines are still under enormous financial pressure to reduce their costs and will therefore re-evaluate every business partner and test the market more rigorously than normal. In this environment, at JLT we feel we have the strength and depth to find many opportunities that will allow us to expand. Therefore, we are looking forward with interest to whatever 2010 may bring.

On behalf of all of us at JLT Aerospace, may I send our readers Season's Greetings and our Best Wishes for a healthy, prosperous and Happy New Year.

”



Airline News

Comment

The International Airline Transport Association is projecting a loss for world airline operators of USD11 billion for 2009, and expects this to improve next year to USD5.6 billion, providing costs can be controlled and oil prices remain stable. They expect European carriers to post the largest losses of any region for 2010 at USD2.5 billion, with North America at USD2 billion, while Asia-Pacific carriers will cut losses from USD3.4 billion to around USD700 million. Predictions are that there will be small losses for the Middle East and Africa, and a small profit for Latin American carriers.

Some interesting yardsticks of the industry suggest things will remain difficult for the foreseeable future with BA attempting to cut overheads which inevitably involves staff cuts and threats of damaging strike action.

Perhaps of more relevance is the change of direction by easyJet and Ryanair the low-cost operators who announced they were reining back their rapid growth rates. Ryanair in particular recently walked away from a 200 aircraft order saying that their fares could start to rise rapidly once it was no longer funding large aircraft purchases. Ryanair and easyJet, Europe's largest budget airlines, have enjoyed almost continuous double-digit growth rates since the mid-1990s.

Although Boeing and Airbus still show good order and delivery numbers, the regional aircraft manufacturers are suffering a disastrous sales slump. ATR, Bombardier and Embraer actually recorded a deficit of orders during the third quarter.

On the 15th December Boeing's long-awaited 787 flew for the first time. They are expecting to make at least 3 flights with two aircraft by the end of the year.

Start-Ups

- Air Midwest, Nigeria, is poised to commence operations using a Boeing 737-5H6. Destinations are to include Abuja, Benin, Lagos, Owerri and Port Harcourt.
- Alpine Air, Nepal, plans to start daily Kathmandu-New Delhi services with an Airbus A319-100 in early January 2010, and hopes to commence flights to other parts of Asia and the Middle East later in the year.
- ASKY Airlines, Togo, is set to commence its first flight on 15 January 2010 using Boeing 737-700 aircraft. The carrier will serve West and Central Africa and plans to later expand to cover destinations in Europe, America and Asia.
- I Fly, Russia, has commenced operations using a Boeing 757-200 aircraft. The airline carried out its first flight from Moscow Vnukovo Airport to Antalya on 4 December and plans to add other overseas destinations for leisure travellers in the coming months.
- Space Airlines, Jordan, looks set to commence operations in early January 2010 using a Boeing 737-400. The carrier will initially operate charter flights to tourism locations in Turkey, Egypt, Bulgaria and Russia.

Closures

- MDLR Airlines of India which launched domestic services in April 2007 using a fleet of three Avro RJ 70s ceased trading in October after the aircraft were repossessed for non-payment of leasing fees.
- New Axis Airways, the Marseille based passenger and cargo charter carrier which succeeded the original Axis Airways earlier this year has finally succumbed to bankruptcy proceedings after ceasing operations on 30th November.

- Flyglobespan the Scottish based airline collapsed into administration on 16th December due to a reduction of liquidity to fund the airline's operations. The airline had a substantial fleet of Boeing 767s and 737s and flew to Europe, Canada, the USA and Egypt.
- Seagle Air, a charter specialist of Slovakia, recently ran out of cash after failing to receive revenue expected from an Italian partner and was forced to suspend flights on 23rd October.

Orders

December has seen a trickle of orders, or confirmation of earlier announced orders. The most noteworthy was Korean Air's order for 5 Boeing 747-800 passenger aircraft. This is only the second order for the passenger airline variant of the aircraft, following Lufthansa's order for 20 aircraft placed 3 years ago! Korean though, do have the freight version on order so their decision is perhaps not so surprising.

Boeing have announced that All Nippon Airways have selected additional 777 and 767 aircraft though details have not been given. Also announced by Boeing is that United have selected the 787 as replacement for its twin aisle fleet.

More firm, is COPA Panama's order for 2 more 737-800 bringing to 15 the number ordered this year and Air Austral's order for 2 737s, presumably to replace its current fleet of 2 earlier 737 models.

No announcements of orders have been made by Airbus though, across the field at Toulouse, ATR have confirmed 4 ATR72-500s to add to Air Algerie's current fleet of 8.

To wrap up a quiet year for all, Bombardier confirmed American Eagle's order for 22 CRJ-700 regional jets.

Renewal Analysis

Exposures

The trend in the first half of the year showed significantly reducing passenger forecasts and a slight downturn in Average Fleet Values. Both exposure measures have been gradually improving in the second half of year. There is a clear divide with the majority of growth seen in the major carriers in the Middle East and Asia offsetting the declines seen in the more established markets of Europe and North America.

Year on Year % Exposure Change

December/Year to date. Based on latest Information at 23 December 2009



Source: JLT Database

Premiums*

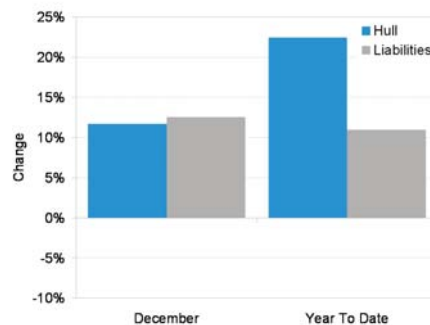
Despite the slow down in average rate increases in December, the overall premium income for underwriters has still grown by over 10% on average across both Hull and Liabilities. On a year to date basis there is 15% premium growth despite overall exposure reductions.

Year to Date (Like for Like)	Hull US\$M	Liability US\$M	Total US\$M
2008	468	860	1,328
2009	573	954	1,527
% Change	22%	11%	15%

* Net of brokerage and at lead terms

Year on Year % Premium Change

December/Year to date. Based on latest Information at 23 December 2009



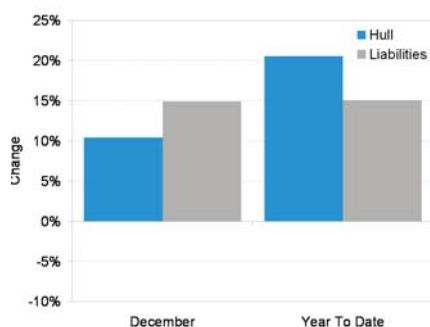
Source: JLT Database

Rates

December's average rate increases are broadly in line with expectations. It would appear the market has relaxed slightly since the recoil following the major losses in June. Some major airlines that produce significant premium income for underwriters, for example CAAC, have managed to renew with largely flat rating changes. In some special cases even minimal rating reductions have been achieved.

Year on Year % Rate Change

December/Year to date. Based on latest Information at 23 December 2009



Source: JLT Database

Insurance Market News

Catlin Group's financial strength rating was raised to A from A- by Standard & Poor's (S&P). The upgrade impacted all of Catlin's core operating subsidiaries, namely Catlin Bermuda, Catlin UK and Catlin US.

S&P reconfirmed Aviabel's rating as A- with stable outlook.

AM Best reaffirmed a rating of A- with a stable outlook for Glacier Re.

The General Insurance Corporation of India (GIC) may hike reinsurance premiums on aviation risk covers by 10 to 15% in April.

Loss Analysis

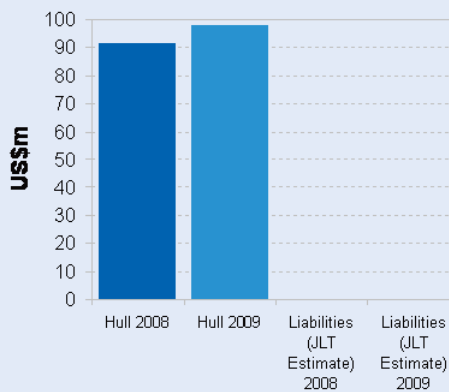
Losses Summary

November

- Hull losses of USD29.31M
- 6 fatalities
- Liability loss estimate currently nil

November Losses

All Known Losses Net of deductible

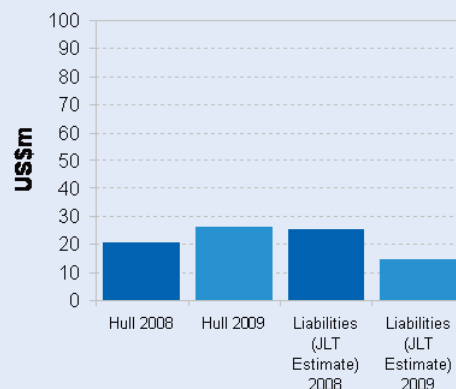


December

- Hull losses are estimated at USD26.44M
- Nil fatalities
- Liability estimate USD15M

December Losses

All Known Losses Net of deductible



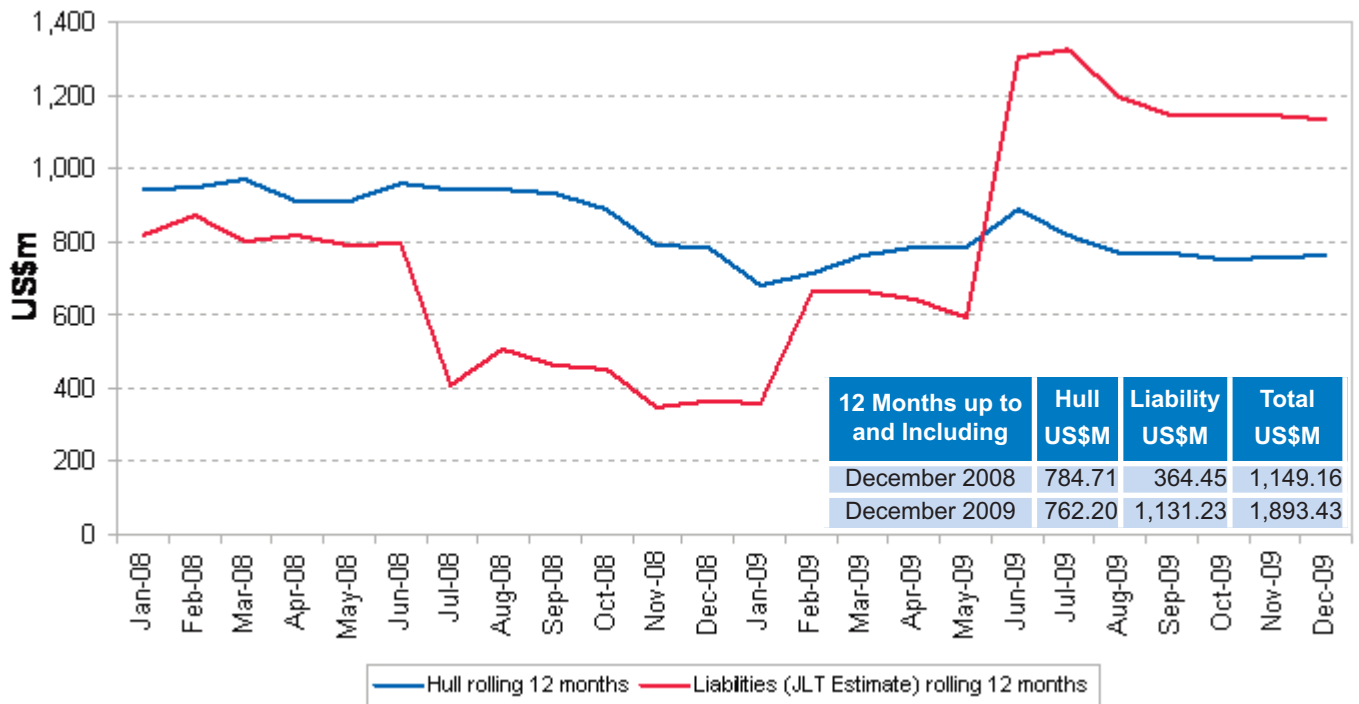
Known Losses in December

1st	Aerocon	Fairchild Metro III (CP-2602)	Bolivia
The aircraft swerved off the runway on landing at Trinidad, causing the undercarriage to collapse.			
1st	TAF Linhas Aereas	Boeing 727-200F (PR-MTK)	Brazil
Due to brake failure during taxi at Sao Paulo - Guarulhos, the aircraft struck the terminal building.			
2nd	Merpati	Fokker 100 (PK-MJD)	Indonesia
The aircraft was landed with partial gear extension after an "unsafe gear" warning whilst on approach to Kupang.			
7th	South African Airlink	Embraer Emb-135LR (ZS-SJW)	South Africa
On landing at George Airport, the aircraft failed to stop before passing through a fence and across a road. No serious injuries occurred and damage to the aircraft is unknown at press time.			
19th	Emirates	Airbus A330-200	En route UAE - South Africa
The aircraft encountered severe turbulence causing minor damage to the aircraft but a number of major injuries amongst passengers and crew.			
23rd	American Airlines	Boeing 737-800 (N977AN)	Jamaica
On landing in stormy weather at Kingston - Norman Manley International, the aircraft failed to stop, running off the runway, through a fence and across a road. Reports suggest around 40 people injured, a number serious. The flight originated in Washington DC, calling at Miami en-route. The fuselage was broken in several places.			

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to December, 2009

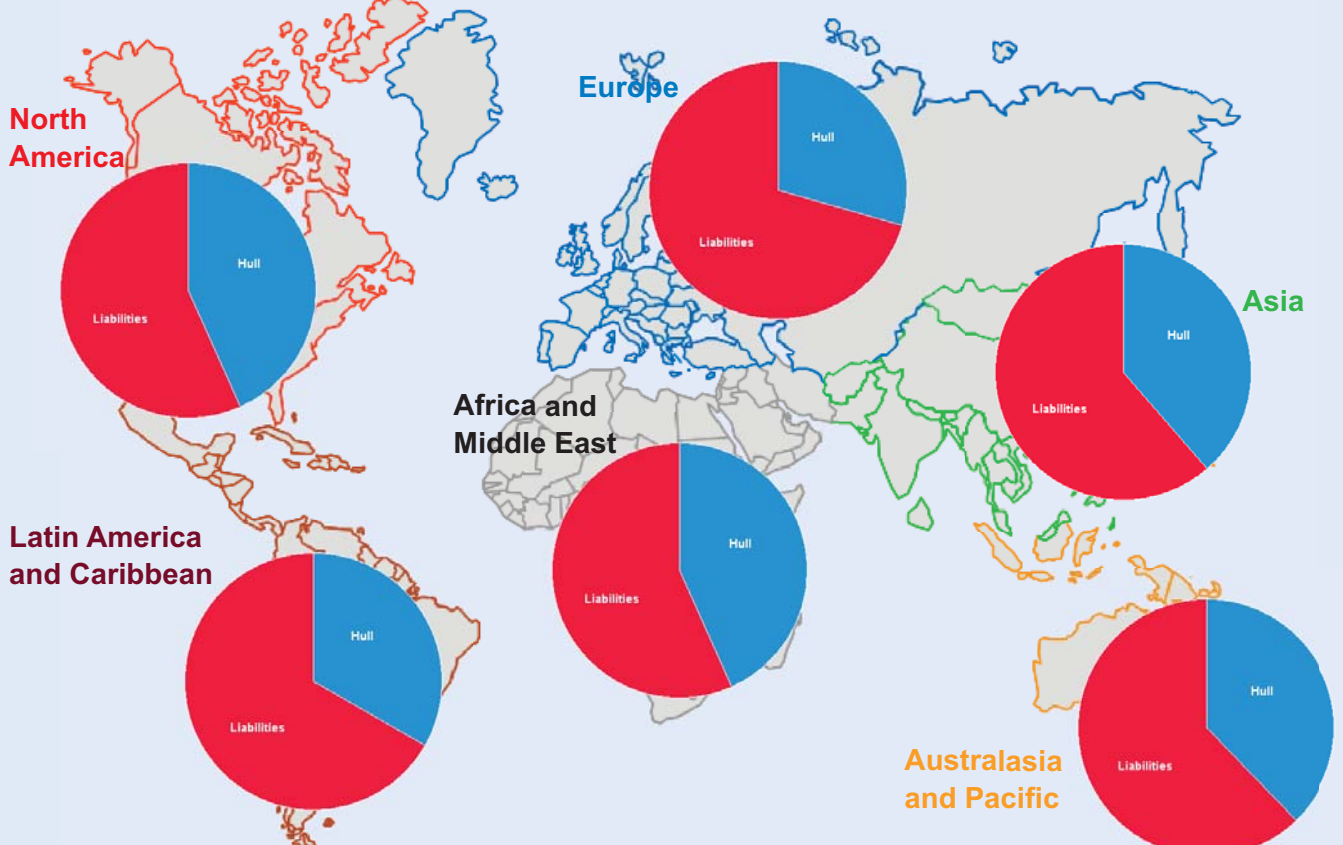


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Regional Chart

Hull versus Liability Premium, Average 2004 - 2008

By Domicile of Operator



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