

Plane Talking

JLT AEROSPACE

NOVEMBER 2009

Executive Summary

Lock up your capital (or it might be lost)

- Many airlines are trying various tactics such as mergers, order deferrals and loans to minimise their financial losses.
- Orders are superficially buoyant in the wake of the Dubai Airshow.
- The insurance market appears very stable this month with few capacity or personnel changes to report.
- Aviation insurance renewals have seen rating increases in excess of 20% although 'clean' accounts have fared better although market resolve to increase premium is still evident
- A spate of hull losses for November mercifully have resulted in a relatively low number of fatalities.

In This Issue

Executive Summary	1
Airline News	2
Insurance Market News	3
Renewal Analysis	3
Loss Analysis	4

Lead Lines

Martin Cox, Senior Underwriter, Global Aerospace

“ I often read broker news reports only to feel dismayed by talk of manufacturers providing subsidies for an unprofitable airline insurance sector.

Whilst I certainly agree that the current airline results are unsustainable for insurers, given the long tail nature of products liability, aerospace results also do not provide any greater comfort and even less comfort if you take into account past environmental claims which continue to be advised to insurers.

The first point though is that in spite of the difficulties that both Airlines and Aerospace clients are facing, insurers do need to apply underwriting logic and clear risk evaluation in order to produce and achieve a properly priced result, particularly at a time when investment returns are so low.

With regard to the aerospace sector itself, against individual limits of up to US\$2.5Bn, premiums during 2009 from manufacturers are circa US\$760M, down from US\$900M in 2004. Also, with the latest reported sales for calendar year 2008 totalling US\$675Bn, this represents actual growth of 5.4% per year over the previous 5 years. More significantly, exposures in terms of western built jet liners in service are above the year 2000 level by some 33% and for RPKs by some 34%

As for 2010, I believe challenges will continue, for our clients, in re-establishing confidence for new commercial aircraft orders and for insurers, other than in proper risk evaluation, we must also try and bring a degree of realism and containment to current claims settlement levels. ”



Airline News

Comment

With IATA still pessimistic about the financial disposition of airlines in 2009, they are predicting an overall loss of around US\$11 billion for their members, while a number of operators are now having to make significant fiscal adjustments in order to survive.

Some of the most prominent airlines in the world are moving to shore up defences, among them British Airways who recently announced a proposed merger with Iberia following large losses in the previous quarter. US Airways are deferring 54 aircraft scheduled for delivery in 2010-2012 thus saving US\$2.5 billion over the next three years. Gulf Air of Bahrain has just announced they will have to re-negotiate recently signed contracts with Boeing, Airbus and Rolls Royce as Gulf looks to replace long-haul wide-bodied aircraft with short-haul single-aisle models. The sudden change in direction comes as Gulf Air faces operating losses of US\$500 million this year.

Japan Airlines, Asia's biggest carrier has been saved from financial collapse by a US\$1 billion loan from the state backed Development Bank following months of huge losses including a US\$356 million deficit in the second quarter. Operating revenues fell 26% in the first half year with passenger numbers down 10% and RPKs down 11%.

Start-Ups

- Air Aceh, Indonesia, plans to commence international scheduled passenger services from Banjul to Africa, Europe, the Middle East and North America. The carrier will operate Boeing 737-300 and 767-300ER aircraft.
- FlairJet, UK, has taken delivery of the first two UK-registered Embraer Phenom 100 business jets and is set to become the first company in Europe to operate the very light jet commercially. The carrier looks set to commence operations from early December 2009.
- SF Airlines, China, is poised to commence operations after taking delivery of its first aircraft, a Boeing 757-200PCF.
- Tafa Air, Albania, will commence operations from 1 December 2009. The airline will serve Tirana, Berlin, Dortmund, Friedrichshafen and Pristina, with two leased Airbus A320-200s, and a Gulfstream G200 business jet.

Closures

- 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.
- Air Vallee the Italian domestic carrier which has been experiencing financial and operational difficulties, had its air transportation licence suspended by ENAC, the Italian civil aviation agency, effective 5th November.
- PB Air of Thailand which returned its last dry-leased aircraft to the lessor in February but had continued to operate using only wet-leased aircraft, has finally ceased operations.
- Efly of Malta which started

scheduled services to Catania in September has given up all scheduled flying to concentrate on providing charter flights and wet-leasing services with its BAe 146-300 aircraft.

Orders

A rash of airliner order announcements this month due to the Dubai Airshow does little to lift the depressed market. From Algeria, Tassili Airlines confirmed an order for 4 Boeing 737-800s for use in ferrying its parent company employees from major cities to worksites. The airline is planning to start commercial domestic and regional services in the near future. Tassili is jointly owned by Sonatrach Petroleum and Air Algerie. Air Algerie, itself, ordered a further 7 737-800s.

Airbus announced firm orders from Turkish Airlines for 2 A330-200F freighters for delivery in Autumn 2010, Ethiopian Airlines for 12 A350-900, Air Austral for 2 840 seat, single-class, A380s and Air New Zealand for 14 A320s to replace 15 Boeing 737-300s on its domestic network. Airbus also announced Memorandum of Understanding (MoU) for orders from Nepal Airlines for single examples of A320 and A330-200, Yemenia for 10 A320s and Senegal Airlines, a new national carrier, for 4 A320s and 2 A330-200s.

Away from the big two, ATR confirmed an order from Wings Air, a subsidiary of Lion Air of Indonesia, for 15 ATR72-500 and options for 15 further ATR72-600. Embraer announced two orders, from Air Astana, the Kazakhstan flag carrier for 2 E-190s with a 2 class 97 seat interior and from Oman Air for 5 E-175 with 4 to be operated by the airline and one by the Royal Oman Police. All these Embraers to be delivered in the first quarter 2011.

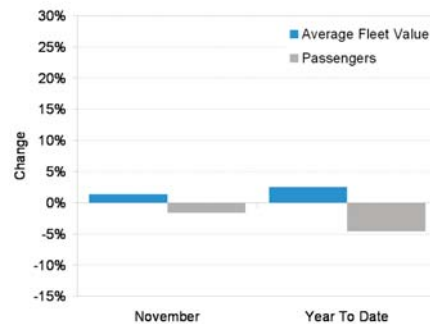
Renewal Analysis

Exposures

Exposures during the month have shown very little movement overall, with fleet values up slightly and passenger numbers showing a small reduction over 2008.

Year on Year % Exposure Change

November/Year to date. Based on latest Information at 25 November 2009



Source: JLT Database

Premiums*

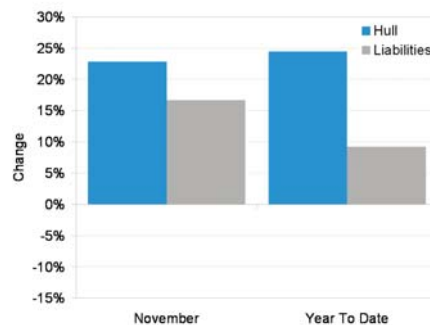
Recent premium levels have been unaffected by the minimal movement in exposures and the increases are generally as a result of the changes to rating levels.

Year to Date (Like for Like)	Hull US\$M	Liability US\$M	Total US\$M
2008	268	399	667
2009	334	435	769
% Change	24%	9%	15%

* Net of brokerage and at lead terms

Year on Year % Premium Change

November/Year to date. Based on latest Information at 25 November 2009



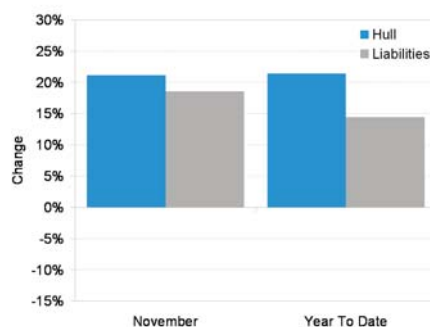
Source: JLT Database

Rates

Although there were a number of large renewals in November including DHL, the Gulf Co-operation Council, Singapore Airlines, South African Airways, Thomas Cook Group, Tui Travel and UPS, a number received rate increases in excess of 20%, but others with clean renewals tended to smooth the rate changes giving increases very much in line with what has been seen in 2009.

Year on Year % Rate Change

November/Year to date. Based on latest Information at 25 November 2009



Source: JLT Database

Insurance Market News

Ironshore Inc. announced that its subsidiary, Ironshore Specialty Company, entered into an agreement with Starr Aviation Agency, Inc. under which Starr will underwrite Aviation risk for Ironshore. The business will be written worldwide and will include Airlines, Aviation Manufacturers, Airports, Aviation Refuelers, Fixed Base Operations, Corporate Aircraft and other General Aviation risks.

There have been no significant rating changes for the main aviation insurance markets in November.

Atrium Syndicate 609 has set up a consortium of Lloyd's syndicates to write Aviation Reinsurance. It will be offering a per program capacity of up to US\$30M from 1/1/2010

Lloyds' "coming-in-to-line" deadline, the date where capacity for 2010 is assessed, was passed this month. Initial signs indicate continued interest in Lloyd's suggesting capacity will be at least maintained for 2010.

Reinsurers continue to maintain pressure to increase premium or reduce exposure, consequently offering insurers little option but to continue to seek higher premium rating despite the current financial pressures on most insurance buyers.

Loss Analysis

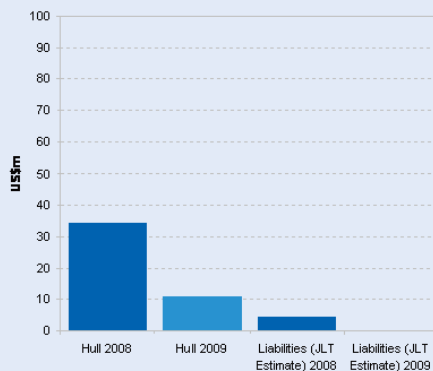
Losses Summary

October

- Hull losses of US\$ 11M
- 11 fatalities
- Liability loss estimate currently nil

October Losses

All Known Losses Net of deductible

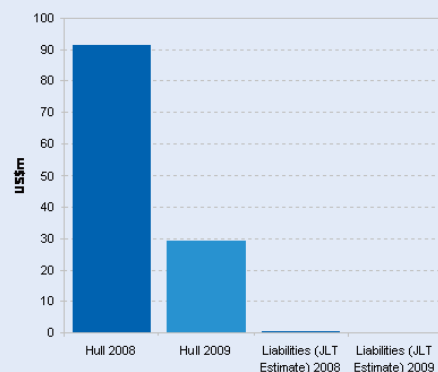


November

- US\$ 29.31M estimated hull losses
- 3 fatalities
- No liability estimate to date

November Losses

All Known Losses Net of deductible



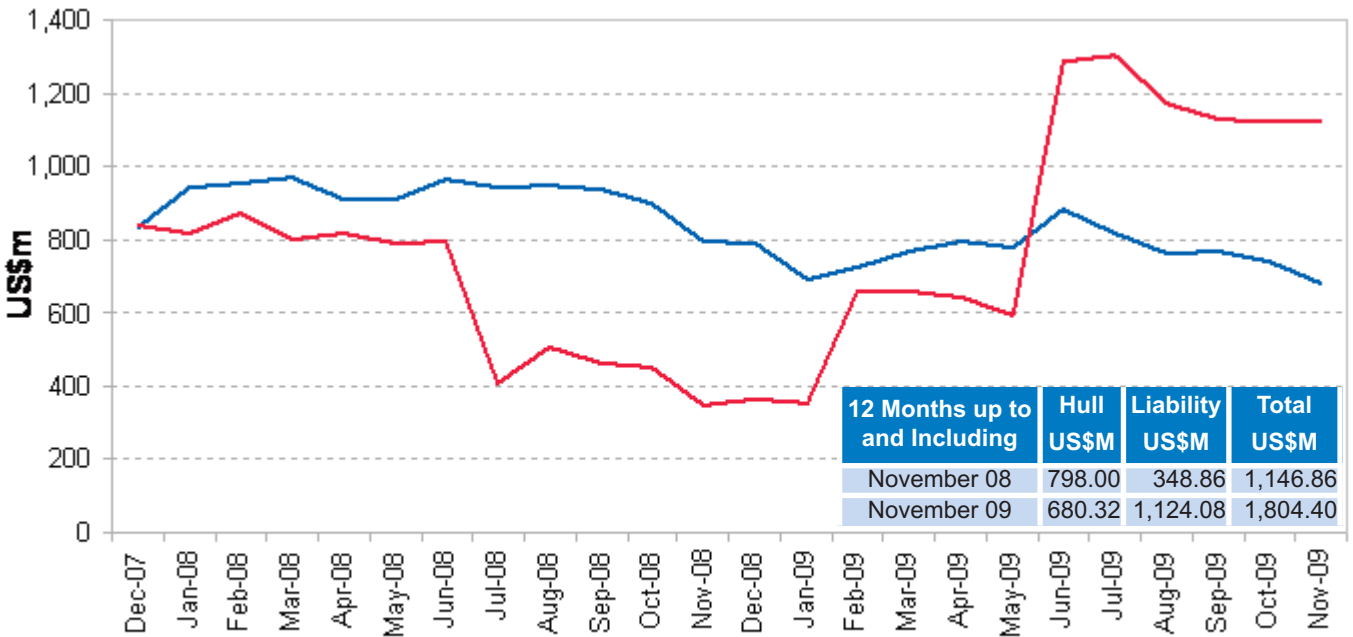
Known Losses in November

3rd	Air Zimbabwe	XIAN MA-60	Zimbabwe
The aircraft was taxiing for takeoff at Harare when it was struck by a sounder of warthogs. The port undercarriage collapsed causing damage to the wing, engine and fuselage....and a warthog.			
5th	Unknown	Boeing 727	Mali
The unknown aircraft was found in the Sahara desert burnt out and with no sign of fatalities. Nearby, on a makeshift airstrip, were signs that a considerable amount of illegal cargo had been off-loaded.			
9th	Blue Bird Aviation	Beech 1900D (5Y-VVQ)	Kenya
Departing Nairobi's Wilson airport on a cargo flight to Somalia, the aircraft suffered engine problems and crashed whilst attempting to return to the airport. Both crew members were killed.			
10th	Kingfisher Airlines	ATR72-500 (VT-KAC)	India
The aircraft ran off the end of the runway at Mumbai causing substantial damage to the fuselage, undercarriage and engine. The aircraft had landed on a runway shortened due to work in progress and in wet conditions and poor visibility. All 42 passengers and 4 crew escaped without injury.			
12th	Jet-Link Express, operating for Rwandair	Bombardier CRJ-100ER (5Y-JLD)	Rwanda
Shortly after takeoff on a flight from Kigali to Entebbe, the crew reported a stuck thrust lever and returned to Kigali. The aircraft stopped on the runway but then, unexpectedly, increased thrust and impacted the VIP terminal. There is at least one passenger reported as a fatality, but may be due to an accident with the ambulance en-route to the hospital. The aircraft flight crew are reported as critical.			
18th	Iran Air	Fokker F100 (EP-CFO)	Iran
Departing Isfahan, the undercarriage failed to retract. On landing back at Isfahan, a fire broke out in the undercarriage. Damage is unknown at present.			
19th	Win Win Services LLC, operating for US Government	Bombardier DHC8-202Q	Mali
An undisclosed technical problem caused the crew to make an off-field emergency landing 30 km from Kolokani ripping the wing off. The aircraft was reportedly on an anti-terror mission. All on board survived.			
19th	Compagnie Africaine d'Aviation	McDonnell Douglas MD-82 (9Q-CAB)	Congo
CAA's MD-82 became the third airliner to be destroyed in recent years after running into an old lava flow which dissects Goma's runway. No fatalities occurred.			

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to November, 2009



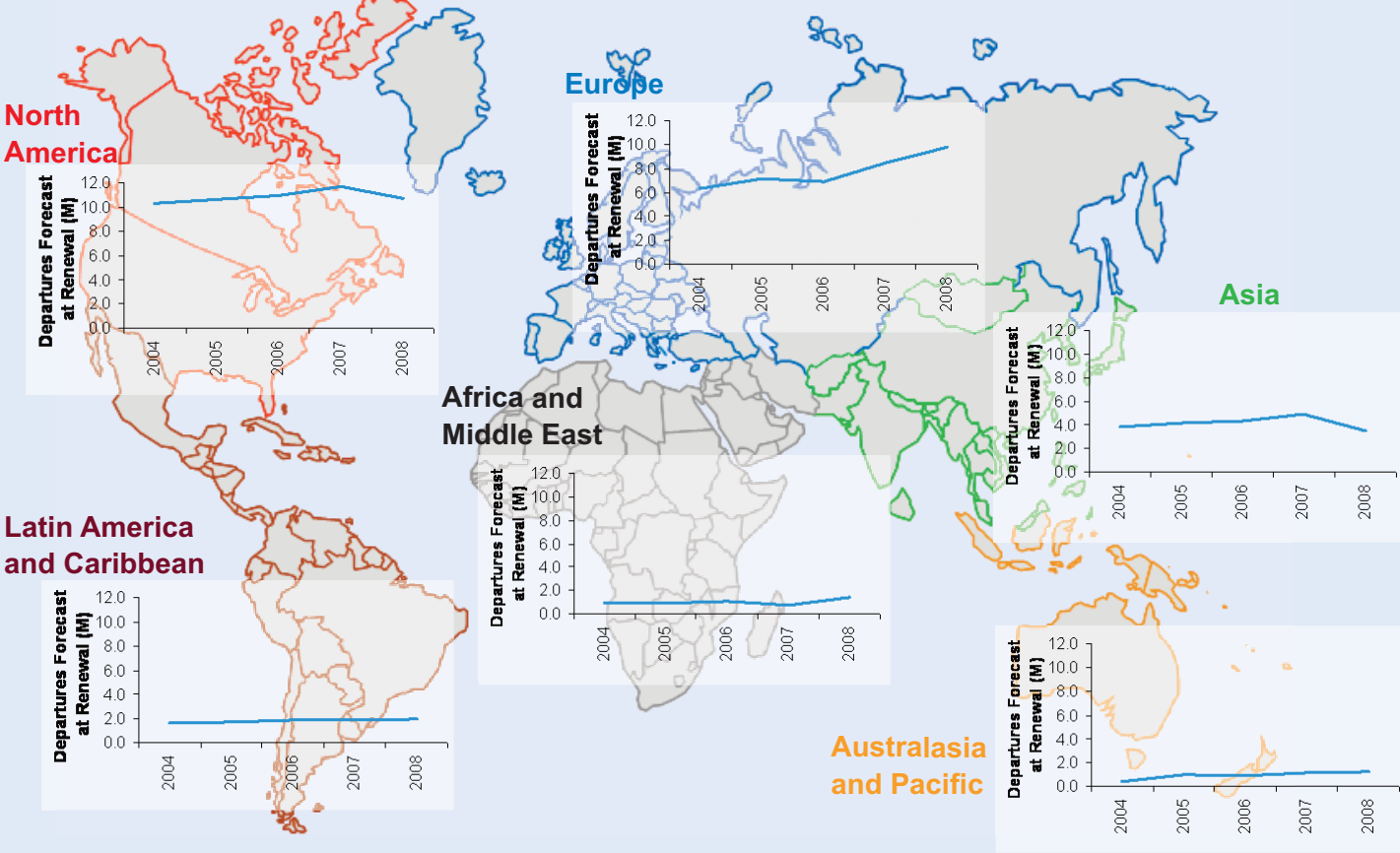
— Hull rolling 12 months — Liabilities (JLT Estimate) rolling 12 months

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

Regional Chart

Departures, 2004 - 2008

By Domicile of Operator



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