

WILLIS AIRLINE INSURANCE MARKET REVIEW

September 2012

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Hull and Liability

2012 Market Environment

- § The major renewal months of the year thus far, April and July, experienced some unique circumstances for the largest renewals that influenced the overall premium position without a significant shift in the underlying trend.
- § The outlook for Q4 2012 therefore looks very much like a continuation or even acceleration of the current downward market trend.
- § The overall level of calendar year losses remains excellent and the level of capacity remains high
- § It remains to be seen if exposure growth outweighs continued consolidation and insolvency.
- § External influences on the market, primarily the global economic recovery, will drive any significant and longer term change in market sentiment.
- § The variety in both the size and nature of operation of the airlines renewing at this time doesn't allow much in the way of detailed trend analysis.

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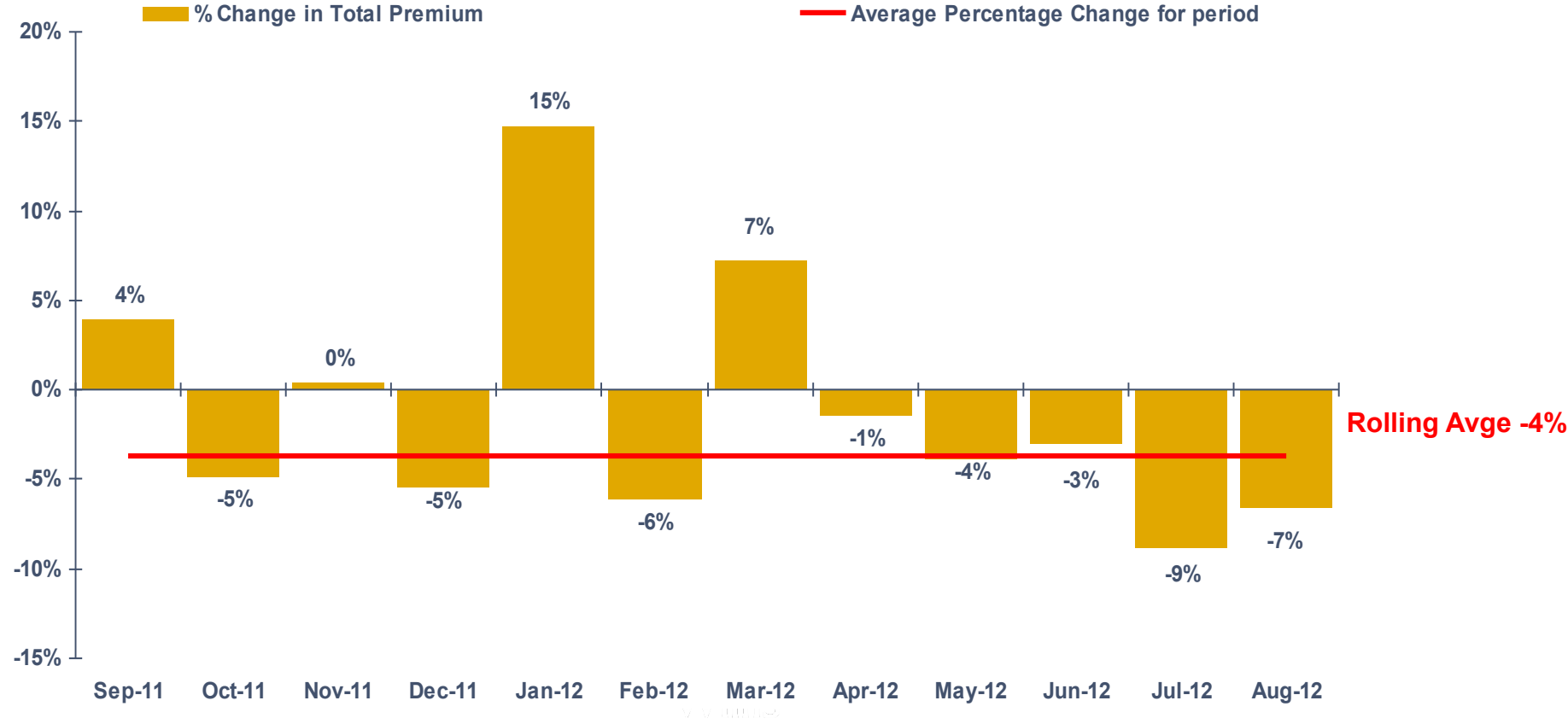
Hull & Liability

2012 Net % Premium & Exposure Movements

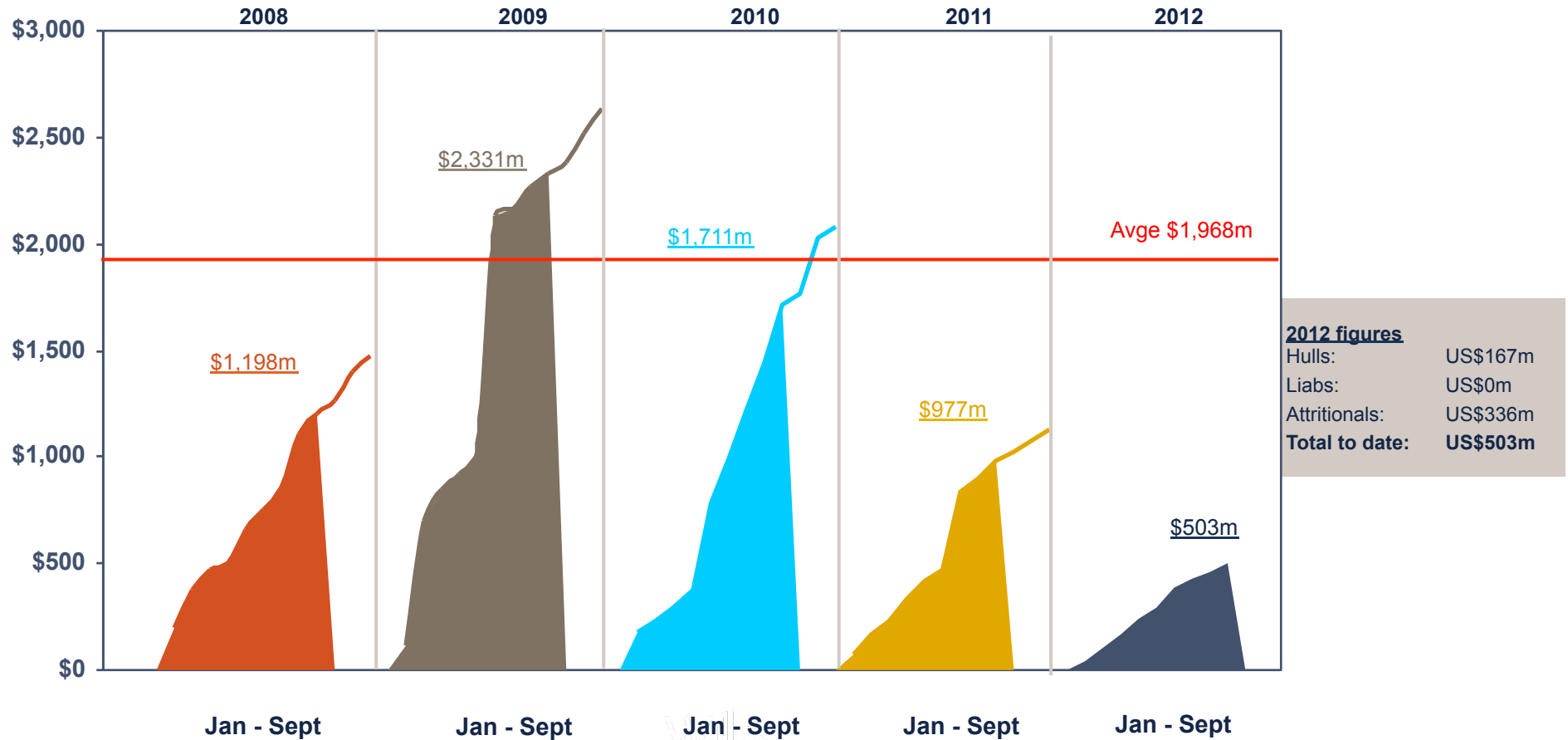
	No. of Renewals	AFV % Change	PAX % Change	2011 Net Premium US\$ m	2012 Net Premium US\$ m	US\$ m Premium Change	Premium % Change
January	4	14%	25%	\$ 3.85	\$ 4.42	\$ 0.57	14.7%
February	4	12%	7%	\$ 7.13	\$ 6.70	\$ -0.43	-6.1%
March	11	21%	23%	\$ 35.59	\$ 38.16	\$ 2.57	7.2%
Q1	19	20%	21%	\$ 46.57	\$ 49.28	\$ 2.71	5.8%
April	15	17%	23%	\$ 115.58	\$ 113.95	\$ -1.62	-1.4%
May	17	1%	1%	\$ 71.74	\$ 68.96	\$ -2.79	-3.9%
June	17	1%	2%	\$ 34.77	\$ 33.71	\$ -1.06	-3.0%
Q2	49	11%	14%	\$ 222.09	\$ 216.62	\$ -5.47	-2.5%
July	30	3%	1%	\$ 211.11	\$ 192.22	\$ -18.89	-8.9%
August	4	0%	11%	\$ 19.30	\$ 18.02	\$ -1.28	-6.6%
2012 Total	102	8%	9%	\$ 499.07	\$ 476.15	\$ -22.93	-4.6%

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2011/12 Net % Premium Movements

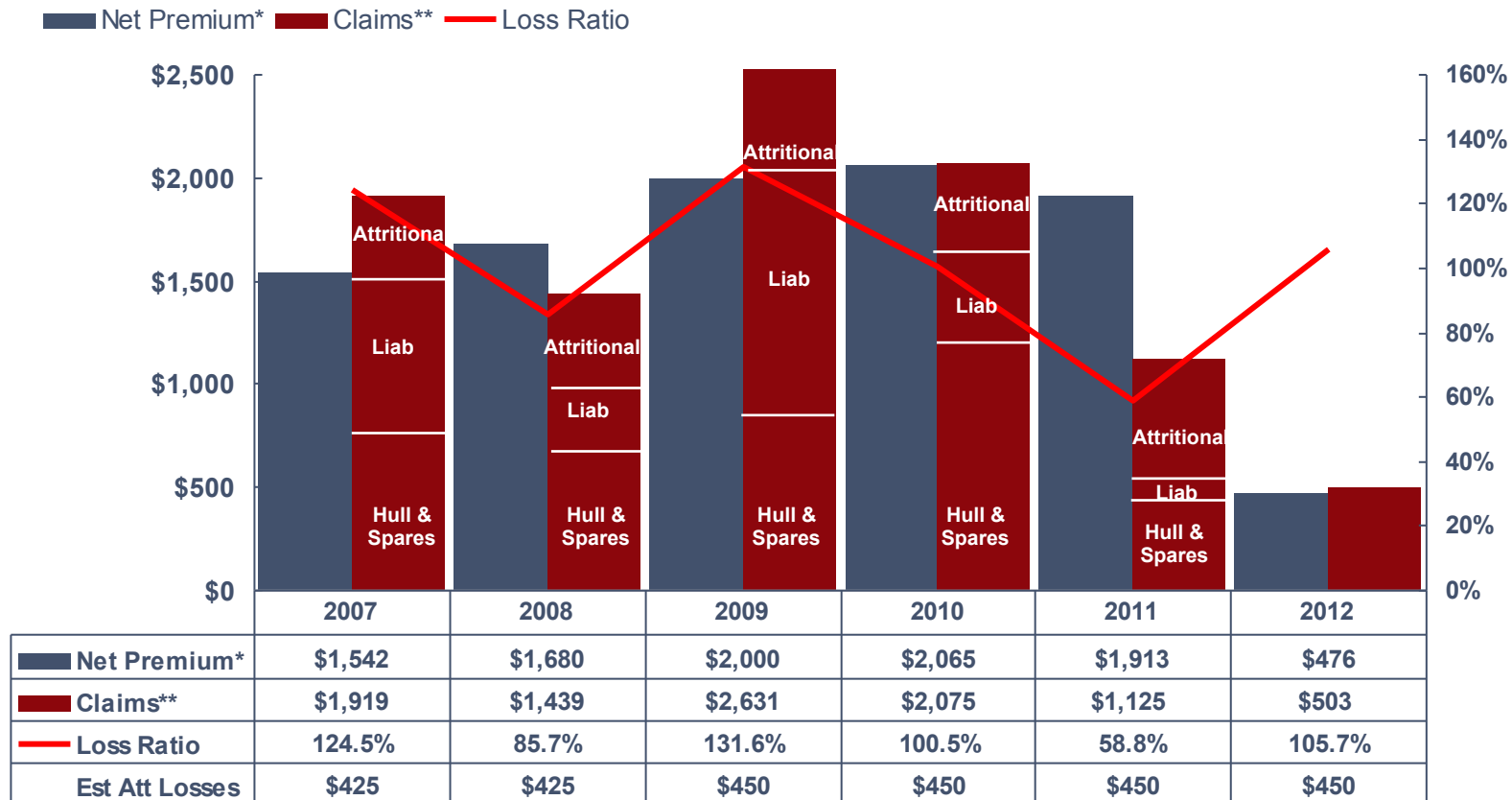


Cumulative Monthly Incurred Reserve Development (US\$m)



World Wide Airline Hull & Liability Premium and Claims on a Calendar Year Basis

2007 – 2012 (Net Leaders Terms US\$M)

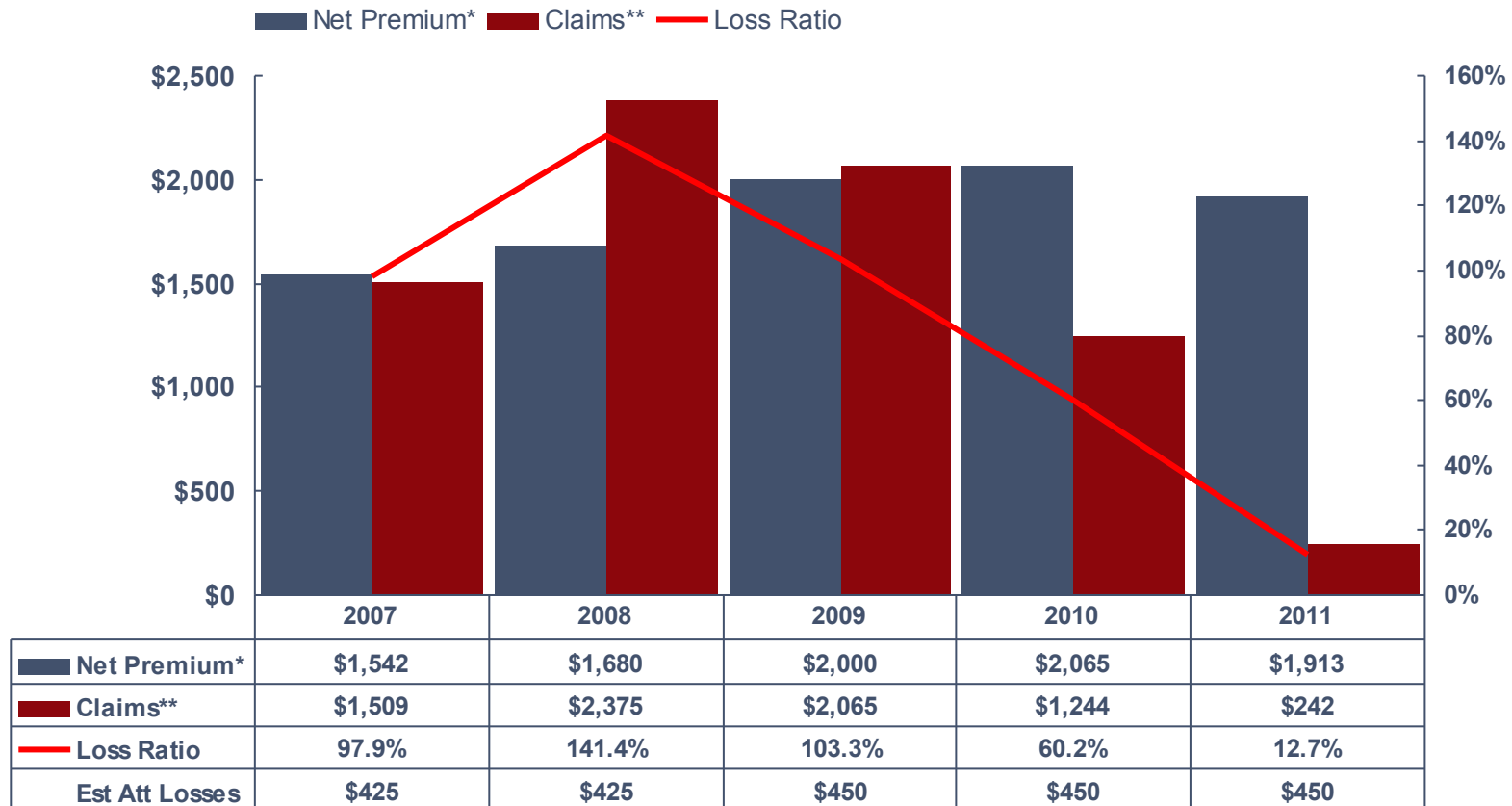


* Premium includes all known airlines with an AFV in excess of US\$100m and is based on Net London Lead Terms; it is subject to change as more information becomes available.

** Claims shown include the estimated figure for attritional losses. Claims are updated as more information becomes available.

World Wide Airline Hull & Liability Premium and Claims on a Risks Attaching/Underwriting Year Basis

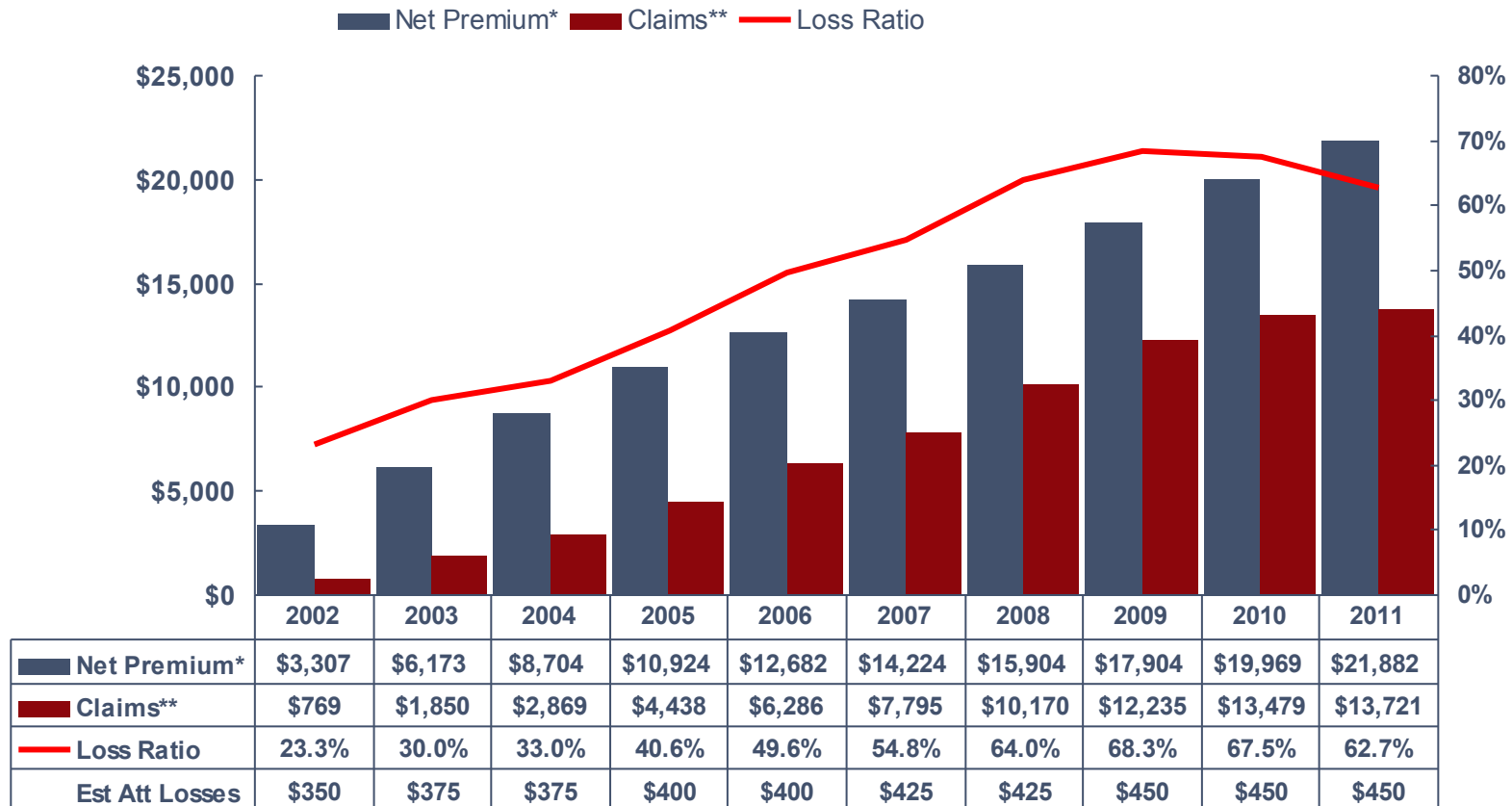
2007 – 2011 (Net Leaders Terms US\$M)



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World Wide Airline Cumulative Hull & Liability Premium and Claims on a Risks Attaching/Underwriting Year Basis 2002 - 2011 (Net Leaders Terms US\$M)



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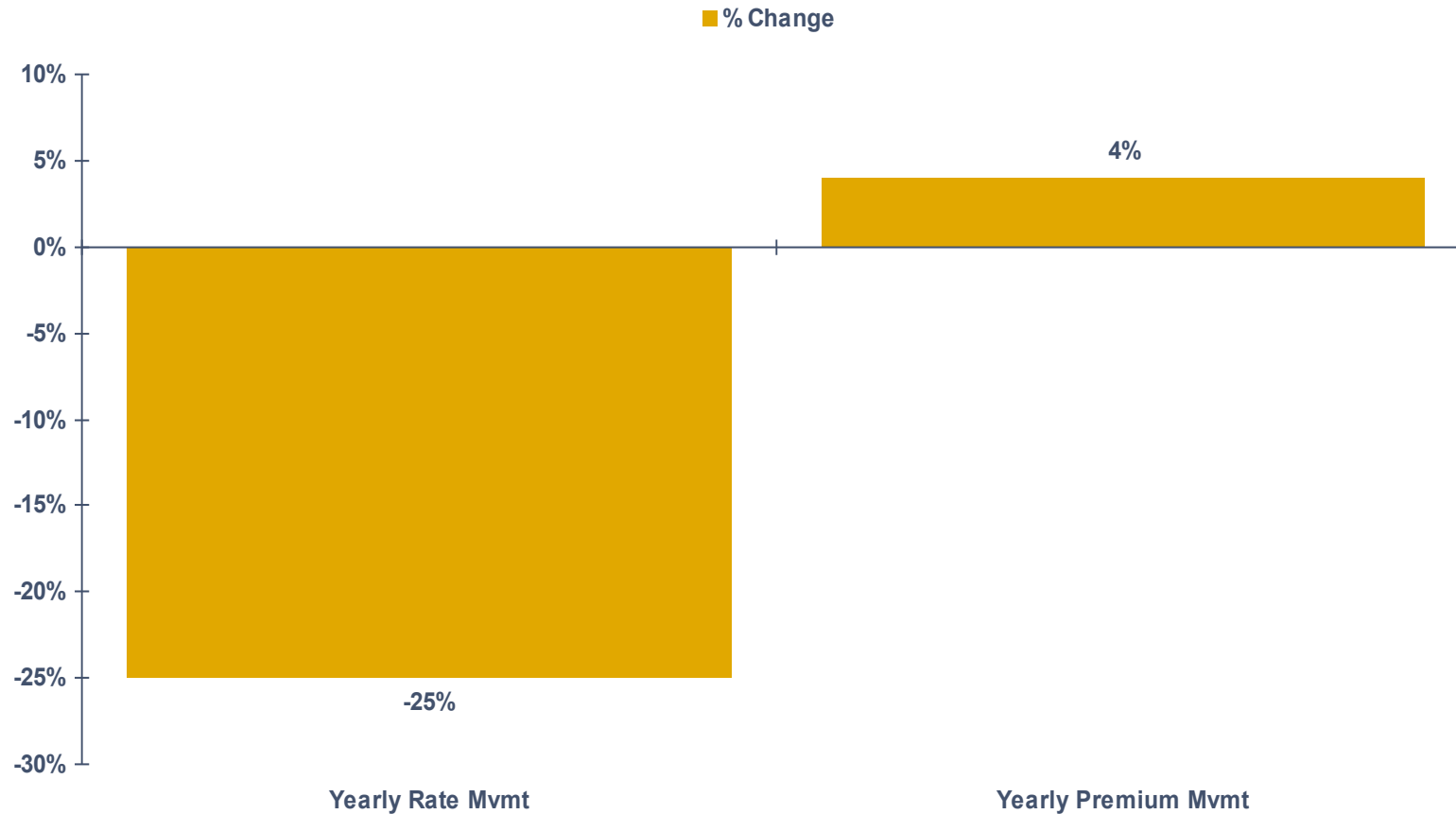
Hull War

General Trends

- § There have been no significant losses since 2001
- § Excess capacity exists with levels currently approximately 175%
- § Rate reductions continue in the absence of losses
- § Premium being maintained due to growth with the annual net lead premium estimated to be US\$115 million
- § With premiums not even catering for the total loss of a single high valued wide bodied aircraft, Insurers believed that premium levels could not be allowed to fall further
- § The Hull War market continues to be extremely loss sensitive. Any significant War or Terrorist related loss would result in an immediate reaction in terms of pricing

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Hull War - Market Average Rate Movements*



* To date

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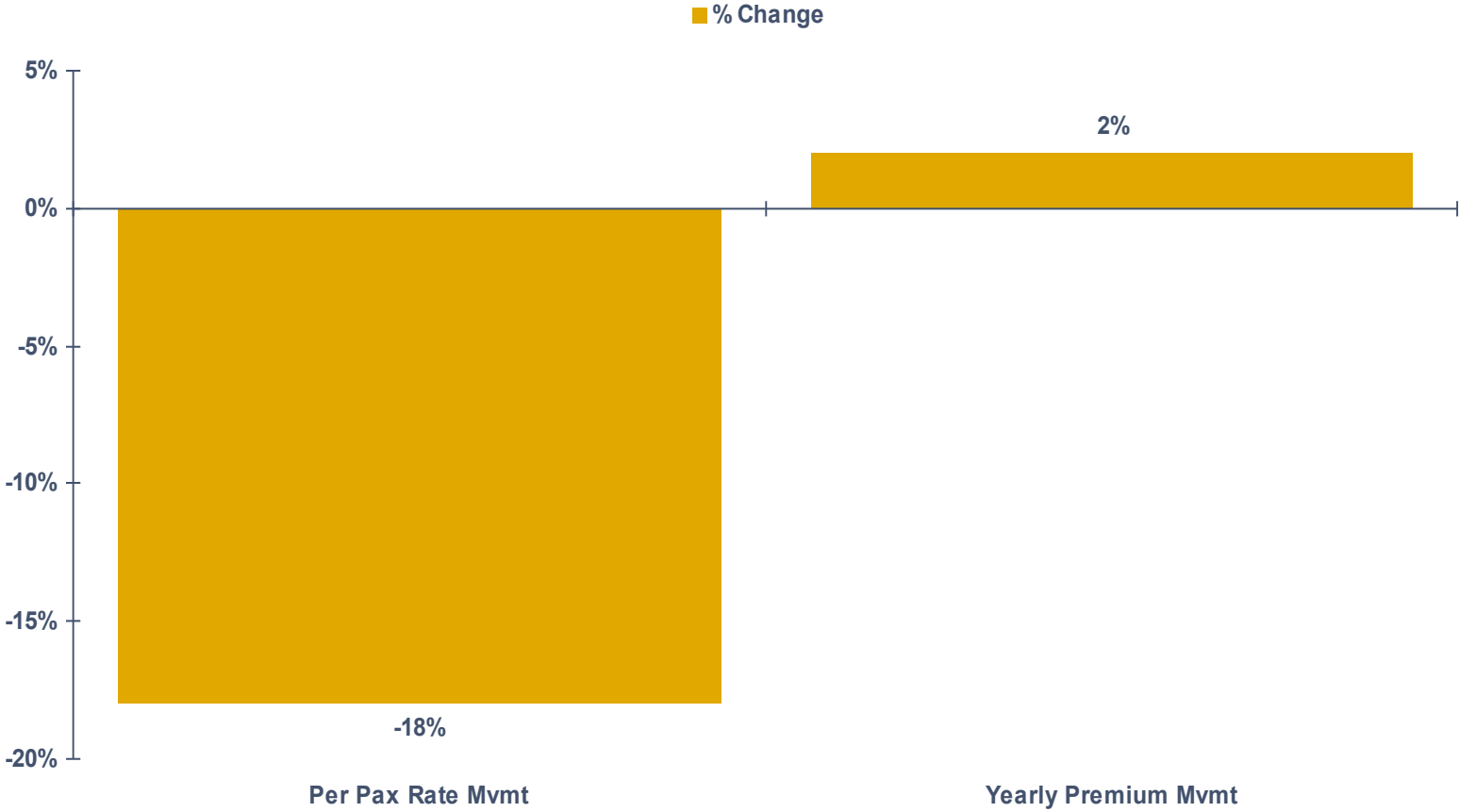
Excess War & Terrorism Liability (XS AVN52E)

General Trends

- § Typically airlines continued to purchase the 1st US\$150 million of cover under their main Liability programmes
 - A number of airlines purchased limits lower than (\$50m) or in excess of (\$250m) this, albeit for a proportion of the order
- § Although Insurers attempted to maintain premium levels, reductions were still achieved
 - Premium levels down approximately 6%
 - Passenger rating levels down in excess of 20%
- § This sector continued to attract capacity with levels estimated to be in excess of 300%
- § Annual premium generated is approximately US\$175 million. There have not been any losses to date in this sector
 - High profile media coverage makes this a highly visible risk area
- § The cumulative profit from this sector of the market over nearly ten years is over US\$4 billion gross.

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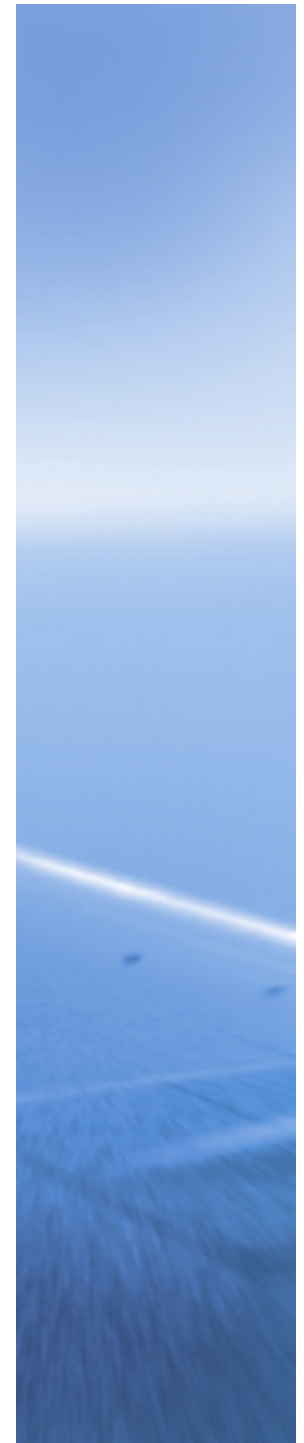
XS52 Premium Movement: Market Average*



*** To date**

Based on Willis clients information only, and where two years information is available.

2011



Hull and Liability

2011 Market Environment

- § While Capacity levels remained high, there was a significant difference between the theoretical capacity available for any given risk and the actual level of competitive capacity deployed
- § Underwriters continued to use a risk selective approach to renewals. Airlines requiring significant coverage limits had less capacity available to them
- § Underwriters were willing to absorb much of the industry growth being displayed by renewing airlines, with rate reductions being counter-balanced by premium levels remaining as before
- § Renewals with poor loss ratios continued to be charged increased rates and premiums
- § Leaders on certain highly competitive risks remained more competitive than following markets who were adopting a more independent approach to pricing. As such, some Airline placements had a significant proportion of the risk placed above leaders terms

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Hull and Liability

2011 Market Environment

- § Buyers aspirations needed to be tempered by the fact that in the prior four years the Airline market as a whole has made a loss. As a result the market environment was characterised by Underwriters as being 'delicate', 'sensitive' and subject to change
- § The premium income for 2011 as a whole is estimated at US\$1,913m at leaders terms
- § 2011 losses were at the lowest amount since 2004. This factor, combined with over-capacity meant that average market premiums were unable to rise outside of a narrow trading range
 - 2011 loss reserves currently stand at US\$1,125m
- § The 2011 year was a good year for Underwriters, with a profit of approximately US\$800m.

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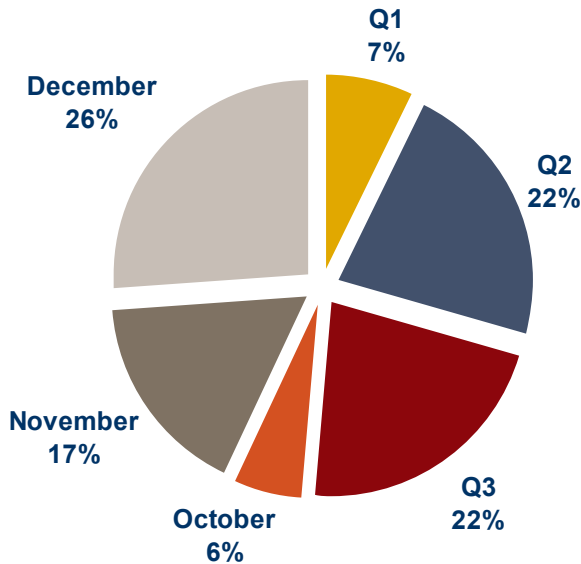
Hull & Liability

2011 Net % Premium & Exposure Movements

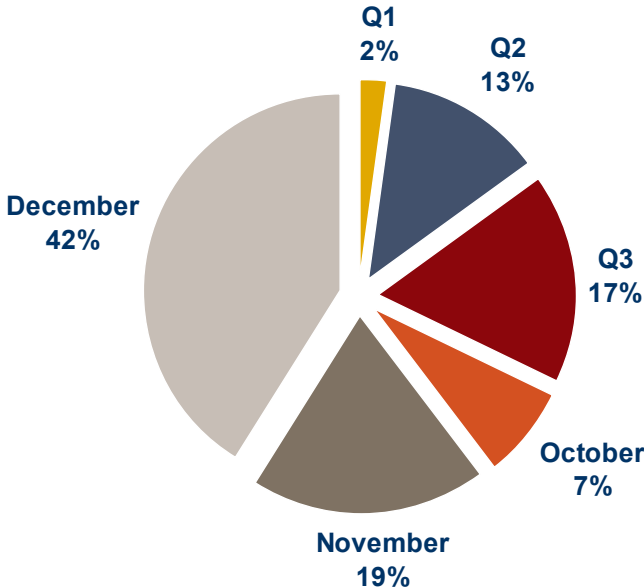
	No. of Renewals	AFV % Change	PAX % Change	2010 Net Premium US\$ m	2011 Net Premium US\$ m	US\$ m Premium Change	Premium % Change
January	6	-59%	-49%	\$ 16.08	\$ 17.53	\$ 1.45	9.0%
February	3	41%	9%	\$ 3.98	\$ 5.19	\$ 1.21	30.4%
March	10	9%	2%	\$ 20.10	\$ 22.03	\$ 1.93	9.6%
Q1	19	-28%	-22%	\$ 40.16	\$ 44.75	\$ 4.59	11.4%
April	19	12%	14%	\$ 128.93	\$ 125.27	\$ -3.66	-2.8%
May	18	10%	11%	\$ 73.22	\$ 73.56	\$ 0.34	0.5%
June	22	3%	7%	\$ 41.35	\$ 44.77	\$ 3.42	8.3%
Q2	59	10%	13%	\$ 243.49	\$ 243.60	\$ 0.11	0.0%
July	36	7%	11%	\$ 253.53	\$ 246.98	\$ -6.55	-2.6%
August	11	10%	25%	\$ 41.85	\$ 46.06	\$ 4.21	10.1%
September	11	39%	41%	\$ 32.69	\$ 33.97	\$ 1.28	3.9%
Q3	58	8%	15%	\$ 328.07	\$ 327.01	\$ -1.06	-0.3%
October	15	2%	21%	\$ 150.64	\$ 143.18	\$ -7.45	-4.9%
November	45	9%	9%	\$ 364.55	\$ 365.88	\$ 1.32	0.4%
December	69	4%	4%	\$ 834.06	\$ 788.65	\$ -45.41	-5.4%
Q4	129	5%	6%	\$ 1,349.25	\$ 1,297.71	\$ -51.53	-3.8%
2011 Total	265	6%	8%	\$ 1,960.97	\$ 1,913.07	\$ -47.89	-2.4%

2011 Renewal & Premium Distribution % Shares

Renewal Distribution % Share

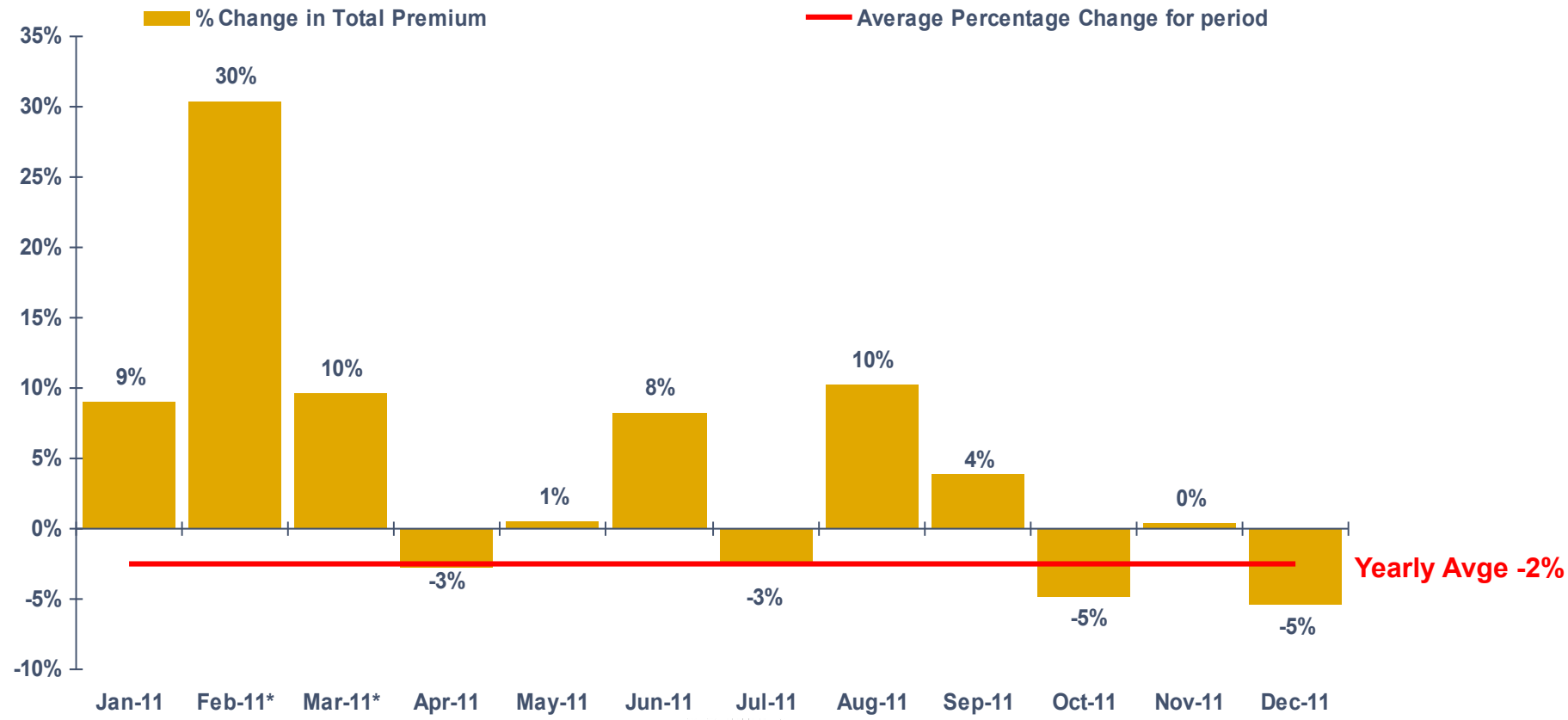


Premium Distribution % Share



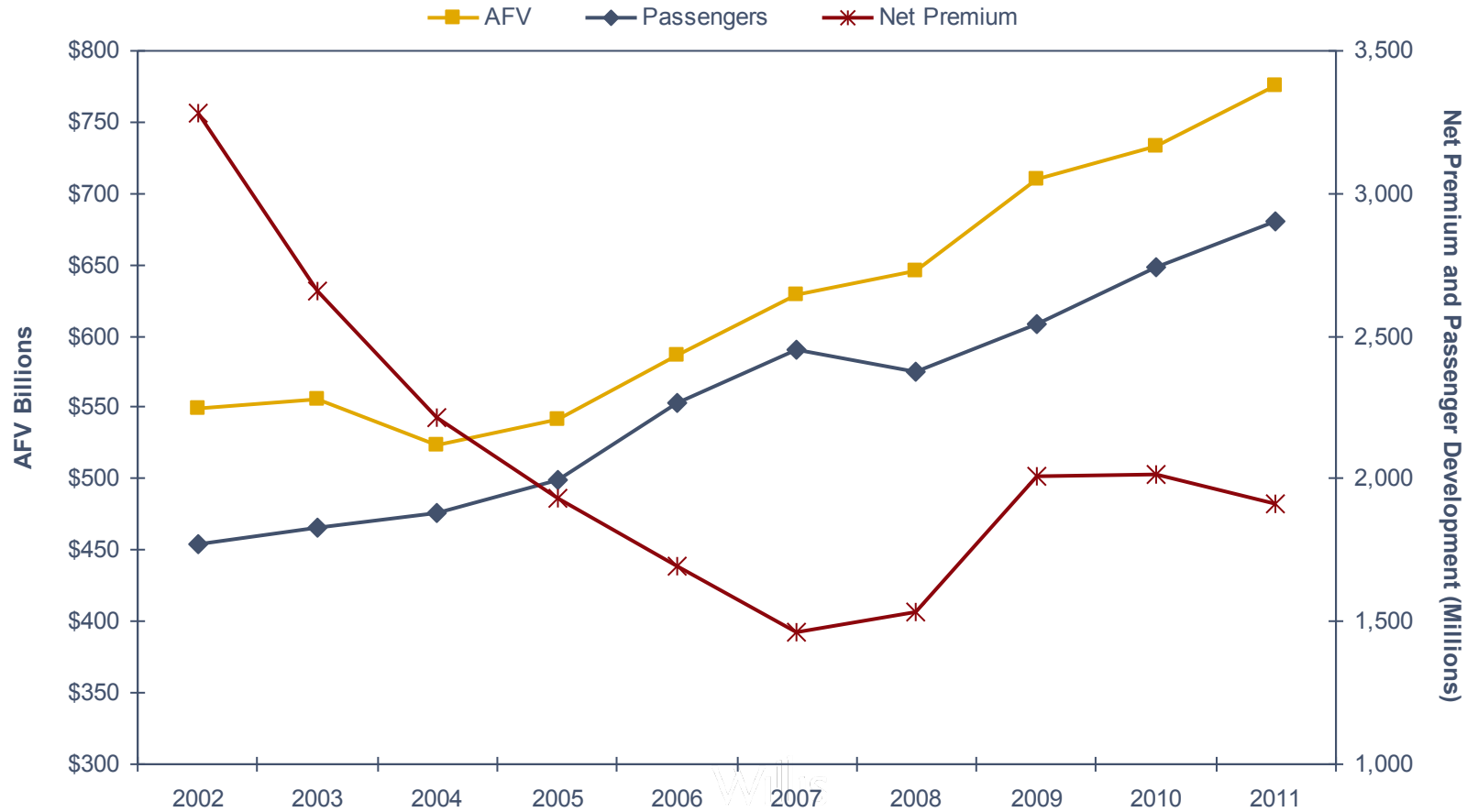
The last six weeks and a small number of programmes ultimately determine the outcome of the year

2011 Net % Premium Movements

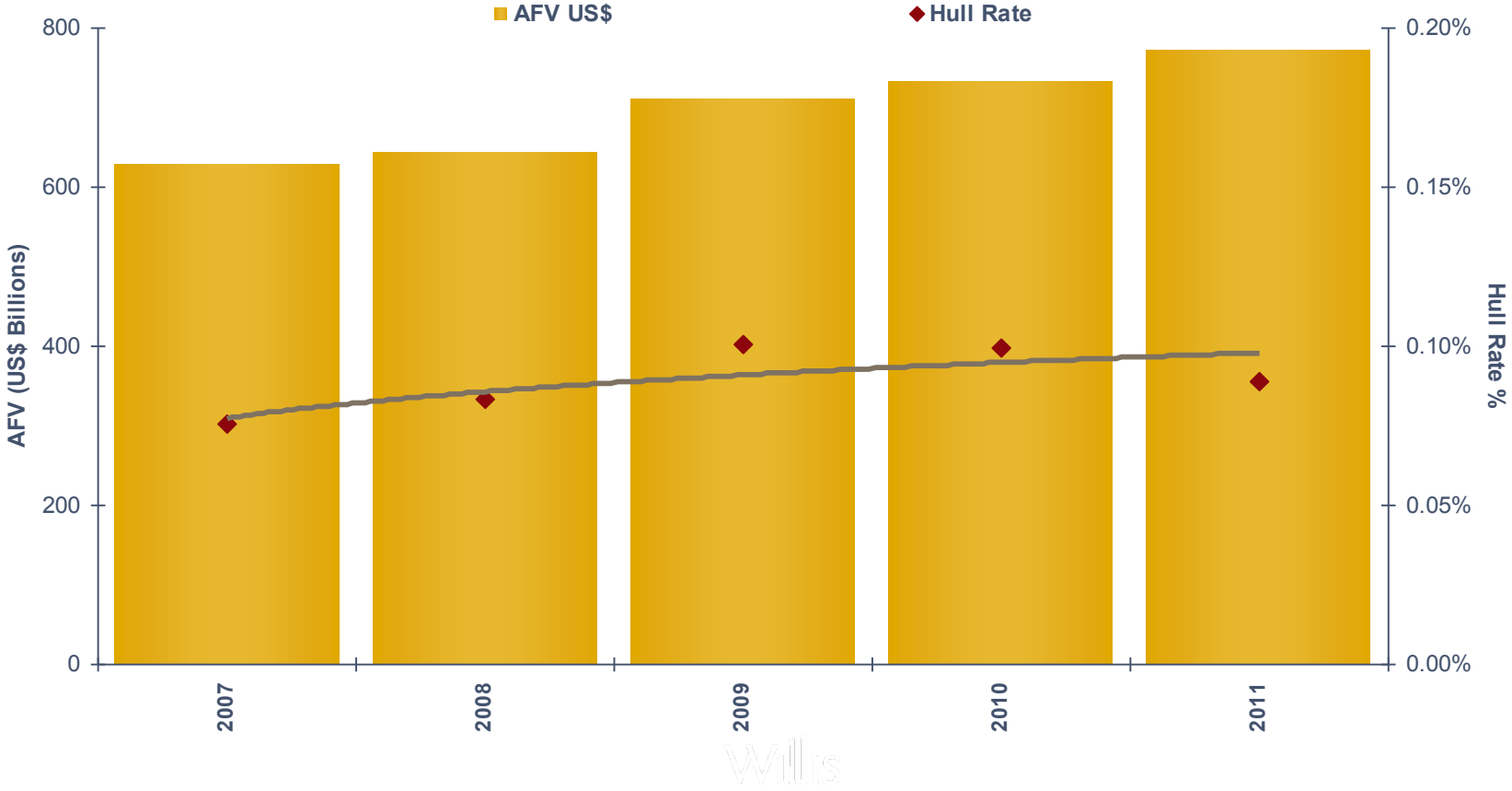


***Significant exposure growth in February and March distorted the overall premium increases.**

10 yr Exposure and Premium Development



2007-2011 Hull Rate Comparison



2007-2011 Liability Charge per Passenger Comparison



2007-2011 Liability Charge per Departure Comparison



Hull & Liability 2011 Major Airline Losses (In excess of US\$10m)

Date of Loss	Operator	Aircraft Type	Location of Loss	Passenger Fatalities
January 10	Air Asia	A320	Kutching Airport, Malaysia	Nil
February 11	MANX 2	Fairchild (Swearingen) Metro III	Cork Airport, Cork, Ireland	6
February 16	Saudi Arabian Airlines	B747	Mohammad Bin Abdulaziz Airport, Madinah, Saudi Arabia	Nil
March 11	Ibex Airlines (Japan Tsunami)	Spares	Sendai Airport, Japan	Nil
April 4	Air Zena Georgian Airlines	CRJ 100ER	N'Djili International Airport, Kinshasa, Congo	28
April 14	China Cargo Airlines	B777	Kastrup Airport, Copenhagen, Denmark	Nil
May 7	Merpati Nusantara	MA-60	Kaimana Airport, Indonesia	27
May 16	Cathay Pacific	A330	In flight, returned to Changi Airport	Nil
July 28	Asiana Airlines	B747-400F	Just off Jeju Island, South Korea	Nil
July 28	SpiceJet	B737	New Delhi International Airport, India	Nil
July 29	EgyptAir	B777	Cairo Airport, Egypt	Nil
July 30	Caribbean Airlines	B737-800	Georgetown Airport, Guyana	Nil
August 29	Gulf Air	A320	Kochi International Airport, India	Nil
September 16	TAME	EMB-190	Mariscal Sucre International Airport, Ecuador	Nil
November 1	LOT	B767-300	Warsaw Okecie Int'l Airport, Poland	Nil

Hull & Liability 2011

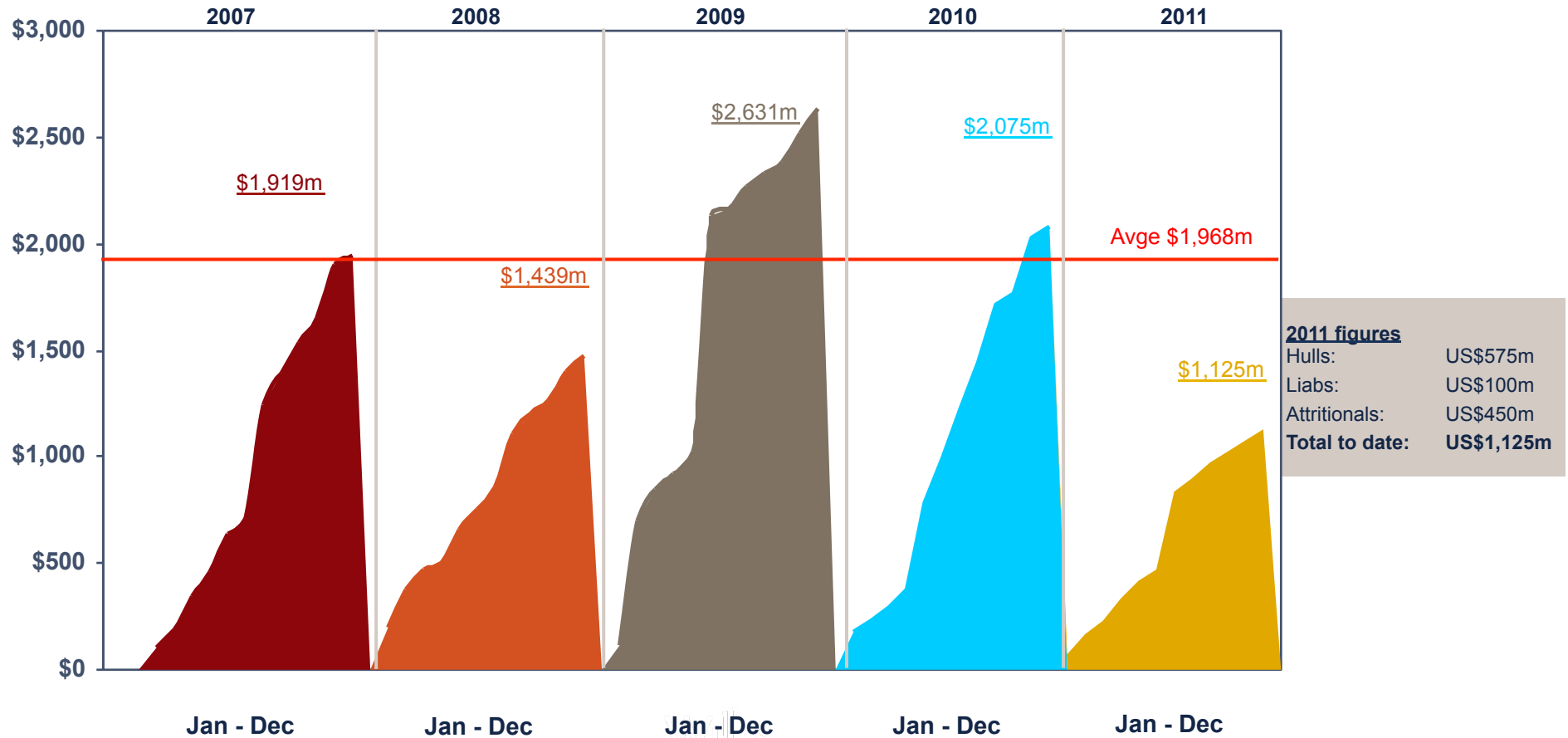
Major Hull & Spares Losses

(In Excess Of US\$10m)



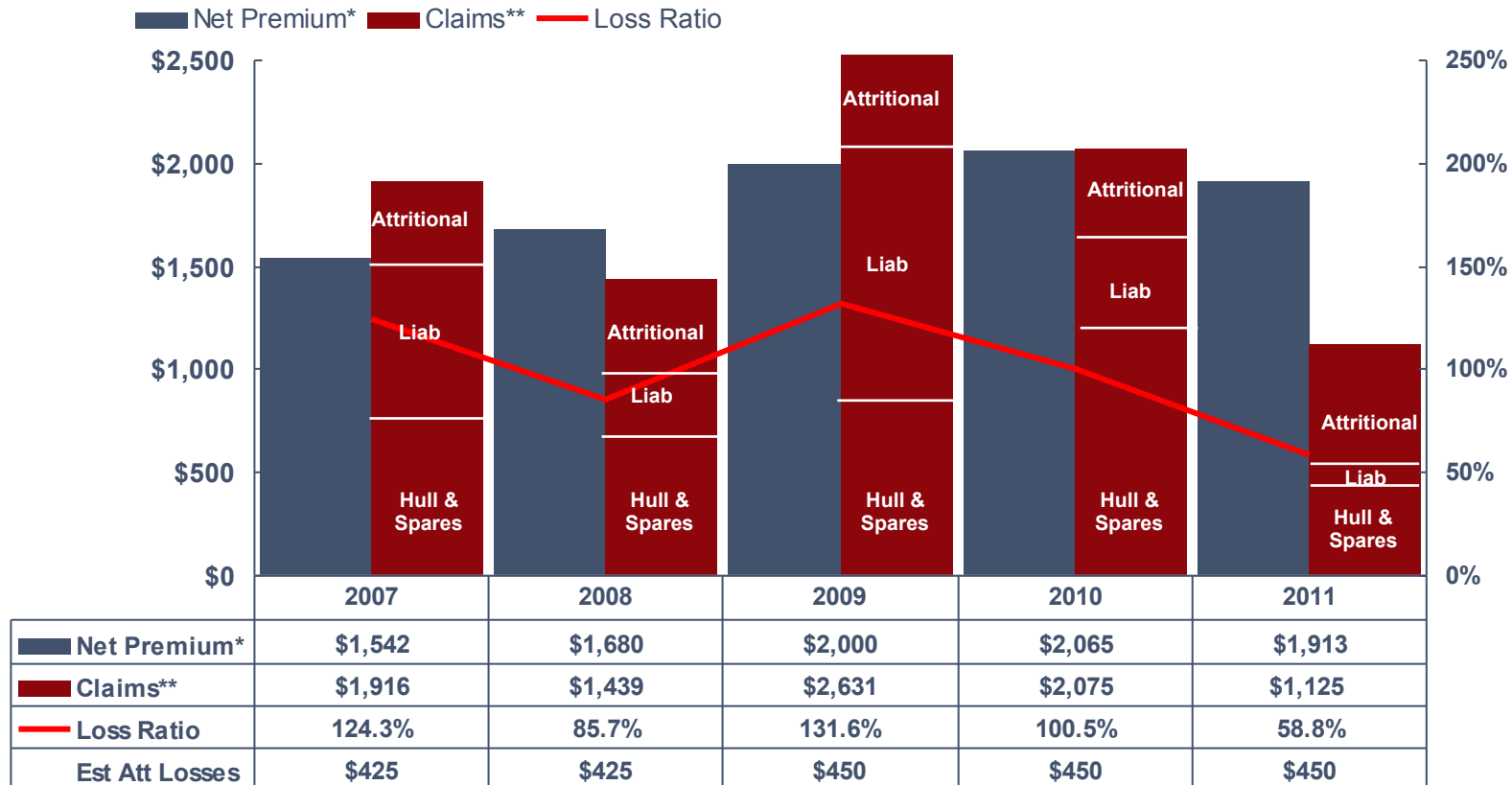
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Cumulative Monthly Incurred Reserve Development (US\$m)



World Wide Airline Hull & Liability Premium and Claims on a Calendar Year Basis

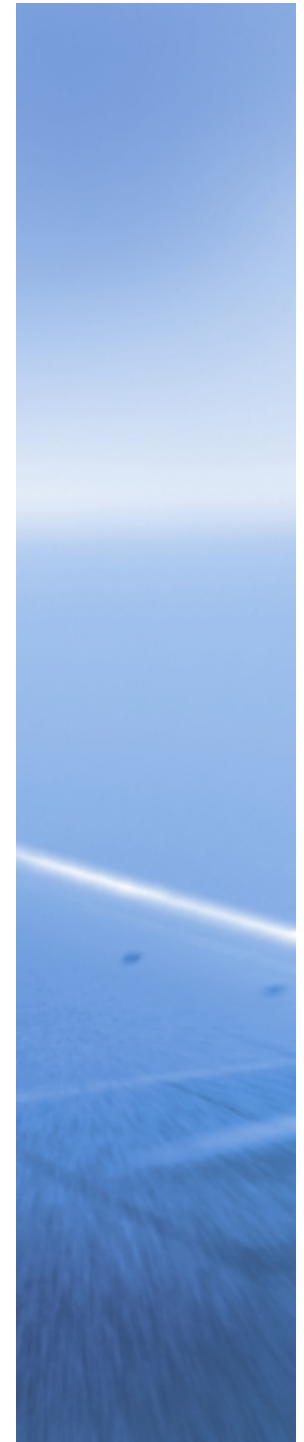
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CAPACITY



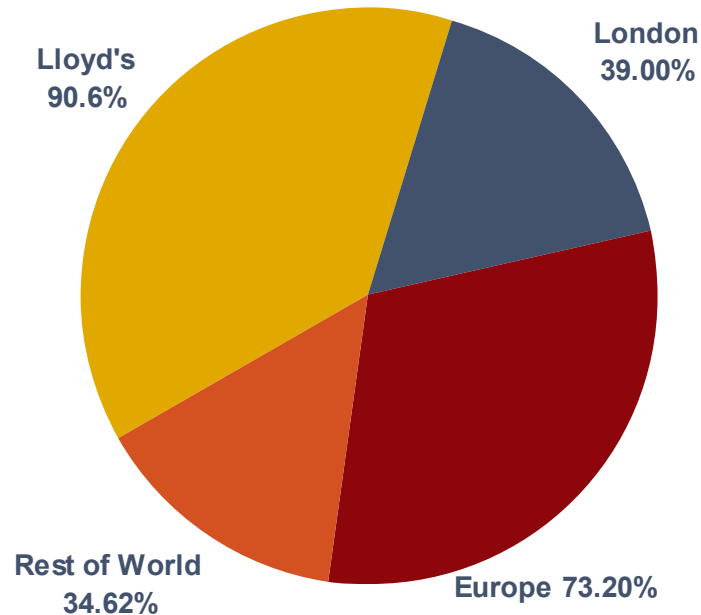
Hull & Liability 2012 Theoretical Capacity*

Non-US Airlines With A CSL Of US\$1.5bn & A Max Agreed Value Of US\$250m

	S&P	Capacity
ACE Global Markets	A+	10.00%
Catlin	A+	10.00%
Mitsui	A+	10.00%
Amlin	A+	7.50%
Starr Aviation	A+	7.50%
QBE	A	7.50%
XL	A+	6.50%
Faraday	A+	5.00%
Hiscox	A+	5.00%
Talbot	A+	5.00%
Chaucer	A+	4.00%
Pritchard	A+	3.50%
Atrium Consortium	A+	2.60%
Travelers	A+	2.50%
Antares	A+	2.00%
Kiln	A+	2.00%
TOTAL		90.60%

	S&P	Capacity
AXIS	A+	7.50%
GIC	A- (Best)	5.00%
Ironshore	A	5.00%
Samsung	A+	3.00%
Korean Re	A-	2.00%
New India	A- (Best)	2.00%
Oman	A (Best)	2.00%
Argo	A (Best)	1.67%
Misr	NR	1.50%
PICC	A1- (Moody's)	1.50%
Tokio Marine	AA-	1.50%
Ping An	A	1.00%
Abu Dhabi	A-	0.80%
Nissay Dowa	NR	0.15%
TOTAL		34.62%

Total Capacity* 237.42%



*indicates capacity available not necessarily deployed in all cases

	S&P	Capacity
Chartis	A	12.50%
Allianz	AA-	10.00%
GAUM	Agency	10.00%
Aspen	A	3.50%
Liberty Mutual	A-	2.00%
Generali	A	1.00%
TOTAL		39.00%

	S&P	Capacity
LRA	Agency	13.00%
Swiss Re	AA-	12.50%
Munich Re	AA-	10.00%
Inter Hannover	AA-	8.50%
AXA	AA-	8.00%
Torus	A- (Best)	5.00%
Alterra	A	3.50%
Partner Re	A+	3.50%
SCOR	A	3.00%
Sirius	A-	2.50%
Aviabel	A-	1.85%
HDI Gerling	A+	1.50%
Delvag	A- (Best)	0.35%
TOTAL		73.20%

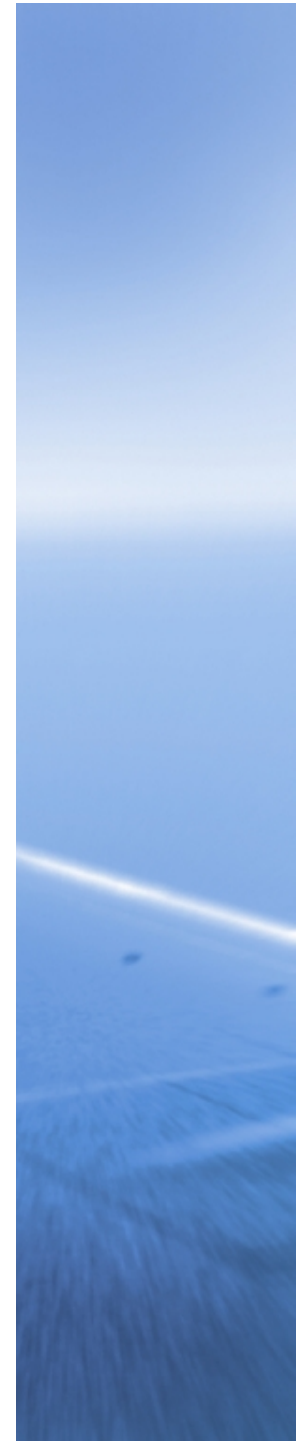
Asia Capital Re are currently writing up to 7% but only for Asian & selected Middle Eastern airlines, and ICICI only write up to 2% on Indian business so have not been included in these figures.

Capacity

- § Theoretical capacity levels remained high for the year, albeit increasingly selectively utilised
- § No significant departures in 2011, meaning that pricing levels remained under pressure, absent of significant loss(es)
- § New entrants such as Argo and HDI-Gerling ensured that pricing levels remain under pressure
- § Utilisation of non traditional markets pushed pricing to the lowest end of the scale
- § Underwriters were increasingly confident in their ability to “hold firm”
- § The amount of capacity providers resulted in market wide results not being indicative of individual insurer results
- § Many Insurers continued to look for a balanced portfolio of Airline, Aerospace and Corporate Aviation risks to mitigate the Airline loss position

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**HULL WAR & EXCESS THIRD
PARTY WAR & TERRORISM
LIABILITY
(XS AVN52E)**



Hull War & Excess War & Terrorism Liability (XS AVN52E)

2011 Market Environment

- § Events in the Middle East region had a significant effect for those Airlines with exposure in the regions affected
- § Underwriters required Additional Premiums for flights into/out of certain countries in the region
- § Outside of this specific region, rating levels for both classes remained under pressure as a result of minimal losses (zero for XS AVN52E), and market over-capacity
- § Within the XS AVN52E market, the cartridge bomb incidents in late October 2010 resulted in Allianz largely withdrawing from this class as a market leader
- § Both classes of risk remained extremely loss sensitive. Any significant war or terrorist related loss would have result in an immediate reaction in terms of market pricing
- § Primary XS AVN52E limits remained typically at US\$150 million, but increasingly buyers were deploying a multi-layered market approach to secure optimum pricing

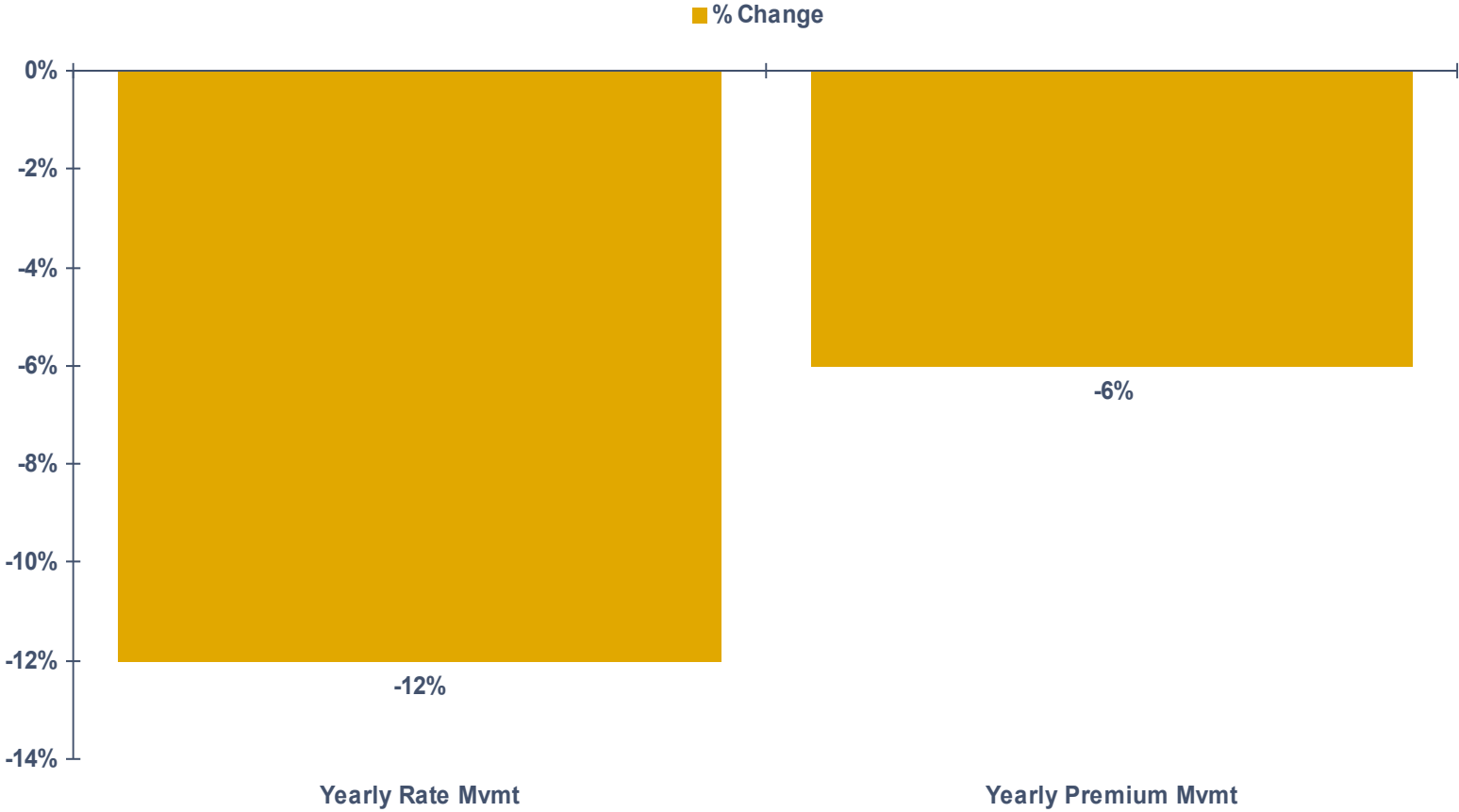
Hull War

General Trends

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- § Excess capacity exists with levels currently approximately 175%
- § Rate reductions continued to accelerate as the year progressed in the continued absence of losses
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Hull War Rate Market Average Movements



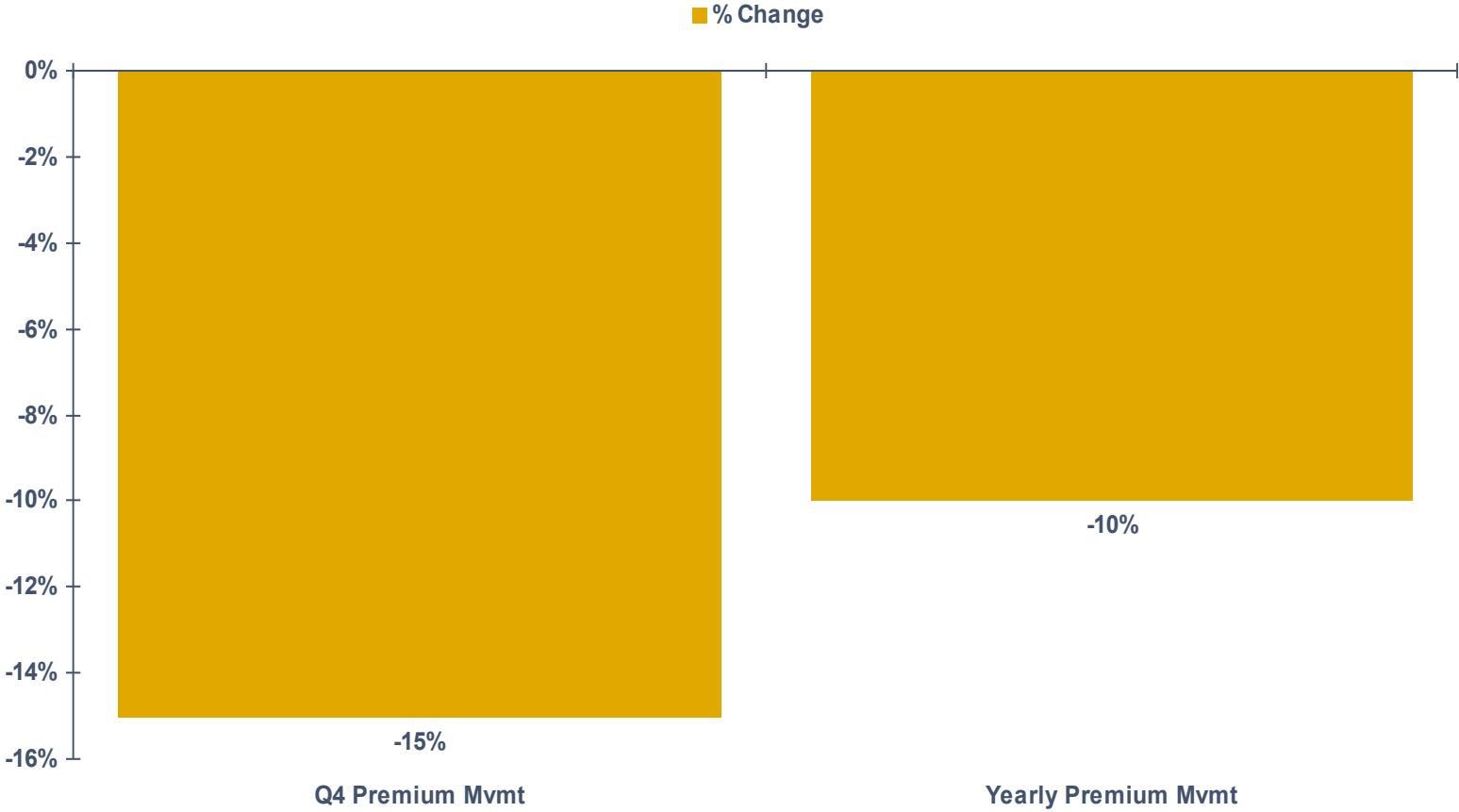
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- § This sector continued to attract capacity with levels estimated to be in excess of 300%
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- § The cumulative profit from this sector of the market over nearly ten years is over US\$4 billion gross.

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XS52 Premium Movement: Market Average



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Selection Criteria used

Unless indicated all percentage change figures are based on NET rates & premium.

Premium percentage change derived from Airlines renewing with Average Fleet Values of US\$100 million and greater. Comparisons made from annual renewal figures year-on-year.

Lead premiums used and NOT composite 'market premiums'.

Liability rate is calculated as premium per passenger carried.

It should be noted that due to the relatively small sample of renewals in some months, that the comparisons with previous years can be distorted by the renewal of a small number of major risks and should be treated with caution.

Willis Limited

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