

Plane Talking

JLT AEROSPACE

AUGUST 2010

Executive Summary

Confidence Creeping Back

- Business travel appears to be driving an upswing in passenger traffic
- Orders have been relatively quiet but manufacturers are talking confidently about increasing production
- August has seen an unfortunate number of losses with fatalities, the full impact of which is yet to be evaluated
- An increase in exposures for the few airlines renewing their insurance in August has allowed them to achieve rating reductions
- Airline insurance capacity remains strong although there is some evidence that line sizes are being trimmed by loss-affected markets

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Lead Lines

Antoine Lamy, Head of Aviation, Asia Capital Reinsurance Group

“Over time the aviation insurance market has shown resilience in adapting to the substantial challenges faced by the Airline industry. Bearing in mind the significant values at risk in terms of hull values and liability limits, aviation insurance coverage continues to provide a vital risk transferring mechanism for airline balance sheets.

Recent market forces have produced some stresses for our industry.

The impact on underwriting results in the aftermath of the WTC event resulted in substantial price increases - certainly welcomed by the insurers. However there was a sense that the market merely participated on payback prices and at times became a “capacity supplier” without a continued focus on the application of

core underwriting disciplines.

From the buyer’s perspective, aviation insurance is at times viewed as a commodity product despite the complex coverage issues. An increased focus on “cost” in the wake of the “Global Financial Crisis” has tended to shift the emphasis away from producing sustainable long term value to the insured customer base and the proven ability of the market to write covers tailored to specific and often unique needs.

The onus will partly be on the insurance market to once again demonstrate underwriting discipline, holding to basic risk assessment principles on the one hand while showing flexibility, product innovation and long term commitment to customers on the other.

(Continued on page 3)



Airline News

Comment

If IATA and the two major airframe manufacturers' beliefs are to be taken seriously then airline passenger traffic is expected to outperform the rest of the world's anticipated economic growth. IATA report that the number of premium passengers in the international travel market was up over 16% in June compared to the same period a year ago, while economy passenger numbers were up 9.5%. The driving factor according to IATA was an upswing in business travel.

Both Airbus and Boeing are underlying their confidence that this recovery is back to stay by proposing a hike in production of their narrow bodied aircraft.

Airbus announced that A320 family output will be increased in phases from the current 34 per month (already an industry record for jet airliner production) to 40 within 18 months. The increased demand for the twin-jet aircraft combined with a backlog of more than 2,200 units, has prompted the production decision. Boeing is also upping the 737s output and will go from 31 to 35 units per month by 2012.

However, analysts warn of the fallibility of over-production leading to possible over capacity, but temper the argument with the two manufacturers possible desire to kill off the threat from new narrow-body entrants such as the Bombardier C series (100-149 seats), the Chinese Comac C919 (168-190 seats) and a possible contender from Russia, and to do so before this unwelcome competition can be established.

Start-Ups

- Eagles Airlines, Venice, commenced domestic operations this month using Fokker 100 aircraft. The airline has been created as a successor to ex-local carrier AlpiEagles which ceased operations in December 2007. The airlines network will link Venice with mainland cities, including Crotona, Lamezia Terme and Reggio Calabria, as well as the Sardinian cities of Alghero, Cagliari, Olbia and Catania in Sicily.
- Hansung Airlines, Korea, plans to commence operations shortly between Gimpo Airport and Jeju Island using Boeing 737-800 aircraft. The South Korean low-cost carrier initially started services back in 2005, but due to financial difficulties was forced to cease operations three years later in 2008. Since then the airline has secured new investment and has been recruiting. It has moved its head office from Cheongju to Seoul and with its turnaround plan in the final stage, the airline is gearing up to start operations again.
- LAMIA (Línea Aérea Merideña Internacional de Aviación), Venezuela, commenced operations on 16 August 2010 from Mérida Airport using an ATR72-500 aircraft. LAMIA plans to have six ATR72 aircraft in service by the end of the year. From September 2010, LAMIA plans to launch a domestic route between Mérida and the capital, Caracas. Thereafter, the airline also plans to operate from a second base within Mérida state, at El Vigía, and to serve a domestic network of around ten destinations. Aruba, Bogota, Curacao, Manaus, Medellin and Miami are expected to be among the first International destinations served by LAMIA.
- Mekong Air, Vietnam, aims to begin flights on 10 October 2010. The carrier will operate a fleet of four Bombardier CRJ-900 aircraft offering flights between Hanoi and Ho Chi Minh City.

- Tibet Airlines, China, is preparing to launch operations mid-2011. The carrier plans initially to operate from Lhasa Gonggar airport to key cities in China, but has future plans to add international routes. The airline has agreed to take three A319 type aircraft from Airbus to commence initial operations.

Closures

- The Malaga based regional carrier Andalus Lineas Aereas had its AOC withdrawn by the Spanish authorities in late July shortly after the airline had grounded its only aircraft, an Embraer ERJ-145.
- Russian charter airline and specialist operator Vyborg had its operating certificate suspended by the country's federal authorities in early August. Based in St Petersburg, it operated a fleet of two IL-114 turboprop aircraft.
- The Ghanaian cargo carrier Meridian Airlines was grounded on July 27th 2010 following safety inspections which revealed serious technical deficiencies in their fleet of five Douglas DC-8 freighter aircraft.
- Saudi Arabian budget carrier Sama suspended operations on 25th August 2010 citing the restrictive operating regime under which it has racked up heavy losses. The airline operated a fleet of six leased Boeing 737-300 aircraft.

Orders

Following a busy July, August has been relatively quiet with announcements made by only Airbus and Bombardier.

Airbus finalised the order recently announced at Farnborough by Thai Airways for seven more A330-300 aircraft. These aircraft will add to the 20 currently in the Thai Airways fleet.

Cathay Pacific signed a Letter of Intent for thirty A350-900 aircraft intended as the future backbone of its mid-size widebody fleet.

Bombardier announced another firm order of four Dash8 Q400 aircraft from Porter, Canada with a further 6 options.

Loss Analysis

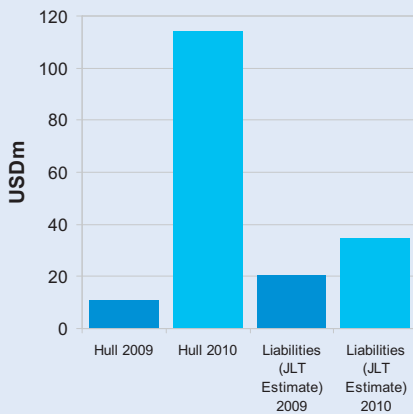
Losses Summary

July

- Hull and spares losses of USD 114.04m
- 152 airline fatalities
- Liability loss estimate USD 35m

July Losses

All Known Losses Net of deductible

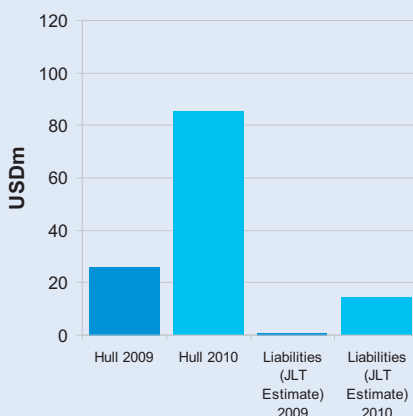


August

- Hull losses USD 85.30m
- 88 airline fatalities
- Liability loss estimate USD 14.45m

August Losses

All Known Losses Net of deductible



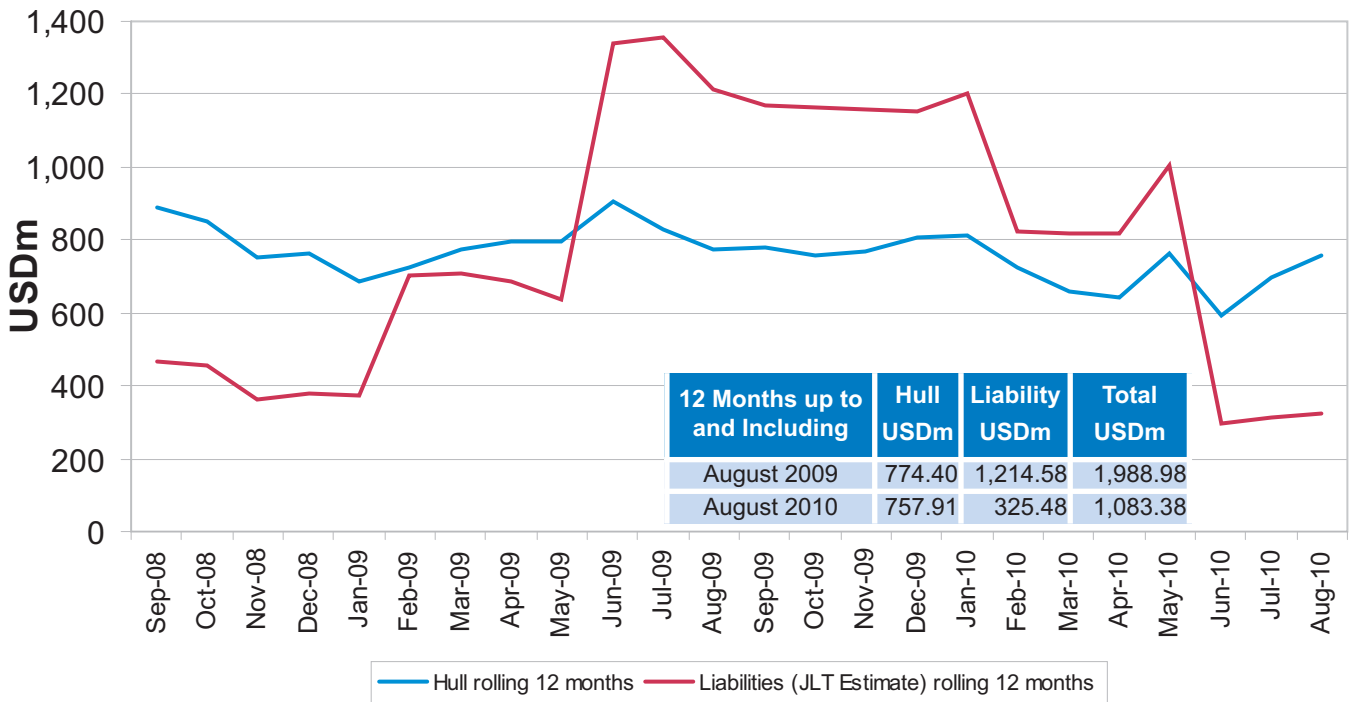
Known Losses in August

2nd	Pantanal Linhas Aereas	ATR42-320 (PT-MFT)	Brazil
At the end of a positioning flight to Marilia, the crew had trouble lowering the nose undercarriage and diverted to Barau where the aircraft was landed with undeployed nosegear.			
3rd	Katekavia	Antonov An-24RV (RA-46524)	Russia
The aircraft crashed on final approach to Igarka Airport at the culmination of a domestic scheduled passenger flight. 3 crew of the 15 people on board survived the crash.			
8th	DOT LT (Danu oro transportas)	ATR42-300 (LY-DOT)	Finland
Whilst parked at Pori, a severe storm caused the aircraft to be blown around, resulting in the collapse of a main undercarriage leg.			
12th	Azerbaijan Airlines	Airbus A319-111 (4K-AZ04)	Turkey
Whilst landing at Istanbul's Ataturk airport on an international scheduled passenger flight, the aircraft overran the runway causing the nose undercarriage to collapse.			
12th	Oceanair Taxi Aereo	Learjet 55C (PT-LXO)	Brazil
The aircraft overran the runway on landing at Rio de Janeiro's Santos Dumont airport becoming partly submerged in the adjacent bay. No fatalities occurred.			
16th	Aires	Boeing 737-700 (HK-4682)	Colombia
Landing in a severe storm at San Andres island on a flight from Bogota, the aircraft is reported to have touched down heavily some 80 metres short of the runway threshold and subsequently broke into three. One fatality occurred as a result of injuries received and another passenger is critical.			
24th	Agni Air	Dornier 228 (9N-AHE)	Nepal
The aircraft was flying in adverse weather conditions en route from Kathmandu to Lukla when it is thought to have experienced technical difficulties and decided to divert. Contact was lost with the aircraft and wreckage was found in Bastipur. All 11 passengers and 3 crew perished.			
24th	Henan Airlines	Embraer 190 (B-3130)	China
The aircraft overshot the runway at Yichun Airport whilst it was landing after a flight from Harbin. The twin-jet broke apart and caught fire as a result of the impact. Of the 96 people on board, 42 died in the crash.			
25th	Filair Airlines	LET L-410 (9Q-CCN)	Democratic Republic of Congo
Following a go-around to Bandundu Airport, the aircraft crashed into a house. Of the 21 people on board, 19 bodies were recovered, 2 passengers were rescued alive, however one later died as a result of injuries received.			
25th	Passaredo Airlines	Embraer 145 (PR-PSJ)	Brazil
The aircraft touched down short of the runway whilst it was landing after a flight from Sao Paulo Guarulhos. The entire landing gear was ripped off the aircraft, causing it to skid on its belly onto the runway and veer off before coming to a stop. The right hand engine caught fire and was extinguished by airport fire fighters. Two passengers received minor injuries and were taken to a hospital, the other occupants were uninjured.			

The JLT liability estimates are provided merely as a guide.

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to August, 2010

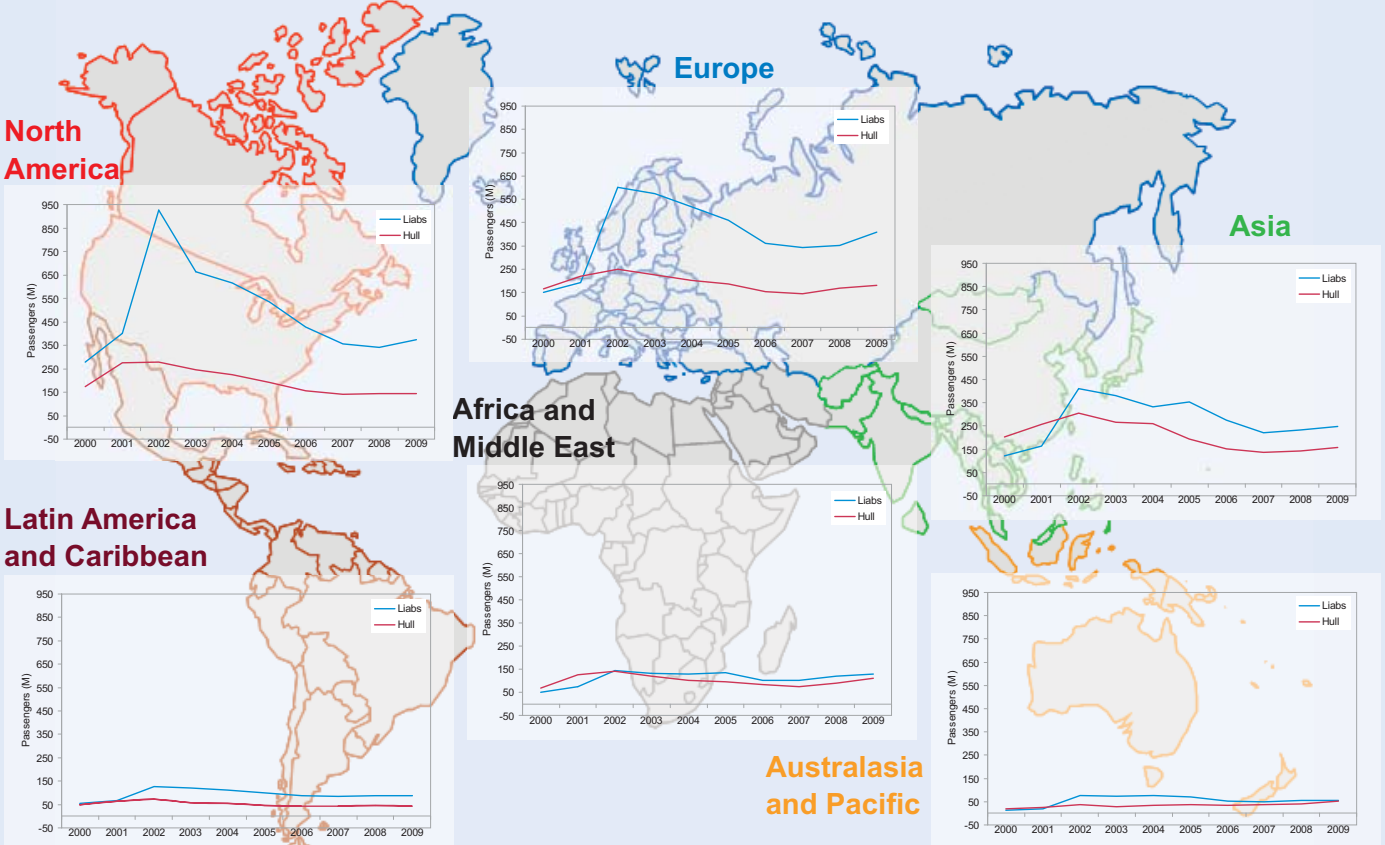


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Regional Chart

Premiums - Net Hull vs Net Liabs 10 years

By Domicile of Operator



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