PlaneTalking

JLT AEROSPACE MARCH 2010

Executive Summary

Spring Growth

- There are some welcome green shoots of recovery in developing markets
- Little change in offered capacity, with a potential abundance of 'latent' capacity waiting in the wings for fundamental market change
- Rating changes are mute and reflective of exposure changes only
- Level of losses follow prior average levels to date
- Reinsurers maintain their discipline but the hunger for premium persists

In This Issue

Lead Lines

Florian Karner, Head of Aviation EMEA & Asia-Pacific, Allianz Global Corporate and Specialty AG

"This column is sometimes used by fellow underwriters to state that rates are inadequate and that this situation needs to be remedied. Of course they're right, for all the reasons they state in their exhortation to the market.

The reality, we all know, is that we operate in a fiercely competitive environment, fuelled by plenty of capacity and a broking community that doesn't miss a beat to procure customers the most attractive price. This is also helped by a market transparency that is unique to our line of business. Ultimately we must welcome this competition, because ultimately the best and strongest are bound to prevail.

Each underwriting outfit will make their own decision on each account, thus determining their own destiny. But airline customers also have a choice to make: who do they pay their premiums to, trusting to obtain reimbursement in the event of a catastrophic loss, sometimes many years after the loss occurred? Who do they entrust with their claims handling, which can have ramifications on an airline's reputation as well as future premium paid?

These decisions ought to be considered carefully, and even in times in which budgets are extremely tight, the cheapest possible price may not be the best decision. Increased regulatory scrutiny on Financial Institutions and the tightened capital requirements coming with Solvency II will put further focus on the importance of differentiation.

Caveat emptor – Buyer beware!"

JLT

Comment

There now appears to be some positive indications that an element of improvement is manifesting itself in the airline sector. Although this could not be described as a universal recovery, IATA suggests that there is a divergent performance of airlines in various regions of the world.

Asia and Latin America are showing a more positive stance than say Europe and North America, with both airlines and airports reporting traffic increases. Sydney Airport recorded double digit rises in both domestic and international passenger numbers in February. Kuala Lumpur Airport boasted an increase in passenger traffic in January by 20% with cargo movements at Malaysia's main gateway rising 28%.

Indian domestic passenger traffic was up 14% in February with Singapore Airlines reporting a 10% rise in the same month. Another positive sign of Asia's health was the 2009 results from Cathay Pacific who produced a profit of over USD600 million.

Air cargo is widely viewed as an early indicator of trends in global trade with a third of world trade by value being moved by air. FedEx, the world's biggest air freight carrier, reported an 18% increase in package volumes on routes out of Asia in the three months to the end of February. Lufthansa, the world's number five freight carrier and Europe's biggest, reported that cargo volumes had risen by 9% year-on-year last month, continuing the trend of January when volumes rose by 19% against the same month in 2009. In response, both carriers said they would be adding aircraft to their fleets.

Perhaps in anticipation of this recovery, both Airbus and Boeing are planning production increases for their best selling narrow bodied aircraft. The Airbus A320 family rate running at 34 a month will rise to 36 a month at the end of the year. Boeing's intention is to re-take the top spot in output from Airbus next year and is set to mirror the Airbus move. Boeing suggests that the market is now coming back into a positive cycle, although wide-body production output will probably remain much as it is at present.

Airline News

Start-Ups

- Air Maleo, Indonesia, commenced cargo operations this month using two Fokker F27 freighters. The carrier based in West Papua, eastern Indonesia, will operate cargo charter flights from the province's capital Jayapura to small townships in the mountains.
- German Sky Airlines, Germany, is poised to launch operations from 1st April 2010. The airline will be based in Dusseldorf and will operate flights to Turkey, Egypt and the Canary Islands using a Boeing 737-800.
- MapJet, Vienna, is poised to launch operations using Executive Jets, and MD 83 type aircraft. The carrier will operate charter and scheduled flights out of Vienna.

Closures

- Denim Air the wet lease specialist of the Netherlands ceased trading on the 15th February and has been declared bankrupt.
- European Air Transport the Brussels based cargo carrier which has in recent years flown exclusively for DHL is to close at the end of March with its operations and fleet of A300's and B757's being transferred to other airlines.
- Transwede Airways the Gothenburg based wet - lease and charter specialist will not be renewing its AOC when it expires on the 31st March. The airline operated ACMI services into London City with Avro RJs.
- Air Slovakia of Bratislava which operated a charter and wet lease fleet of Boeing 737s and 757s, suspended operations on the 2nd March due to its financial situation.
- Johannesburg based Interlink Airlines which primarily flew scheduled domestic and charter services for a diverse range of private and government customers, suspended operations in February. The airline had been in financial difficulties for some time.
- Varsity Express which started operating a single Jetstream 31 between Oxford and Edinburgh on 1st March, suspended flights just a week later. There was some doubt regarding the credibility and financial status of the company.
- Scottish regional operator Highland Airways has ceased trading and the company has been placed in administration. It had been searching for new investors over the past couple of months following difficult trading conditions, due to the loss of several contracts and unusually poor winter weather.

  It operated routes in the Scottish Highlands and islands as well as in Wales with a fleet of nine BAe Jetstreams and a Britten-Norman Islander.

Orders

Amongst a small number of announcements this month, United Airlines formalization of its Airbus order is the biggest. United have confirmed orders for 25 A350-900XWB aircraft for delivery between 2016 and 2019. This adds to United's confirmation, last month, of an order for the Boeing 787.

Of relatively lesser importance, Hawaiian have increased their order for Airbus A330-200 aircraft by one and now have 7 A330-200 and 6 A350-800 on backlog.

A new, direct, customer for Boeing this month is Somon Air of Tajikistan who are buying two 737-900ERs to add to two current leased 737-800s. Somon will use the aircraft to broaden their network in the region - stretching as far as Germany.

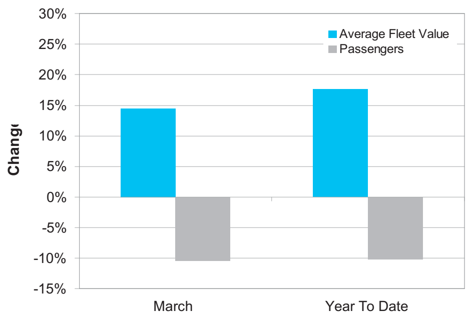
Renewal Analysis

Exposures

Significant AFV growth has been recorded by the two biggest airlines renewing in March yet the largest, Iran Air, has shown an equally large reduction in passenger numbers.

Year on Year % Exposure Change

March/Year to date. Based on latest Information at 26 March 2010



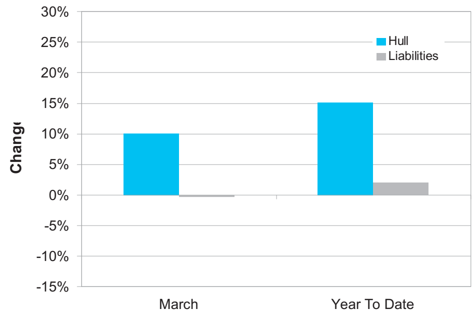
Source: JLT Database

Premiums*

The premium change seems significant yet, when taken in context with the exposure change, really only demonstrates a basically flat average renewal for those airlines renewing in March.

Year on Year % Premium Change

March/Year to date. Based on latest Information at 26 March 2010



Source: JLT Database

Year to Date (Like for Like)	Hull USD M	Liability USD M	Total USD M
2009	17	16	33
2010	19	16	36
% Change	15%	2%	9%

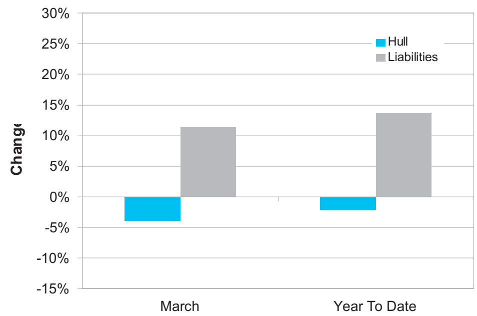
* Net of brokerage and at lead terms

Rates

The large swings in exposure discussed above have driven the rate change pattern seen here whereby the reduction in passengers has been met with the requirement to increase rates and the growth in AFV met with underwriters allowing a slight rate reduction.

Year on Year % Rate Change

March/Year to date. Based on latest Information at 26 March 2010



Source: JLT Database

Insurance Market News

Capacity remains stable and there have been no significant additions or withdrawals from the Market or any security rating changes.

The inaugural JLT Aerospace International Aviation Insurance Forum has been announced and is due to take place 26 - 28 January 2011 in Dubai.

Correction: Flagstone Re are broadening their GA business to include aircraft up to 60 seats. They do not write any airline fleets as mentioned last month. We apologise for any confusion.

Arrivals and Departures

- Chris Subba Row will be joining JLT Aerospace as a Partner. Chris has many years' experience working within the Aviation Insurance Industry, most recently at Willis. Chris will be joining as soon as his current contractual commitments expire and will be based in the Middle East.

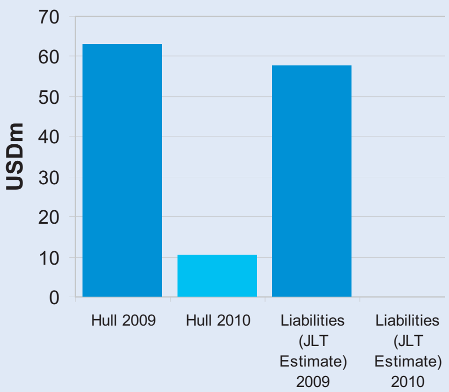
Loss Analysis

Losses Summary

February

- Hull losses of USD 10.53M
- Nil fatalities
- Liability loss estimate nil

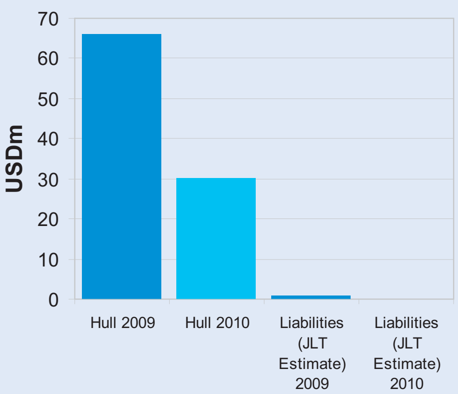
February Losses
All Known Losses Net of deductible



March

- Hull losses are estimated at USD 30.15M
- 2 fatalities
- Liability estimate currently nil

March Losses
All Known Losses Net of deductible



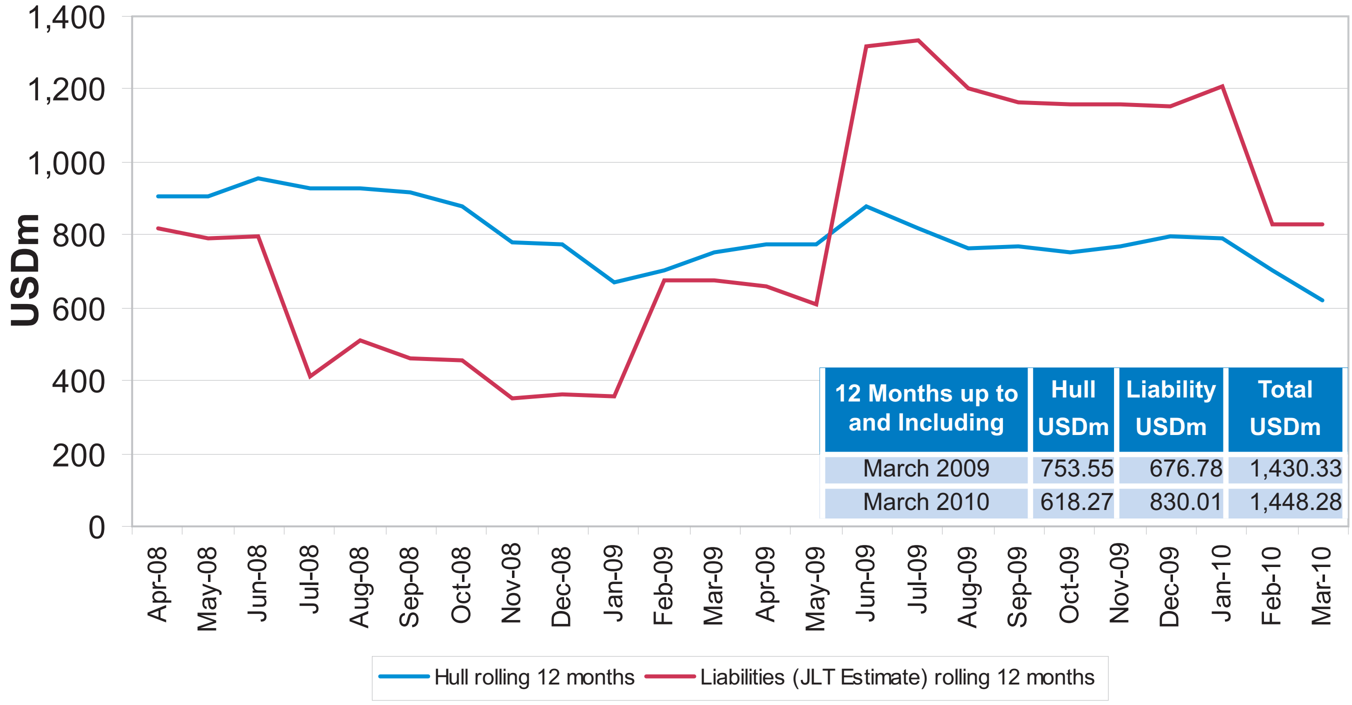
Known Losses in March

1st	Air Tanzania	Boeing 737-200 (5H-MVZ)	Tanzania
On landing at Mwanza International, the aircraft veered off the runway which caused the nose undercarriage to collapse.			
1st	ACT Airlines	Airbus A300B4-200F (TC-ACB)	Afghanistan
The aircraft suffered a main gear collapse on landing at Bagram Air Base on completion of a flight from Bahrain. Major damage to the wing and engine resulted.			
4th	China Airlines	Boeing 747-400F (B-18723)	USA
Departing Anchorage, AK, to Taipei on a freight flight, the aircraft suffered a tail strike causing damage to the tail end structure.			
18th	EXIN	Antonov An-26B (SP-FDO)	Estonia
On approach to Tallinn, the aircraft had an unsafe undercarriage indication. The crew elected to go-around but shortly afterwards encountered engine problems necessitating an immediate landing which was carried out on frozen Lake Ulemiste.			
22nd	AirNorth	Embraer 120 (VH-ANB)	Australia
The aircraft crashed shortly after takeoff from Darwin Airport on a training flight killing both crew members.			
22nd	Aviastar-TU	Tupolev Tu-204-100 (RA-64011)	Russia
Nearing completion of a ferry flight from Hurghada, Egypt, the aircraft crashed about 1km short of the runway at Moscow - Domodedovo.			

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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to March, 2010



12 Months up to and Including	Hull USDm	Liability USDm	Total USDm
March 2009	753.55	676.78	1,430.33
March 2010	618.27	830.01	1,448.28

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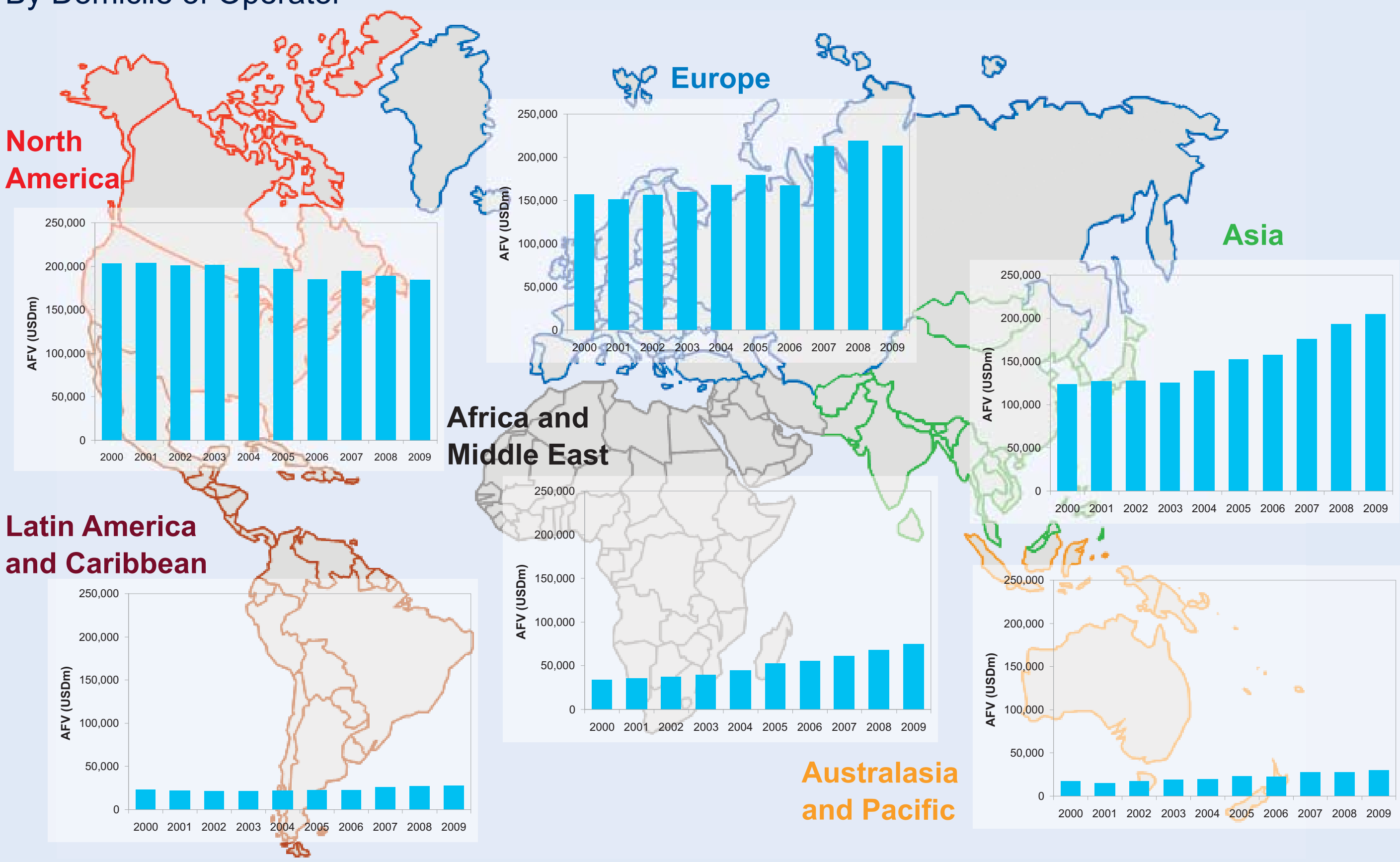
Regional Chart

Average Fleet Values over last 10 years, 2000 - 2009

By Domicile of Operator



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Editorial

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