

Plane Talking

JLT AEROSPACE

FEBRUARY 2010

Executive Summary

Waiting for Clouds to Break

- Capacity remains intact... at least for the time being
- There are few signs of underwriters being able to grow premium volumes. Any growth is the product of anticipated fleet growth.
- The business planning season has started, presenting some tough challenges for most underwriters
- The airline industry continues to struggle and we anticipate more failures and mergers
- In conclusion, like the weather across Europe, most appear to be waiting for the clouds to break, then we may witness some more people moves, some capacity withdrawal and new opportunities for growth

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Lead Lines

John Blair,
General Counsel, Air New Zealand, ATW Airline of the Year 2010

“ In a global industry characterised by complexity and multi faceted relationships, airlines and their insurers stand out as some of the most important and resilient partnerships. At the commercial level there is the annual tug of war ritual about renewal rates, but the underlying personal relationships usually survive and strengthen. It is trite to say that without insurance airlines wouldn't fly – not just because of regulatory requirements but what airline shareholder would want to take such a risk? The ability of the small aviation market to allocate that risk across the industry has always been impressive, particularly in the context of the sudden and often dramatic changes the airline industry suffers. When tragedy strikes, the relationships are put to the test and the

consensus of opinion is that the insurance market responds impeccably.

It is crucial that this continues. Although the industry continues to grow and become more complex it will always depend on confidence; financial and safety. In these areas our interests are fully aligned. With that in mind I often wonder why we don't see more initiative from insurers, with their undoubted powerful connections, influencing policy change around liability regimes (with the Rome Convention currently in mind) and creating real, targeted incentives for airlines based around safety criteria. Airlines will have very willing ears for such opportunities to strengthen our relationships and our combined effectiveness.”



Comment

With the backdrop of the worst period for the airline industry percolating into 2010 it is no surprise that operators are struggling to establish a good business plan to survive let alone prosper in the next 12 months. For some, the inevitable has already overtaken them as seen with our monthly lists of ceased operators, but for others solvency hangs by a thread by way of bankruptcy protection. Japan Airlines, for example, has survived only by the benefaction of its government as have other flag carriers throughout the world.

North American airlines, of course, have the unequal advantage of Chapter 11 whereby most of the majors have sought protection over the years from their inability to perform in a competitive marketplace and continue to survive with that comfort in mind. Only recently Mesa Airlines, a regional operator in the US, filed for bankruptcy protection.

Although there are reports of positive movements in traffic in certain parts of the world, the underlying trend still suggests there is a long way to go before the industry as a whole returns to profit.

On the one hand we have seen significant losses recently for 2009 for Air Canada (USD297 million), SAS (USD461 million), and Asiana of South Korea of USD199 million. A number of major airlines have also reported a significant drop in profits for 2009 with warnings of a tough 2010, and yet other areas where there is evidence of growth especially in the Middle East, parts of Asia and the Far East, there are indications of some positive results.

In fact, for the first time ever, more passengers took flights in the Asia-Pacific region than in North America last year-thanks in part to economic growth in China and India.

Airline News

Start-Ups

- Air Sweden, Sweden, looks set to launch charter and wet-lease operations using a single MD-81 aircraft.
- Bora Jet, Turkey, is planning to operate three ATR72-212 turboprops on regional passenger services.
- BQB Air, Uruguay, is poised to launch services from the resort city of Punta del Este to destinations in Argentina and Brazil with the first of its four ATR72-500 aircraft.
- BVI Airways, British Virgin Isles, is soon to commence scheduled services out of Tortola's Beef Island Airport. Initial destinations will be St. Martin and Antigua, with plans to extend the service to Dominica and other Caribbean destinations. The carrier will operate a single BAE Jetstream 32 aircraft.
- Flyglinjen, Sweden, commenced operations on 8 February 2010. The carrier operates services to Stockholm Bromma airport, Jönköping airport, and Copenhagen using Jetstream 41 aircraft.
- Sudamericana Air, Argentina, is to launch domestic services using three Boeing 737-200s. The airline also plans to offer regional charter flights under the Lineas Aereas Del Sur brand.
- Varsity Express, UK, will commence operations from 1 March, 2010, offering flights between London Oxford, Newcastle and Edinburgh Airports. Services will be operated by a British Aerospace Jetstream 31 aircraft.

Closures

- The charter arm of all that remains of Brazilian operator BRA Transportes Aereos suspended all services in early January.
- Quantum Air the charter specialist based in Palma de Mallorca suspended operations on 26th

January. The airline had a fleet of five Boeing 717s.

- Indochina Airlines of Vietnam has had its transportation rights officially revoked by the Civil Aviation Administration of Vietnam. The low-cost domestic airline operated two wet-leased Boeing 737-800s.
- Eurex Cargo the start-up freight operator based in Georgia which leased a B747-200F from Nippon Cargo Airlines has been grounded by the Georgia CAA.
- Lynx Aviation the regional subsidiary of Frontier Airlines based in Denver, Colorado, is to be closed down in April and their fleet of 11 Bombardier Dash 8 Q400s will be disposed of.
- Another Spanish airline ceased operations recently with Mallorca based charter operator Hola Airlines halting flights. The operator recently returned the last of its aircraft, a Boeing 737-400 to its lessor. The current economic situation has prevented the airline from generating new credit lines from banks.

Orders

Only one announcement of orders by the airliner manufacturers has been seen this month and that is from Airbus for a Memorandum of Understanding from Hong Kong Airlines for 6 more A330-200s bringing their expected fleet of widebodies to 23. The new aircraft will enable route development in Asia Pacific as well as expansion to the Middle East and Europe.

Announcements by the airlines include 20 more Airbus A320s for Air China for delivery between 2011 and 2014, THY Turkish Airlines for 20 Boeing 737s with a further 15 options which, by the end of 2015, will bring the THY fleet to 155 single aisle and 36 twin aisle aircraft with 5 freighters. Air Canada Jazz announced an order for 15 DHC8-402Q turboprops and another 15 options for delivery from May 2011.

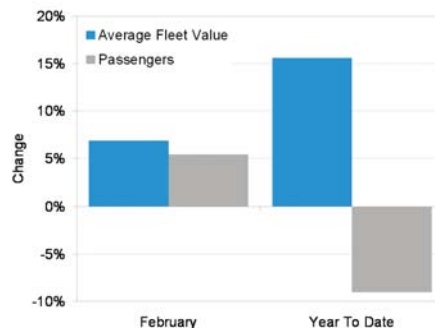
Renewal Analysis

Exposures

Another quiet month with just a handful of small airline renewals. The majority showing reasonable exposure growth.

Year on Year % Exposure Change

February/Year to date. Based on latest Information at 24 February 2010



Source: JLT Database

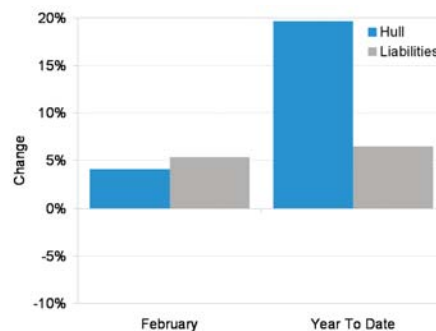
Premiums*

No particular pattern or conclusion can be drawn from this small sample set.

The premium is up as a result of the increased exposures.

Year on Year % Premium Change

February/Year to date. Based on latest Information at 24 February 2010



Source: JLT Database

Year to Date (Like for Like)	Hull USD M	Liability USD M	Total USD M
2009	4.8	5.6	10.4
2010	5.7	6.0	11.7
% Change	20%	6%	13%

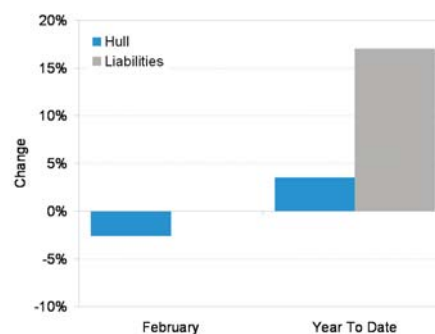
* Net of brokerage and at lead terms

Rates

Rates have reduced modestly on the February renewals most of which are showing growth and all of which sport a good loss ratio.

Year on Year % Rate Change

February/Year to date. Based on latest Information at 24 February 2010



Source: JLT Database

Insurance Market News

Catlin has opened an office in Melbourne, its second office in Australia. The team will specialize initially in General Liability and General Aviation covers.

Allianz Global Corporate & Specialty (AGCS) is expanding business opportunities in South Africa through a new operation in Johannesburg. South African clients and brokers will have access to a wider range of AGCS products, including Property, Marine Cargo, General Aviation, Engineering and Financial lines.

Flagstone Re are broadening their underwriting portfolio and are now able to write small airline fleets in addition to their usual GA business.

The Aircraft Builders Council, Inc. has announced its conference for this year, which will be an informational forum on the most recent developments in the aviation and aerospace industry and products liability to be held on September 19-21, 2010.

Loss Analysis

Known Losses in February

4th	Yakutia Airlines	Antonov An-24 (RA-47360)	Russia
On departure from Yakutsk, the undercarriage was retracted immediately after takeoff causing the aircraft to sink back onto the runway. Some reports suggest engine failure was the cause of lack of climb.			
6th	Dulles Jet Center	Several business jets	USA
A severe snow storm around the Washington, DC area caused several hangars at Dulles to collapse under the weight of snow. Damage was caused to at least eight, high value, business jets with some of them being total losses.			
11th	Click Mexicana	Fokker F100 (XA-SHJ)	Mexico
On approach to New Laredo, the aircraft suffered a problem with the undercarriage. Diverting to Monterrey, where better facilities existed, the undercarriage collapsed on landing.			
11th	Trigana Air	ATR42-300 (PK-YRP)	Indonesia
On approach to Samarinda Airport on a domestic passenger flight, the aircraft suffered an engine failure. Due to a short runway at Samarinda, and situated in a residential area, the aircraft diverted to Balikpapan Airport, about 50nm away. En-route, the 2nd engine lost power and the aircraft was force landed in a rice field.			
16th	Skywest Airlines	Embraer 120 (N226SW)	USA
Taxiing to its parking stand at Los Angeles, the aircraft's propeller struck a jetbridge, causing parts of the propeller to break and strike the fuselage.			

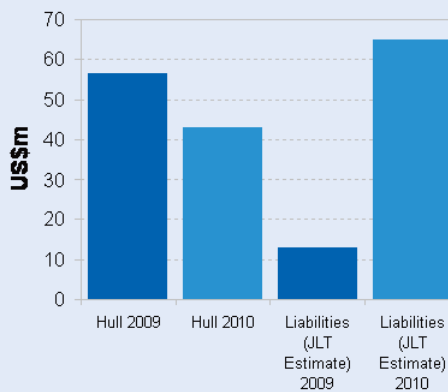
Losses Summary

January

- Hull losses of USD43M
- 92 fatalities
- Liability loss estimate USD65M

January Losses

All Known Losses Net of deductible

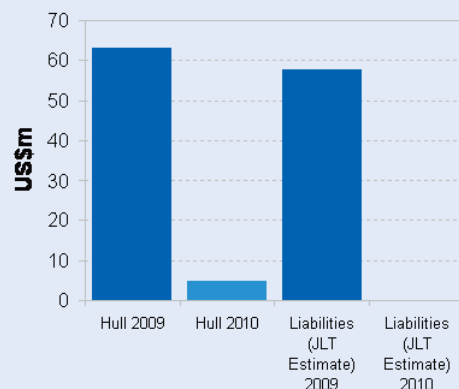


February

- Hull losses are estimated at USD5.03M
- Nil fatalities
- Liability estimate currently nil

February Losses

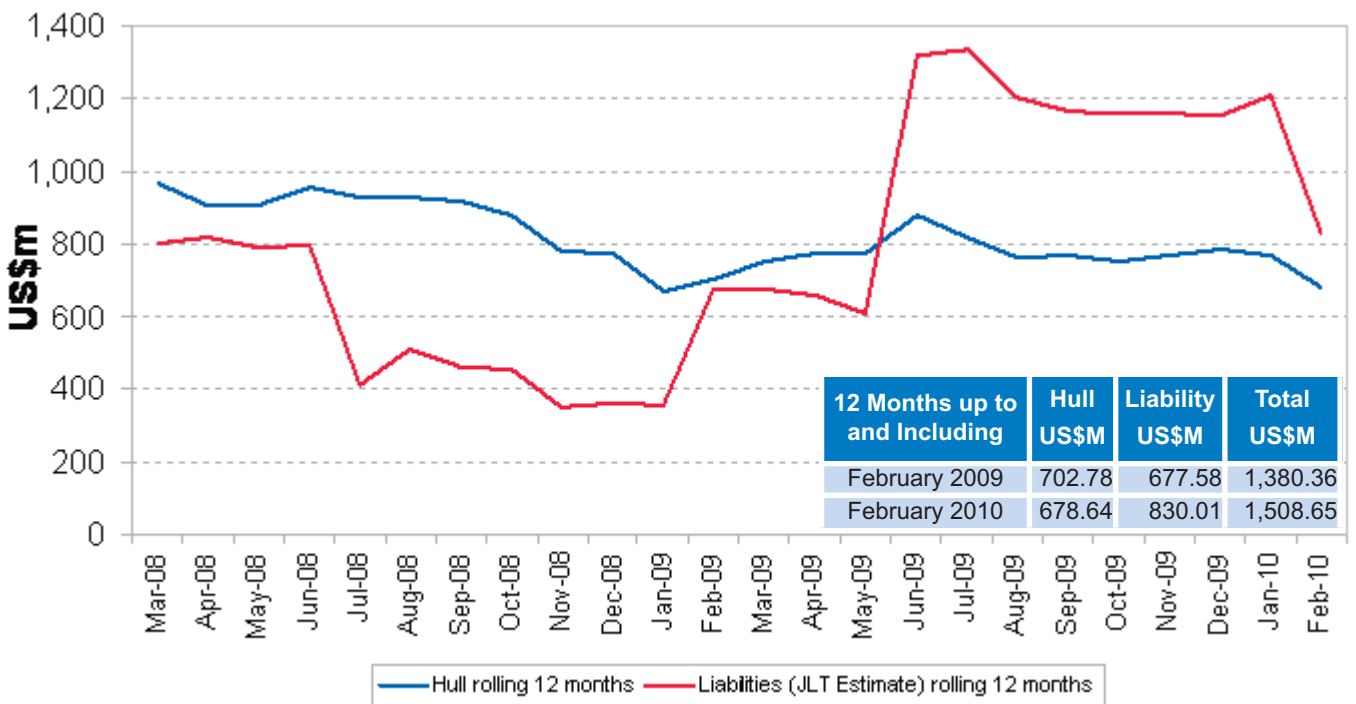
All Known Losses Net of deductible



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

Cumulative Airline Loss Figures

Rolling 12 Months shown for 24 Months to February, 2010

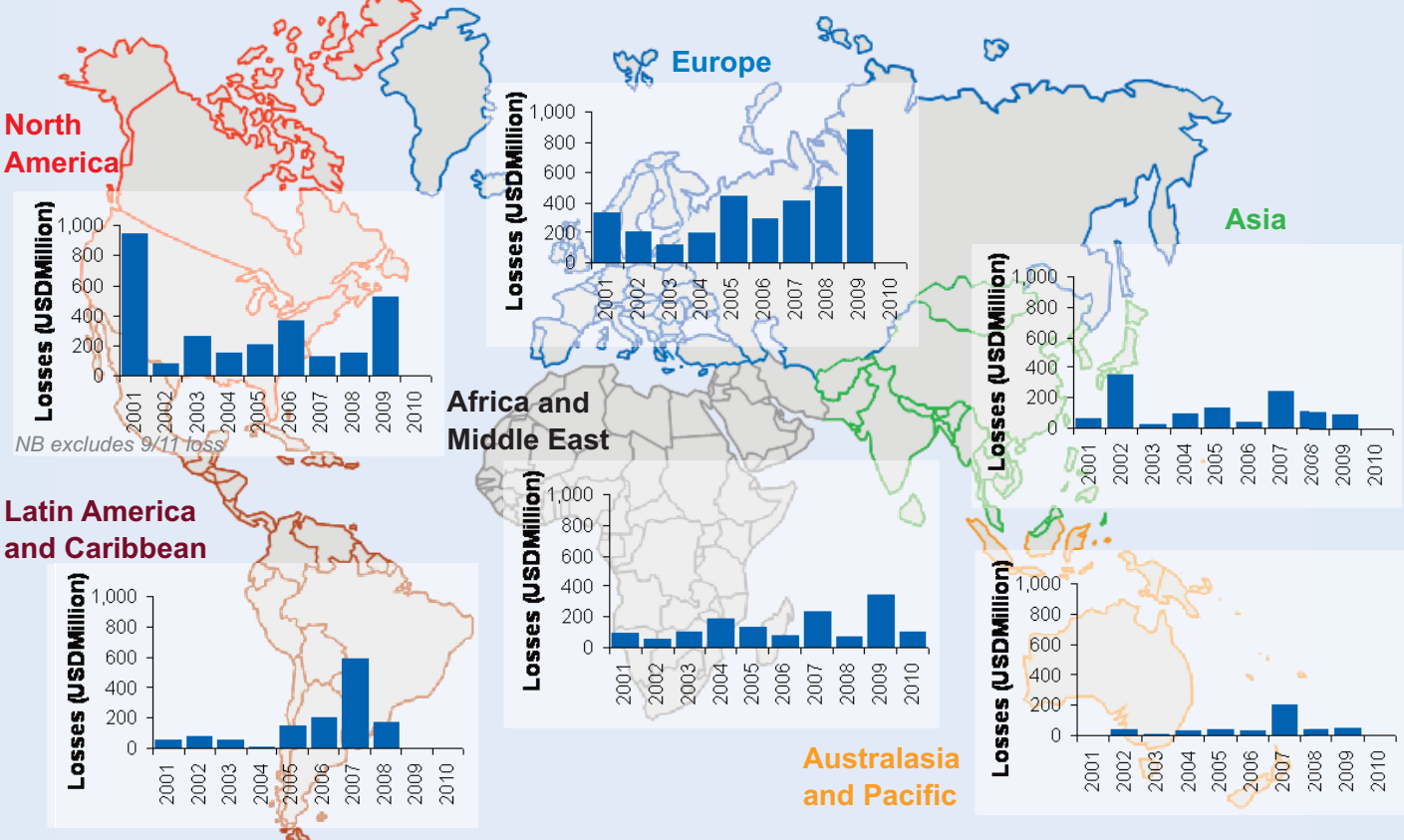


* The JLT liability estimates are provided merely as a guide.

Regional Chart

Regional Losses Total over last 10 years, 2001 - 2010

By Domicile of Operator



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