PlaneTalking

This edition includes...

JLT AEROSPACE SEPTEMBER 2011

Executive Summary

MAINTAINING CURRENT HEADING

September has seen another quiet month. The few renewals have brought growth by way of anticipated passenger numbers and enlarged fleets and this has helped to generate a meaningful premium increase for these renewals over expiring levels. However in market terms these renewals are relatively benign, simply helping to maintain year to date premiums at a very similar level to those for the expiring period.

The recent rash of losses has caused an unfortunate number of fatalities, however the aircraft involved have been small or relatively inexpensive equipment, consequently only serving to boost the year to date amount of attritional loss rather than trouble reinsurers or cause any market reaction.

Following from our observations in last month's Plane Talking, perhaps the most notable development comes from the increase in market capacity on offer, with two new entrants open for business. Whilst their underlying rationale to enter this market is unknown, their timing coincides with being available to participate in the final quarter's important renewal season.

Premium rates seem set to continue under pressure for the foreseeable future and although of obvious short-term benefit to the insurance buyers, longevity of the current market conditions should be questioned.

Without something happening outside of our market that causes capacity to be withdrawn, it seems likely that rates will soften further, fuelled by competition but tempered by the need to be seen to "manage the current market cycle".

Are you interested in featuring in Lead Lines, or do you know someone who is, if so please contact us at:
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> "We must be in a position to be able to respond to our clients at a time of need."

Lead Lines

Richard Etridge

Chief Operating Officer for Continental Europe/Global Head of Aviation

- Torus Insurance Limited

BIOGRAPHY

Prior to his new position at Torus, Richard was a founding member of Glacier Insurance AG.

Richard has 20 years of experience in the insurance industry and has worked in various senior aviation underwriting positions for major insurers such as GE Frankona, Faraday and Converium.

As we enter the hectic fourth quarter, aviation insurers are faced with challenges, not just on the sheer workload, but for many other reasons this time. The simple concept of premiums from the many pay for the losses of the few, simply does not now apply to the property damage Hull Insurance product we offer. For a business class that has a short payout pattern, the market competes at rates below burn as we continue to payout attritional losses and ever increasing Hull value losses.

As for the longer tail liability class, traditionally an insurer would look to generate meaningful investment returns on cash held and reserves, however during the last 12 months the worldwide banking crisis has done its best to diminish available returns.

As an industry we enter a new era of capital adequacy models to face the challenges Solvency II will bring. As these sophisticated models role out for 2012 planning, we cannot escape the atrocities of 10 years ago, 9/11 tested not only the capital supporting a single line of business, but the accumulation across multiple lines.

2011 is a year when Natural Catastrophes will make an indentation in earnings (and perhaps even capital), with aviation insurers ability to hold sufficient excess capital to support another major disaster under major threat.

For aviation insurers, 2011 is highly likely to be a year of negative cash flow. Despite the premiums collected, the payout on 2011 accidents aggregated with prior years, and in particular large contributions for 9/11, will only increase the pressure on underwriters.

We do not forget the improvement in technology or the continual progress in safety management and welcome them both, but we should not forget the basic parameters of Insurance and the reasons we want to offer support for the future. We must be in a position to be able to respond to our clients at a time of need.

As a consequence the Market's CFO's are insisting on a gross underwriting margin, could we blame them after supporting us for so long?

Renewal Analysis

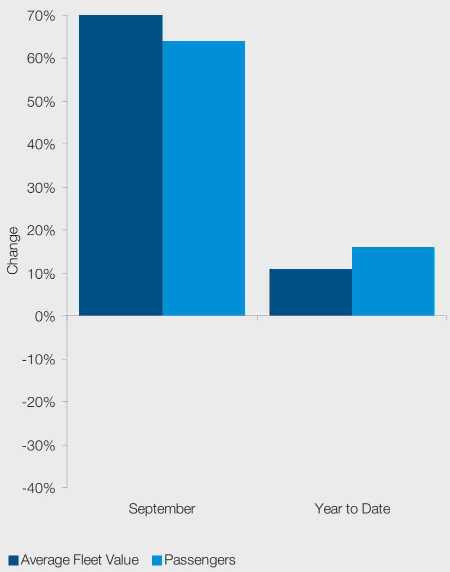
EXPOSURES

The airlines that renew in September are relatively small in size and as a result any substantial growth in fleet and passenger numbers is going to appear much larger on an "average" basis compared to previous months.

Year on Year Exposure % change.

September / Year to date - based on the latest Information at 27 September 2011

Source: JLT Database



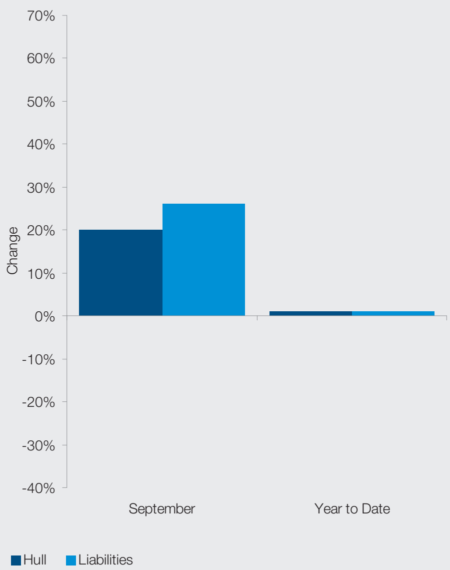
PREMIUMS*

Underwriters have seen significant premium growth on the back of exposure increases, and again September is out of proportion compared to the average seen so far this year.

Year on Year Premium % change.

September / Year to date - based on the latest Information at 27 September 2011

Source: JLT Database



Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2010	224	336	560
2011	226	340	566
% Change	1%	1%	1%

* Net of brokerage and at lead terms

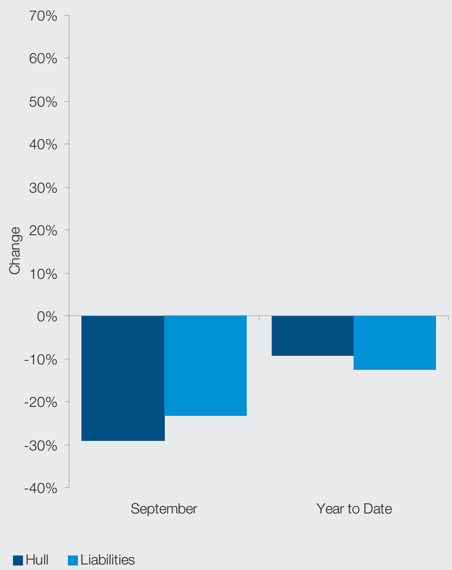
RATES

Once again the growth experienced this month allows rates to fall proportionally whilst keeping underwriters premiums at a respectable level.

Year on Year Rate % change.

September / Year to date - based on the latest Information at 27 September 2011

Source: JLT Database



COMMENT

September rounds off the third quarter in a somewhat subdued manner, being less active in the number of renewals than either July or August.

Among the ten airlines featuring in our analysis for the month, two in particular have shown substantial increases in their exposures. Interjet of Mexico continues its expansion programme and now has a fleet valued in excess of USD1.3 billion. Another thrusting operator is Trip Linhas Aereas of Brazil who has nearly doubled its fleet value to over USD1.16 billion.

The remaining contenders are relatively small in comparison to these two and should not provide much interest to the overall picture.

FORTHCOMING AIRLINE RENEWALS

October somewhat "perks up" in terms of the number of airline renewals that come to market. 16 risks are included in our statistics for the month and these help to produce a little more momentum going into the last quarter.

The value of the fleets is generally higher and thus premiums generated should show an increase over recent months.

If it were not for one major renewal, NACIL (Air India and Indian Airlines), having extended their policy period to December, premium levels would be significantly higher.

The renewal with the biggest fleet value, in October, is China Airlines of Taiwan, followed by the Synergy Group which consists of various South American airlines including Avianca, TACA, Aviateca and Aerogal.

GOL Transportes Aereos comes in next being the second largest airline in Brazil and still expected to have a fleet valued in excess of USD4.5 billion.

The recent lifting of sanctions should see the return of the Libyan African Aviation Holdings account (Afriqiyah Airways and Libyan Airlines) minus a number of aircraft from its fleet schedule due to them being destroyed during the recent insurrection.

Airline	Renewal Date	Expiring AFV USDm
Synergy Group	1st Oct	5,346
Air Malta	1st Oct	450
Allegiant	1st Oct	228
Fuji Dream Airlines	1st Oct	130
USA 3000 Airlines	4th Oct	183
Lion Air	7th Oct	2,697
Gol Transportes Aéreos	10th Oct	4,547
China Airlines	15th Oct	6,338
Transasia Airlines	15th Oct	338
Libyan African Holdings	16th Oct	1,516
Iraqi Airways	21st Oct	672
Go Airways	21st Oct	478
XL Airways France	23rd Oct	357
Turkuaz	23rd Oct	258
XL Airways Germany	23rd Oct	186
Cebu Pacific Air	26th Oct	1,031

Source: JLT Database, based on current risks with AFV in excess of USD100m

JLT % RATE CHANGE BAROMETER*

Hull Rates

Liabilities

** The JLT Rate change Barometer ignores anonymous renewals, and is the market trend to date.*

Loss Analysis

AUGUST - AIRLINE LOSS SUMMARY

- Hull losses:

  USD 24.24m

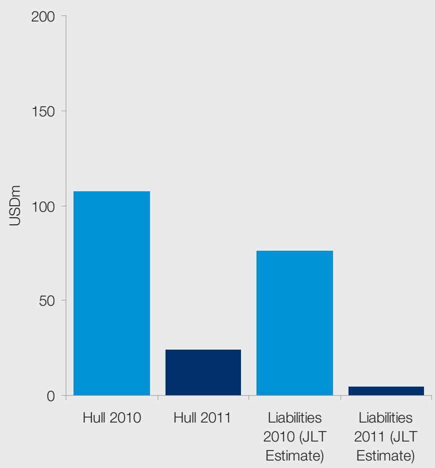
- Liability loss estimate of:

  USD 4.80m

- Number of airline fatalities:

  23

All Known Airline Losses Net of deductible



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

SEPTEMBER - AIRLINE LOSS SUMMARY

- Hull losses:

  USD 48.55m

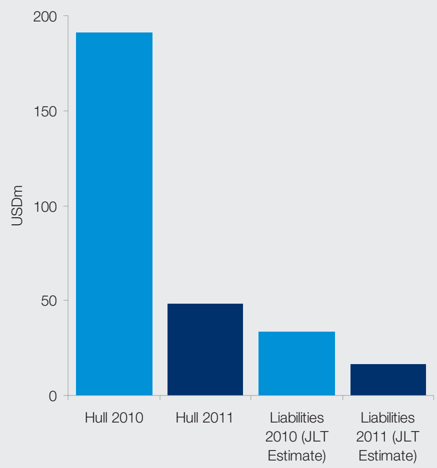
- Liability loss estimate of:

  USD 16.25m

- Number of airline fatalities:

  92

All Known Airline Losses Net of deductible



SEPTEMBER AIRLINE LOSSES SUMMARY

- 01 September 2011

Atlantic Southeast Airlines,
Bombardier CRJ-200ER (N875AS), USA

On approach to Baton Rouge, the crew received an unsafe gear indication. After a period of trouble shooting, the aircraft was landed with the port undercarriage retracted. No injuries occurred.

- 02 September 2011

THY Turkish Airlines,
Airbus A340-300 (TC-JDM), India

Landing at Mumbai on a scheduled passenger flight from Istanbul, the aircraft veered off the runway onto soft ground. No injuries occurred but relatively minor damage was done to the aircraft.

- 04 September 2011

Mahan Air,
Airbus A300-600 (EP-MNT), Iran

The aircraft landed heavily at Mashad causing the nose tyres to puncture. The aircraft then ran off the side of the runway which subsequently caused the nose undercarriage to collapse. Some minor passenger injuries were reported.

- 04 September 2011

Trans States Airlines,
Embraer ERJ 145LR (N840HK), Canada

Landing at Ottawa in rain on a scheduled passenger flight, the aircraft slid off the runway before coming to a stop on soft ground. Both main undercarriage struts collapsed. No injuries occurred, but the aircraft received substantial damage.

SEPTEMBER AIRLINE LOSSES SUMMARY CONTINUED...

- 06 September 2011

Aerocon,
Fairchild SA227 Metro III (CP-2548), Bolivia

Whilst on a scheduled passenger flight the aircraft crashed in jungle, during a procedural turn, on approach to Trinidad Airport. At the time of the approach the visibility was reported poor in the area. Out of the seven passengers and two crew onboard, one male survived, and was taken to hospital.

- 07 September 2011

Yak Service,
Yakovlev Yak-42D (RA-42434), Russia

Departing Yaroslavl on a charter flight to Minsk with the local ice hockey team, the aircraft failed to climb after lift-off, and impacted an antenna on the airport perimeter causing it to suddenly roll left and impact the ground. The aircraft came to a stop on the bank of the Tunoshenka river in many pieces. All 37 passengers and 7 of the 8 crew died in the accident.

- 14 September 2011

Aerolineas Sosa,
Let L-410UVP (HR-ASZ), Honduras

On landing at Utila on a scheduled passenger flight, the aircraft struck a cow which had strayed onto the runway. The starboard undercarriage subsequently collapsed. No injuries occurred. The condition of the cow is unknown.

- 16 September 2011

TAME,
Embraer E-190-100LR (HC-CEZ), Ecuador

Landing at Quito on a wet runway on a scheduled passenger flight from Loja, the aircraft failed to stop and overran by around 275 meters, passing through the localizer antenna and striking the perimeter wall. There were no casualties, however the aircraft sustained substantial damage and would be considered a Constructive Total Loss.

- 20 September 2011

Salsa d'Haiti,
Beech 99A (HH-APA), Haiti

The aircraft was destroyed when it crashed in flooded sugar cane fields near Milot towards the end of a passenger flight. All three occupants were killed. The weather at the time of the accident was said to be poor, including heavy rain.

- 22 September 2011

Arctic Sunwest Charters,
Bombardier DHC-6-300 Twin Otter (C-GARW), Canada

On approach to Great Slave Lake, Yellowknife, the aircraft which was equipped with floats clipped a building, and hit power lines before crashing. Both crew perished in the accident which also caused injuries amongst the 7 passengers.

- 25 September 2011

Buddha Air,
Beech 1900D (9N-AEK), Nepal

The aircraft was returning to Kathmandu from a sight seeing flight, "Everest Experience", when it crashed into rising ground during the approach sequence. Weather at the time was fog and rain. All 16 passengers and 3 crew died in the accident.

- 26 September 2011

Aeropostal,
McDonnell Douglas DC-9-51 (YV136T), Venezuela

Landing at Puerto Ordaz at the end of a scheduled flight with 125 passengers and 5 crew, the aircraft touched down hard causing the fuselage to buckle and the engine mounts to fail. The aircraft came to a stop on the runway with no injuries to passengers or crew.

- 29 September 2011

Nusantara Buana Air,
IPTN Casa 212-200 (PK-TLF), Indonesia

The aircraft crashed into mountainous terrain en route to Kutacane in Aceh after departing from Polonia Airport in Medan. Heavy rain, fog and strong winds were reported in the region at the time. All of the 15 passengers and three crew on board the aircraft perished.

Market News

NEWS IN BRIEF

New Transport Insurance Regulation in France

The French insurance code has now been amended to include Aviation insurance. It joins marine and ground transportation (railways excluded) and therefore regulates aviation hull, cargo and liability insurance.

The new law comes into effect from 1 July 2012 and applies to all new insurance policies issued or renewed tacitly or not.

The key purposes of this regulation are to create and maintain the balance between contractual freedom and the adaptation of the French transport insurance market to the global evolution, together with the protection of the interest of the insured.

Public policy provisions have been reduced to a minimum. French concepts are now either in line with international definitions or alternatively the new code gives freedom to the parties to adopt the definitions they choose. This will lead to the French insurance market being more attractive and more competitive.

Two new chapters have been created, Chapter 5, specifically deals with hull insurance and aviation liabilities and Chapter 6, deals with liability insurance in relation to space operation.

The Insurance Code will now provide a legal framework for aviation risks and liability in respect of space activities.

The regulation will apply in all cases where French insurance law applies either by choice of the parties or because French law is designated by appropriate EU regulation.

Lloyd's posts interim loss

Lloyd's has reported a first-half pre-tax loss of GBP697m for the first half of the year, down from a profit of GBP628m in the same period last year.

Lloyd's suffered very large claims in the first half due to a succession of natural disasters. These claims pushed the market to an underwriting loss of GBP1.61bn, although this was reduced by releases from reserves of GBP470m, which was GBP90m more than the releases made in the first half of last year.

The combined ratio rose to 113.3% from 98.7%, while the investment return declined to GBP548m from GBP597m.

Gross written premiums were GBP13.5bn, up 0.3 per cent.

Richard Ward, Chief Executive, said it would be "very, very tough" for Lloyd's to turn a profit for the full year after its worst six-month result since the second half of 2005. Mr Ward continued, "while interest rates are low and equity markets are volatile, we can't rely on investment income to subsidise our underwriting, we must decline under-priced risks".

IATA Forecast

IATA has increased its industry net profit forecast for 2011 to USD6.9bn from the USD4bn profit it predicted in June.

"Airlines are going to make a little more money in 2011 than we thought", said IATA Director General Tony Tyler. "But we should keep the improvement in perspective, the industry is brittle. Any shock has the potential to put us in the red, profitability is still exceptionally weak".

Looking ahead IATA expects 2012 to be a tough year, warning that a weak global economy would prompt a 29% fall in airline profits and cut the industry's profit margins to a razor thin 0.8% from 1.2% this year.

"It looks like we are headed for another year in the doldrums. With business confidence declining, it is difficult to see any potential for significant profitable growth. Relatively stronger economic growth and some rebound in cargo will help Asia Pacific airlines to maintain their 2012 profits close to 2011 levels. The rest of the industry will see declining profitability and the worst hit is expected to be Europe. A long slow struggle lies ahead," said Tyler.

Xchanging gains full control of XBS

Xchanging, the business process and technology services provider and integrator, has gained full control of Xchanging Broking Services Limited (XBS), the Enterprise Partnership it formed with Aon in 2006. Aon exercised an option to transfer its entire shareholding in XBS to Xchanging. The transfer gives Xchanging 100% ownership of XBS.

Following this transaction, Xchanging can offer XBS as an independent broking platform to other insurance broking firms in the insurance industry.

GAB Robins launch new service provider

GAB Robins Aviation Ltd has set up a new Company, GAB Robins Aviation Recoveries Ltd, to act as a specialist service provider for the Aviation Market.

Mike McQuiggan, who was previously the Managing Director of Warrior Square Recoveries Ltd and is well known in the Aviation Market, has been recruited to run the operation.

"Both companies are distinct and will perform separate roles with appropriate firewalls in place and separate Client Bank Accounts, therefore avoiding any conflict situations", the annoucement said.

Vedder Price comes to London

US law firm Vedder Price is launching in London with the hire of Clyde & Co's co-head of aviation finance, Gavin Hill, marking the firm's first presence outside of its home country.

The City office will go live next month, with Hill and ex-Freshfields Bruckhaus Deringer senior associate Derek Watson set to become the two resident partners.

It is understood that further Clydes associates could also join the new base, which will initially focus on transportation finance.

Vedder, which has offices in Chicago, Washington and New York, focuses on corporate, litigation and employment and is highly regarded for its transport finance work.

McLarens Young International and Airclaims merge

Global loss adjuster McLarens Young International (MYI) has announced that it is to merge with Airclaims, one of the aviation community's foremost providers of claims, risk and asset management services.

After the merger the two firms will continue to trade under their own brands, but Airclaims will become a fully owned entity within the MYI group.

The merger will lead to a larger product range to offer present and future clients, with Airclaims providing MYI with niche and technical expertise in the aviation field.

MYI Chief Executive Officer Vern Chalfant described the merger as part of the firm's long-term growth strategy, with MYI seeking to expand in certain key markets both organically and through acquisitions.

Airclaims Chief Executive Officer Mark Hunter welcomed the move, which offered the firm an appetite for growth, commitment to service and scalability.

XL rebrands and plans new operations

XL Group has launched a new global brand and marketing campaign. The campaign includes a new logo and "Make Your World Go" tagline, and will be implemented gradually over the coming months.

In additon to it's rebranding XL also announced that it had received confirmation of prior approval for a new primary unit in Sao Paulo, XL Seguros Brasil SA.

This new unit complements the reinsurance offering XL has had in Brazil for more than a decade.

Mike McGavick, Chief Executive also announced that XL is "investigating very assertively" the options for setting up an operation in India.

HDI Gerling to underwrite airline business

German insurer HDI Gerling have announced that they will be underwriting airline business through their industrial lines division.

Their proposed underwriting strategy will be predominantly focussed on European domiciled carriers and will extend to include some Asian carriers. US and Latin American airlines however are excluded.

The proposed maximum line structure is 1.5% on major risks.

The Industrial Lines division is led by HDI-Gerling Industrie Versicherung AG who is active in more than 130 countries through subsidiaries and network partners. It's range of products and services extends from liability, motor, accident, fire and property insurance to marine, special lines and engineering covers.

SIGNIFICANT RATING ACTIONS

AM BEST

Generali Deutschland Holding AG

Ratings agency AM Best has affirmed the financial strength rating of 'A+' (Superior) and issuer credit ratings of "aa-" of Generali Deutschland Holding AG and its main subsidiaries. The outlook for all ratings remains stable.

Lloyd's Syndicate 510

Ratings agency AM Best has affirmed the financial strength rating of 'A' (Excellent) and issuer credit rating (ICR) of 'a+' of Lloyd's Syndicate 510, which is managed by R.J. Kiln & Co Ltd. The outlook for all ratings is stable.

FITCH RATINGS

Hiscox Group

Fitch Ratings has affirmed Hiscox Group's Insurer Financial Strength ratings at 'A'. In addition Fitch also affirmed the Long-term Issuer Default Ratings of all Hiscox holding companies at 'BBB+'. The outlook for all the ratings is stable.

Travelers Insurance Company

Fitch Ratings has affirmed the insurer financial strength rating of 'AA' for Travelers Insurance Company and its subsidiaries. The rating outlook is stable.

The affirmation reflects the company's strong competitive position, history of solid earnings and prudent capital management.

MOODY'S

Amlin

Moody's has revised its outlook on Lloyd's insurer Amlin's ratings to negative from stable after heavy first-half losses.

The new negative outlook applies to the 'A1' financial strength rating of Lloyd's Syndicate 2001 and the 'Baa2' subordinated debt rating for the group parent Amlin plc.

Moody's has also lowered the outlook on the 'A2' financial strength rating of Amlin's Swiss operation, Amlin AG, to stable from positive. All ratings were affirmed.

STANDARD & POORS (S&P)

Groupama

S&P has downgraded the ratings of French insurer Groupama to 'BBB' from 'BBB+', with a negative future outlook, citing a weakening financial profile.

It is the second S&P downgrade this year for Groupama, which saw its rating lowered from 'A-' to 'BBB+' in May, owing mainly to its exposure to Greek sovereign debt.

Italy

S&P has lowered Italy's credit rating due to its deteriorating growth outlook and damaging political uncertainty. The rating was lowered from 'A+' to 'A' with a negative future outlook.

ARRIVALS AND DEPARTURES

- Willis announced that Mark Wilford, formally of Rolls-Royce Group plc, has been appointed Chairman of the Willis Global Aerospace division. He will join Willis on 1 January 2012, and be based in London. Wilford will replace outgoing Chairman, Andre Clerc, who is retiring at the end of this year.

- Marcus Grainger is leaving Chartis to join Gallaghers. Mr Grainger was part of the general aviation underwriting team at Chartis.

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