This edition includes...

PlaneTalking

AEROSPACE NOVEMBER 2011

Executive Summary

UNSETTLED TIMES

Market capacity appears to be holding firm, with significant attention being given by brokers to the recent "new" markets.

It appears to be becoming more challenging to complete placement at lead terms, with vertical market price differentials between leader and follower narrowing. However with so much renewal activity currently underway it is difficult to ascertain whether these are specific instances, and therefore isolated, or a more general trend. The answer will become apparent over the next few weeks.

The relatively good year for losses has continued and the few recent incidents have again thankfully resulted in few fatalities. Year to date losses are still at a level well below the annual average of the last five years.

Premium rating overall remains under pressure and whilst exposure growth has acted to bolster aggregate premiums to a very similar level to last year, there are some marked differences between individual renewal outcomes. This signals the continued competitiveness across the underwriting community and despite the common desire from underwriters to achieve premium increases, clearly each market appears to have their own agenda, views and plans; much of which must display some fundamental differences.

It is also a busy time for aviation reinsurance buyers, and early indications from this market suggest that there is unlikely to be much, if any, relief available to insurers from this quarter.

The backdrop of an increased frequency in credit rating changes and the growing in merger and acquisition (M&A) activity suggests increasingly unsettled times, however it should be noted that these are being fuelled by events outside of the aviation market.

Are you interested in featuring in Lead Lines, or do you know someone who is, if so please contact us at: publications@jltgroup.com

> "As a buyer, I need to be able to plan and accurately budget my insurance costs – no surprises for my senior management."

Lead Lines

Catherine Quinlan

Head of Insurance - AWAS, Dublin, Ireland

Biography

Catherine has over 25 years of aviation insurance experience in the leasing industry, commencing her career with Guinness Peat Aviation (GPA) in 1985. She transitioned to GE Capital Aviation Services (GECAS) in 1993 and while at GECAS, reached the position of Senior Vice President, Insurances where she had broad responsibility which included insurance management for a portfolio of 1850 aircraft, 400 engines and a marine and transportation portfolio. Catherine joined AWAS in May 2011.

The professional opinions expressed in this article are the personal view of the author and may not express the point of view of AWAS.

Buyer's Perspective on the Market

As I caught the early morning news on Saturday, July 22, 2011 of the Norwegian bombings my mind was sharply brought back to the attacks of 9/11 and to a market concerned for the first time that it may not be able to meet its obligations. In the years following there was much said and written that the market's annual income needed to be approximately USD2.5bn in order to be sustainable and be in a position to provide hull limits of up to circa USD275m with liability limits of circa USD2bn.

Like many other clients in the market after 9/11, I too struggled to cope with rising costs and a reduced level of cover in placing my renewal programme and having to explain the rationale to senior management. Every client likes a fair deal and every broker likes to think he has delivered for his client.

But has anything changed?

As a buyer of insurance I have three needs - the three "P's":

1) Price Stability

2) Partnership

3) Promise to Pay

Having gone through three aviation renewals in the past nine months, I've seen no sign of a hardening market, quite the reverse. This continuing trend no doubt is because of the abundance of good capacity and a remarkably low volume of claims in 2011, all helping to drive premiums down. However, when attritional losses are added to the known 2011 claims and one factors in the ever present inflationary aspect on repairs, the talk in the market is that there is likely to be a negative outcome again this year.

Recognising commercial pressures to buy as cost effectively as possible, the product on offer must be priced appropriately.

As a buyer, I need to be able to plan and accurately budget my insurance costs – no surprises for my senior management. I want to know that I won't be severely penalised in any one year if I have a claim, or indeed if the market suffers a series of large claims and that any impact can be spread over a number of years so I can manage the effect on my budget. As a long-term buyer of insurance, the market will balance its books over time.

Secondly, I want my insurers and broker to be my partners – each of us working together to a common goal. This includes not only responding to my needs as my business grows and develops or as commercial issues arise where "thinking outside the box" is required, but also that the cover being provided is credible and reliable.

The aviation insurance market has always been known for its innovation and solutions.

Last, but not least, that those insurers are both financially and commercially in a position to respond to a claim. In consideration for accepting the premium and providing the cover, there is a promise to pay a valid claim and indemnify me as the insured.

"The aviation insurance market has historically had a reputation for finding ways to pay claims."

I am concerned that if we have a year of serious accidents or a major event, the market will react in a similar fashion to 9/11, restricting cover, reducing limits and increasing costs, creating another nightmare for buyers.

As we go into the main airline renewal season – the "silly season" as some call it where airlines want "cheap and cheerful" and broker competition is fierce - I wonder how much longer can this market sustain this position?

Introducing New Section!

JLT Market Meters

Introduction...

The new JLT market meters that can be seen on the following page, are designed to provide the insurance buyer with a more realistic guide to what is happening in the market.

Based on a ***composite*** rather than just the ***leader's*** rate change it reflects the effect of both the change in rate and the change in differentials between markets (i.e. the "vertical marketing" process). In the current climate with differentials typically narrowing this can have a significant impact on what the final result will be.

We have excluded any abnormal renewals from consideration (where rates have been recalibrated due to the influence of claims, major changes in exposure or other anomalies) to give a more realistic and accurate reading of the market trend.

The Rate Meter...

This meter provides an indication of what core rate change a good quality, clean renewal with no growth can expect. Currently a 4% reduction in JLT's opinion. This may appear a low figure to some but remember the big rate changes have tended to come as a result of acquisition, grouping or extraordinary growth and this is the composite figure not solely the leader's.

The Growth Meter...

This meter reflects the amount of growth that a buyer may get "gifted" by insurers on a good quality renewal. For example, an Airline with 20% growth may only pay for 60% of the growth amount in increased premium. Therefore the premium would be only 12% higher than the previous year. Combine this with the 4% rate reduction and the premium would increase by 7.50% (or an overall rate reduction of 10.40%).

The Market Climate Meter...

This meter gives an indication of where we see the negotiating environment of the market. For some time "neutral" would have been our view, with capacity stable, losses average and underwriting results poor but not bad enough to bring about significant change. Now we are predicting a slight movement to a "hard" market as capacity becomes more selective (rather than withdrawing) and negotiations are tougher. Differentials in the vertical market are narrowing and in extreme cases some following markets may be higher than the lead.

The Claims Meter...

Balanced against the market climate meter, as shown on the following page, losses are lower than average this year which has probably postponed the arrival of a harder market environment than otherwise might have been expected. Unfortunately, loss figures can change overnight.

Notwithstanding all the above, remember no two renewals are exactly alike.

Market Meters

THE COMPOSITE MOVEMENT IN AVIATION RATES

The Rate Meter

This meter shows the typical combined composite hull and liability rate change at renewal for a good quality airline with no losses and no growth. As indicated above the typical rate reduction is -4%.

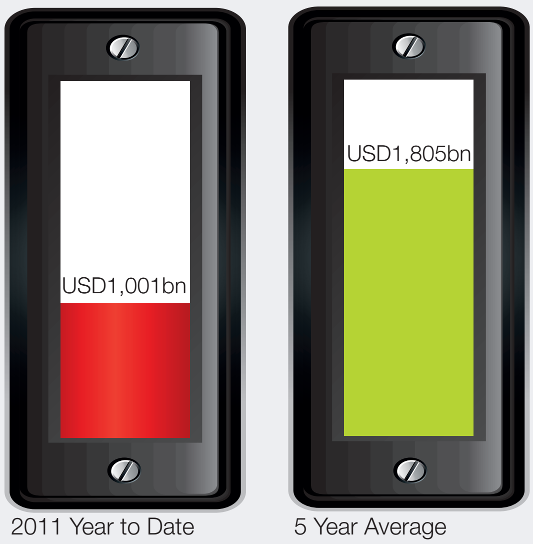
The Growth Meter

This meter shows the typical amount of growth not charged for at renewal. Are your exposures increasing? You may get just under half for free.

The Market Climate Meter

This meter shows the current market climate position. As indicated above we are moving slightly towards a hard market as signified by greater selectivity and a narrowing of vertical market discounts.

The Claims Meter



These meters indicate the year to date and 5 year average claims figures (including attritional estimates). As indicated the year to date claims are currently 45% below the 5 year average. With three weeks to go it would be unwise to make assumptions.

Renewal Analysis

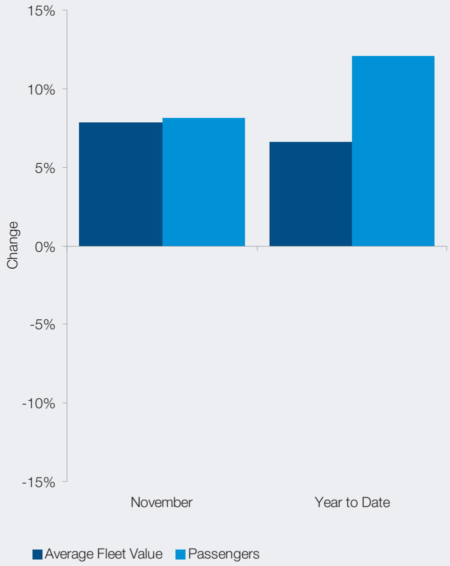
EXPOSURES

As expected fleet values continue to rise, and remain very much in line with the yearly average. Passenger numbers are also increasing, which is both a consequence and driver of airline growth.

Year on Year Exposure % change.

November / Year to date - based on the latest Information at 28 November 2011

Source: JLT Database



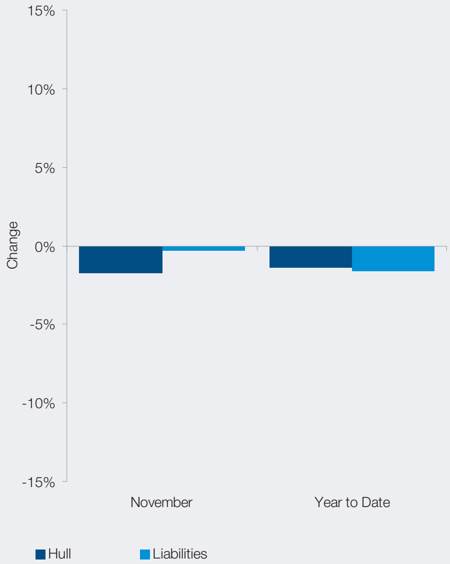
PREMIUMS*

November premium levels show consistancy with what has happened so far this year, and despite some major renewals in the month, the outcome has remained stable.

Year on Year Premium % change.

November / Year to date - based on the latest Information at 28 November 2011

Source: JLT Database



Year to Date (Like for Like)	Hull USDm	Liability USDm	Total USDm
2010	390	536	926
2011	385	528	912
% Change	-1%	-2%	-2%

* Net of brokerage and at lead terms

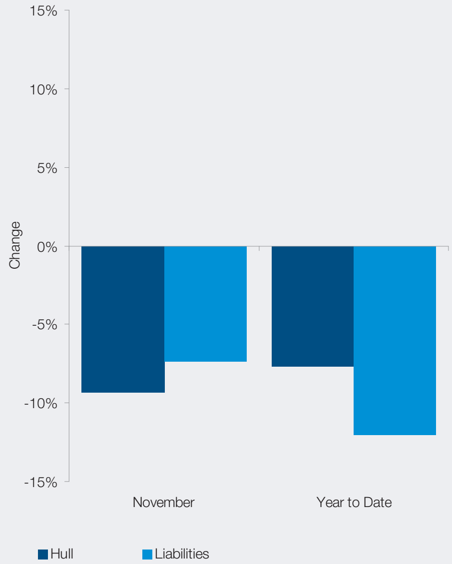
RATES

Both hull and liability ratings remain in line with the increase in exposures, indicating that underwriters are still focussing on maintaining premium, allowing airlines to renew with much of the exposure growth effectively for free.

Year on Year Rate % change.

November / Year to date - based on the latest Information at 28 November 2011

Source: JLT Database



COMMENT

Renewal activity for November has galloped on apace with over 40 airlines of very different sizes giving underwriters and brokers their second busiest month of the year.

Included in the November renewals are most of the largest operators from the Gulf region including Emirates, Saudi Arabian, Etihad, Kuwait and Gulf Air. Qatar Airways, the second biggest airline in the Gulf region exercised its option to extend its policy and will now renew on the 31st of March 2012.

As was expected from the "Gulf" carriers we saw fleet and passenger growth with Emirates by far the largest from this region (and now possibly the highest fleet valued airline in the world), increasing from USD21.6 billion to over USD26 billion. The carrier is expecting to fly nearly 40 million passengers in the next year.

Singapore Airlines, the third biggest operator in our listings, remained much as last year in terms of fleet and passenger size with a fleet value of USD13.3 billion.

Other notable renewals include two of the worlds leading freight carriers UPS and DHL as well as holiday tour airlines, TUI AG from Germany and Thomas Cook from the UK, the latter feeling the financial effects of a difficult trading market and troubled by substantial debts.

In addition to the Gulf participants, a number of national airlines also renewed including Qantas, Air New Zealand, South African Airways and Cyprus Airways.

FORTHCOMING AIRLINE RENEWALS

Our statistics show that around 60 airline renewals come to market in December, with well over half of them having fleets valued in excess of USD1 billion.

Some of the largest placements or airline groupings in the industry feature this month, with the biggest by fleet value being the Civil Aviation Authority of China (CAAC), which is made up of 31 airlines and has an estimated overall value on renewal of over USD72 billion.

This is followed by the Lufthansa Group also a huge consortium which has over 50 entities under its banner and has an expiring schedule valued at USD44.5 billion. The Air France / KLM grouping along with all its included subsidiaries follows with a fleet valued at USD34.4 billion.

New placement, FIN Group, comes to market having been created by the break up of the former SAFIT Group. FIN Group consists of Finnair, Iceland Air and Norwegian Air Shuttle. In additon there are a number of other airlines also included, which were formally part of SAFIT, as well as new entrants Jet2.com and Air Europa.

A number of US operators such as United Continental, Delta, Southwest and US Airways are included in amongst the largest renewals in December.

Below we list the ten largest renewals in December based on AFV.

Airline	Renewal Date	Expiring AFV USD
C.A.A.C	1st Dec	63.0bn
Lufthansa	1st Dec	44.5bn
Air France / KLM	1st Dec	34.4bn
United Continental	31st Dec	26.2bn
Delta	21st Dec	18.8bn
Cathay Pacific Airways	15th Dec	16.8bn
All Nippon Airways	1st Dec	13.3bn
FIN Group	1st Dec	11.6bn
Air Canada	15th Dec	11.3bn
Japan Airlines	1st Dec	11.0bn

Source: JLT Database.

Loss Analysis

OCTOBER - AIRLINE LOSS SUMMARY

- Hull losses:

  USD 13.00m

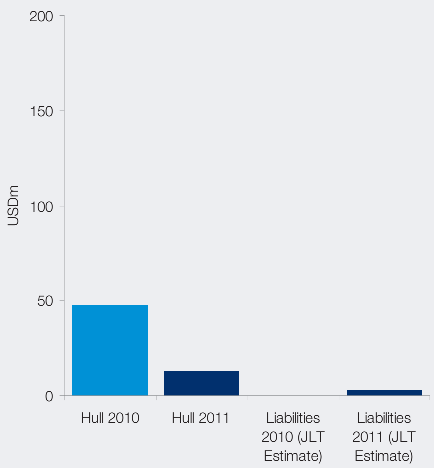
- Liability loss estimate of:

  USD 2.80m

- Number of airline fatalities:

  28

All Known Airline Losses Net of deductible



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

NOVEMBER - AIRLINE LOSS SUMMARY

- Hull losses:

  USD 21.16m

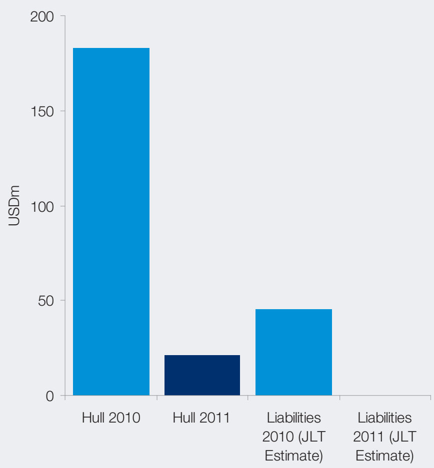
- Liability loss estimate of:

  Nil

- Number of airline fatalities:

  1

All Known Airline Losses Net of deductible



COMMENT

Please note we are still awaiting authoritative reserves for a number of recent losses so the figures shown for the last two months include some estimation.

NOVEMBER AIRLINE LOSSES SUMMARY

- 01 Novemeber 2011

LOT Polish Airlines,
Boeing 767-300 (SP-LPC), Poland

Shortly after takeoff from Newark, NJ, the aircraft reportedly suffered a hydraulic problem. The crew decided to continue the flight to Warsaw where they had difficulty in lowering the undercarriage. The aircraft was successfully belly-landed with no injuries to passengers or crew and seemingly relatively minor damage to the aircraft.

- 08 November 2011

South African Airlink,
BAe146-RJ85 (ZS-SSH), South Africa

The aircraft landed at Johannesburg with the nose undercarriage retracted. No injuries amongst the 76 passengers and crew were reported.

- 11 November 2011

Shandong Airlines,
Boeing 737-800 (B-5536), China

Whilst parked at Xiamen Airport and preparing to load passengers, the aircraft was struck by a van causing damage to and around the nose undercarriage of the aircraft.

- 16 November 2011

Gol Transportes Aereos,
Boeing 737-800 (PR-GTN), Brazil

The aircraft suffered a tail strike whilst landing at Porto Alegre on a flight from Sao Paulo. There are no reports of injuries.

- 23 November 2011

Susi Air,
Cessna 208B Grand Caravan (PK-VVG), Indonesia

The aircraft crashed after a go-around at Sugapa Airport on a cargo flight from Nabire. It has been reported that the go-around was caused by a local resident being on the runway. The airport is situated in mountainous terrain making low-level maneuvers difficult. Both crew were injured, one fatally.

COMMENT

Last month we reported on the loss of an Embraer 120 at Port Gentil on the 12th October. We have been advised that although the aircraft was operated for La Nacionale, we were wrong to say that it was operated by Allegiance Air. In fact, it had been removed from their AOC some three months earlier. We regret any embarrassment and are pleased to offer the correction.

Market News

NEWS IN BRIEF

Hiscox Syndicate 33

Hiscox announced that it will now expand its 2012 capacity for Syndicate 33 to GBP950m, rather than the previously quoted figure of GBP1bn. This equates to an increase of GBP50m on this year's stamp.

Separately, Hiscox announced that it expects the syndicate to make a loss of up to GBP100m on the 2010 underwriting year.

New Lloyd's syndicate set for launch

Lloyd's insurer Catlin and China Re announced that they have teamed up to form a new special-purpose Lloyd's syndicate - Syndicate 2088.

The new syndicate will be managed by Catlin Underwriting Agencies and start writing with effect from 1 January 2012 with GBP50m of stamp capacity.

Subject to final approval by Lloyd's, China Re will provide the capital for Syndicate 2088, which will be managed by Catlin Underwriting Agencies Limited (CUAL), a Catlin Group subsidiary. Syndicate 2088, will underwrite a whole-account quota-share reinsurance of the Catlin Syndicate (Syndicate 2003).

The formation of Syndicate 2088 marks the first time that a company based in China has directly invested in a syndicate at Lloyd's.

UK Government proposes CAA reform

A proposal that would see the UK Civil Aviation Authority (CAA) undergo a major reform was laid out in a draft government bill this month, and could come before Parliament early next year.

Under the proposed bill the CAA's current four main duties will be replaced by a single primary duty - to promote passengers' interests, and a number of other further responsibilities.

The bill will also replace what it describes as the "current 'one size fits all' approach" to economic regulation of the airports. Licence conditions can be tailored to the specific circumstances facing individual airports, it said.

Enforcement powers will be bolstered, allowing the regulator to charge up to 10% of an airport's turnover to tackle poor performance. A "fast track" process to speed up compliance will also be in place.

A new system of appeals will be introduced and the CAA will also be granted powers to investigate anti-competitive behaviour, similar to those held by the regulators of the utilities industry.

The new regime will initially apply to Heathrow, Gatwick and Stansted airports - the three airports already have their charges capped by the CAA.

A number of major airlines expressed their support for the proposed changes commenting that "Reform is long overdue".

ARRIVALS AND DEPARTURES

- Edward Louth has left Aon to join Marsh.
- Sinead Patterson has left Global Aerospace to join Antares.
- Allianz Global Corporate & Specialty (AGCS) has announced the promotion of Zoe Layden to the role of Senior Broker Development Manager for the UK business.

  Layden has worked for AGCS, the insurers' global business insurance division, since 2007 and has held several roles primarily focused on Aviation.

  In her new role she will work with brokers to develop opportunities and enhance broker relationships across all areas, the announcement said.

SIGNIFICANT RATING ACTIONS

AM BEST

Arab Reinsurance Company S.A.L

Ratings agency AM Best has affirmed the financial strength rating of "B+" (Good) and issuer credit rating of "bbb-" of Arab Reinsurance Company S.A.L (Arab Re) (Lebanon). The outlook for both ratings was revised from positive to stable.

Assicurazioni Generali

Ratings agency AM Best has placed under review with negative implications the financial strength rating of "A+" (Superior) and issuer credit rating of "aa-" of Assicurazioni Generali S.p.A. (Generali) (Italy) and its main subsidiaries.

Atrium Underwriters Limited

Ratings agency AM Best has affirmed the financial strength ratings of "A" (Excellent) and issuer credit ratings of "a+" of Lloyd's Syndicate 570 and Lloyd's Syndicate 609. Both syndicates are managed by Atrium Underwriters Limited (AUL). The outlook on all ratings remains stable.

Torus

Ratings agency AM Best has affirmed the financial strength rating of "A-" (Excellent) and issuer credit ratings of "a-" of Bermuda-based Torus Insurance Holdings Limited and it's subsidiaries. The outlook for both ratings is stable.

STANDARD & POORS

Alterra

Standard & Poor's Ratings Services has raised its financial strength rating to "A" from "A-" and its counterparty credit ratings to "BBB+" from "BBB" for Alterra Capital Holdings and its subsidiary companies. The rating agency also revised its previous "positive" outlook to "stable".

MS&AD and NKSJ Insurance Group's

Standard & Poor's Ratings Services placed the long-term counterparty and financial strength ratings of seven Japanese companies within the Mitsui Sumitomo Aioi Nissay Dowa (MS&AD) and Nipponkoa Sompo Japan (NKSJ) Insurance Groups on CreditWatch negative.

The seven insurers are: Mitsui Sumitomo Insurance Co. Ltd.; Aioi Nissay Dowa Insurance Co. Ltd.; Mitsui Sumitomo Aioi Life Insurance Co. Ltd.; Mitsui Sumitomo Primary Life Insurance Co. Ltd.; Sompo Japan Insurance Inc.; NIPPONKOA Insurance Co. Ltd.; and NKSJ Himawari Life Insurance Inc.

S&P also placed on CreditWatch negative the overseas subsidiaries of the two groups as well as the subsidiaries guaranteed by those entities.

Asia Capital Reinsurance Group

Standard & Poor's Ratings Services placed its "A-" financial strength rating on Asia Capital Reinsurance Group on CreditWatch with negative implications.

Montpelier Group

Standard & Poor's Ratings Services has affirmed its "BBB" long-term counterparty credit rating on Montpelier Re Holdings Ltd. and its "A-" counterparty credit and financial strength ratings on the core operating subsidiary, Montpelier Reinsurance Ltd. The outlook is stable.

Egypt sovereign rating

Standard & Poor's has downgraded its sovereign credit rating of Egypt, citing weak political and economic conditions, especially after violent clashes earlier this month.

The rating of Egypt has been cut one notch from "BB-" to "B+", with a negative outlook.

FITCH RATINGS

Everest Reinsurance Holdings

Fitch Ratings has affirmed the financial strength rating of "AA-" of Everest Re Group's holding company Everest Reinsurance Holdings, Inc. and its subsidiaries. The outlook for the ratings is stable.

Portugal

Fitch Ratings has downgraded Portugal's sovereign credit rating to "BB+" from "BBB-". The outlook for the rating is negative.

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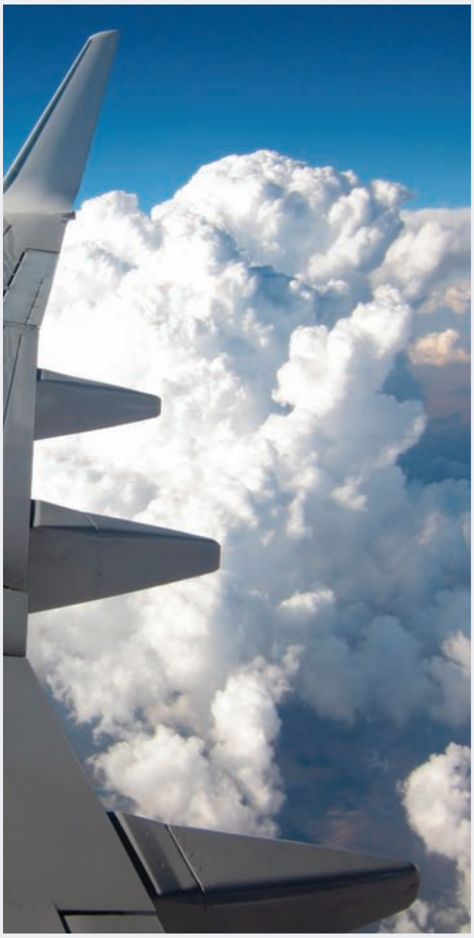

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