



2010 AIRLINE HULL & LIABILITY INSURANCE MARKET REVIEW MARCH 2011



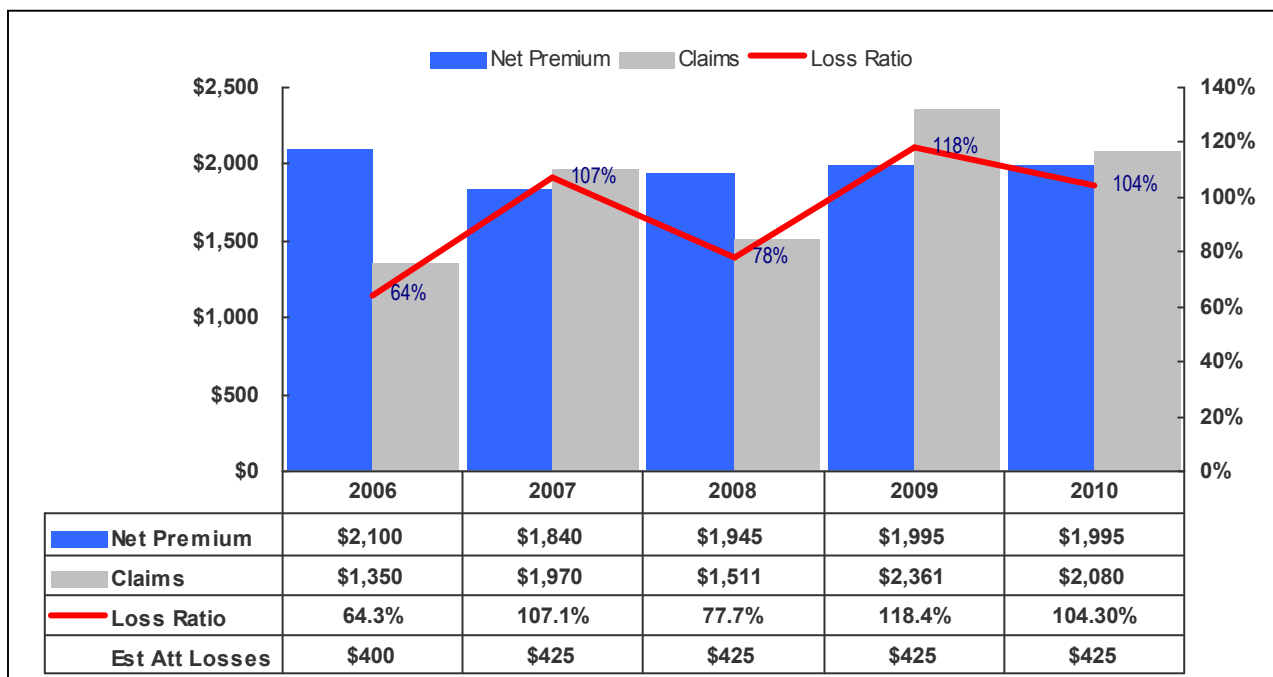
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2010 Airline Hull & Liability Insurance Market Review

All the premium figures shown are based on Net Leaders terms and percentage change figures are based on risks with an Average Fleet Value (AFV) in excess of US\$100 million.

Despite there being no single loss that dramatically affected the underwriting result in 2010, it was once again a loss making year for insurers, with net premium income for the year in the region of US\$2.0 billion including an allowance for unknown risks, compared to claims approaching US\$2.1 billion. This is the third year, in five, that insurers have made a loss, even before their operating expenses are taken into account. This is likely to add at least US\$300 million in annual costs to insurers figures. On this basis it is unlikely they have made a profit since 2006 from this sector of the market.

Hull & Liability Premium and Claims (Calendar Year Basis)

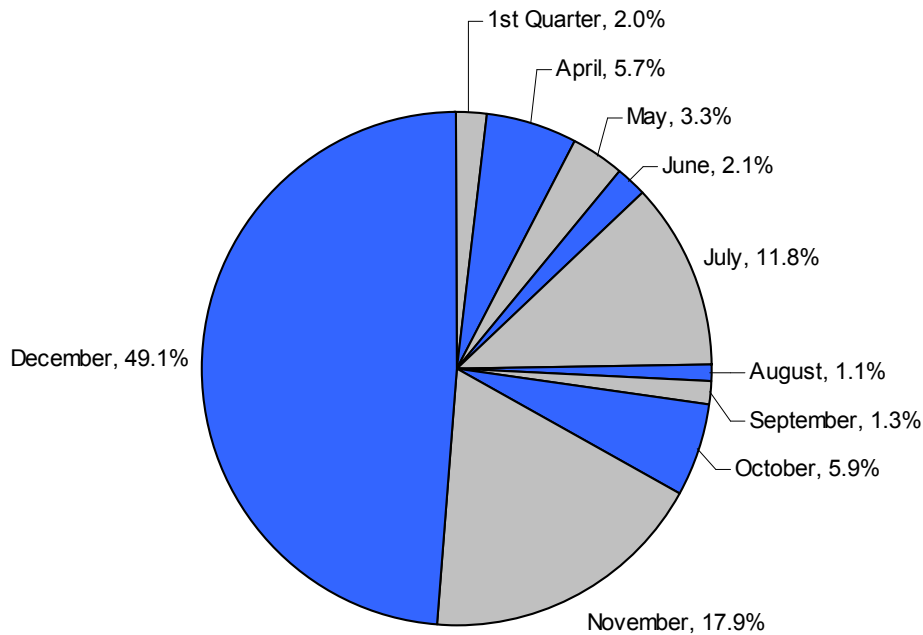


The market was, and remains, finely balanced as despite these poor figures there is still significant overcapacity in the market; in fact with a number of new entrants coming to the market during the year, the available capacity increased by the year end. However as the year progressed underwriters were attempting to manage their way through the market conditions by underwriting more selectively and many reduced the lines that they were prepared to deploy or declined to participate in certain types of business particularly pure cargo operations.

As the year continued this resulted in capacity for those risks with higher liability limits starting to become restricted. Although the market continued to soften as the year progressed with rate reductions being negotiated at leaders terms, the following markets, although seeing rate reductions became more successful in their attempts to reduce the differential between their and the leaders terms. In some cases they achieved higher than leaders terms, this had the effect of narrowing the level of reduction on a composite basis. However for risks with lower limits of liability capacity was still plentiful which resulted in risks becoming very competitively priced and differentials increasing.

The annual renewal calendar is dominated by the fourth quarter of the year and the fourth quarter itself is dominated by the December renewals, where around 50% of the year's premium income is generated. Outside of the final quarter the months that have the biggest impact on the renewal calendar, in terms of premium generated, are April and July.

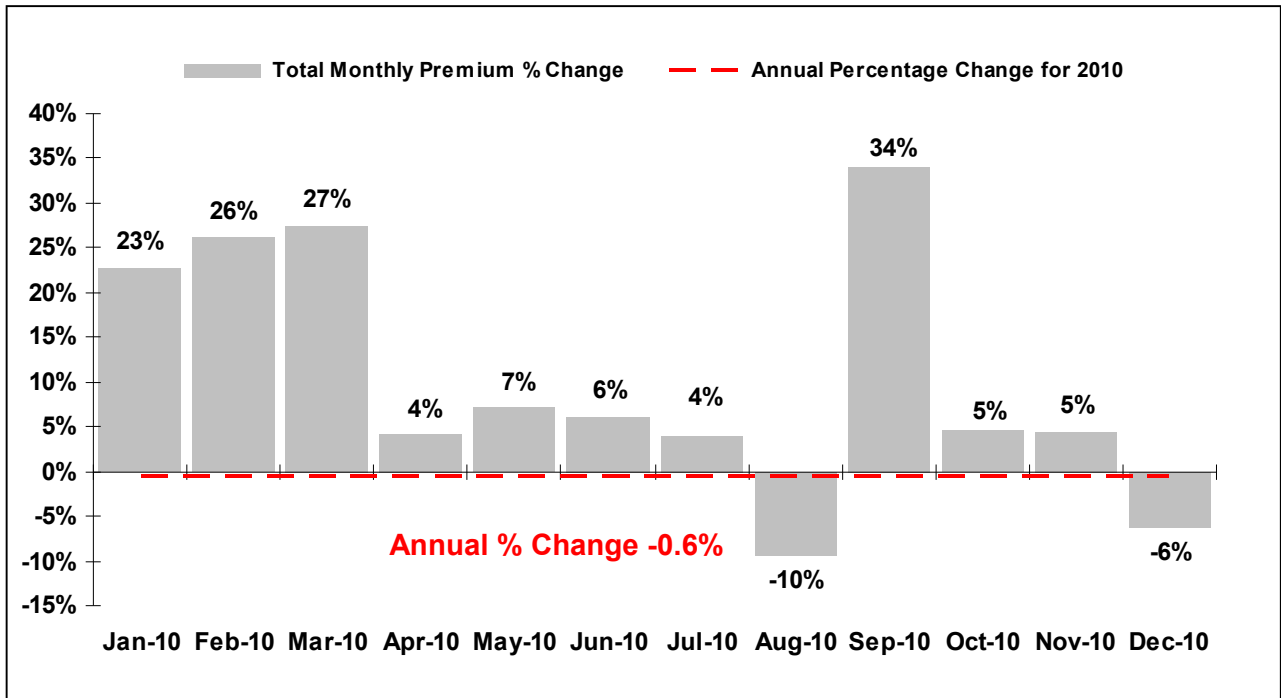
2010 Premium Distribution



With the exception of August (which generates less than US\$21 million in premium and has a minimal impact on the annual figures) and December every month saw premiums increase. The effect that December has on the annual figures becomes evident as despite these increases in premium the annual percentage change in premium was a reduction of 0.6%. If December is excluded then the year would have seen a increase in premium of 5.6% (although this is an unrealistic exercise as there are over 60 renewals including many of the world's largest programmes, generating nearly US\$900 million in premium during the month).

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Hull & Liability 2010 Net Premium % Changes



The premium growth was, primarily, due to the improvement in the operating environment of the airline industry, with every quarter during the year seeing an increase in Average Fleet Value and more importantly, as a greater volume of premium is generated from liability risks, an even higher increase in passenger numbers.

	AFV % Change	PAX % Change
2010		
Q1 Summary	12.2%	13.6%
Q2 Summary	6.3%	12.5%
Q3 Summary	13.6%	14.5%
Q4 Summary	0.7%	6.6%
2010	2.7%	8.0%

This enabled insurers to increase premium levels whilst still giving small rate increases or even rate reductions which became more common as the year progressed.

2010 Percentage Changes

2010	AFV % Change	PAX % Change	Net Hull Rate % Change	Net Calc. Pax Rate % Change	Premium % Change
January	19.1%	-14.3%	12.4%	32.6%	22.7%
February	28.1%	7.9%	2.6%	13.5%	26.1%
March	4.1%	27.6%	22.7%	0.4%	27.4%
Q1 Summary	12.2%	13.6%	16.0%	7.0%	25.8%
April	5.8%	13.8%	-3.1%	-7.6%	4.2%
May	11.4%	13.9%	-4.2%	-4.2%	7.1%
June	-2.3%	3.3%	8.9%	2.4%	6.1%
Q2 Summary	6.3%	12.5%	-1.7%	-5.9%	5.4%
July	11.5%	13.2%	-10.9%	-8.5%	4.0%
August	16.7%	21.9%	-26.6%	-19.1%	-9.5%
September	41.2%	43.3%	-10.0%	-1.5%	34.1%
Q3 Summary	13.6%	14.5%	-11.8%	-8.4%	5.0%
October	4.6%	10.5%	-1.0%	-2.2%	4.6%
November *	-4.3%	6.7%	5.1%	-9.2%	4.5%
December	2.8%	6.9%	-7.5%	-13.0%	-6.3%
Q4 Summary	0.7%	6.6%	0.9%	-11.6%	-3.0%
2010	2.7%	8.0%	-0.2%	-1.2%	-0.6%

**Excludes the Loss AP paid by Saudia iro spares*

The number of carriers renewing in the fourth quarter of the year continued to increase with a number of risks extending their expiring periods of insurance to do so. Further increasing the number of risks renewing during this time was the break-up of the Gulf Co-operation Council (GCC) programme in November with many of the airlines now placed on an individual basis. This resulted in the number of renewals in November increasing by 12 risks although overall exposures did not see such a large percentage increase.

November saw premium levels for some renewals start to reduce although many of the ex-GCC renewals received premium and rate increases as a consequence of the programme breaking up. To give an indication of the trend developing if these programmes were excluded from the November figures we would have seen an overall percentage reduction in premium of 1% for the month.

Premium reductions grew in December with the overall percentage reduction in premium being 6% for the month despite increases in exposures.

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2010 Losses

There were 17 losses in 2010 with reserves in excess of US\$10 million, compared to the 10 year average of 18 losses; however 2010 saw no losses in excess of US\$250 million which was a significant improvement on 2009 which had two losses in excess of US\$250 million, one of these being in excess of US\$500 million.

As would be expected, 2010 was a better year than 2009 on a monetary value basis, although the difference of US\$281 million was not as large as could have been expected, with losses for 2010 totalling US\$2,080 million including an estimate for attritional losses compared to the 2009 figure of US\$2,361 million (the highest on record excluding September 11, 2001 losses).

This illustrates the unpredictable nature of losses, with reserves very much dependant on the location of loss and the nationalities involved, with fatalities in 2010 totalling 745 compared to 600 fatalities in 2009 but resulting in lower reserves.

Included in the reserve figures for 2010 is the industry's largest ever Spares 'All Risks' loss, the result of a Saudi Arabian Airlines spares warehouse catching fire in June which destroyed the warehouse and everything contained within it. This has resulted in insurers taking a greater interest in the value of spares covered and the limits they are insuring.

The largest hull loss was the total loss of a UPS B747-400F aircraft in September, which crashed shortly after takeoff from Dubai International Airport. The largest loss in terms of overall reserve was that of Afriqiyah Airlines A330-200 that crashed whilst on approach to Tripoli International Airport in May killing all 92 passengers.

Insurers continue to be concerned about the seemingly ever increasing cost of partial losses and the use of new technology in aircraft and the cost of repairs. A prime example being the Qantas A380 incident in November, which has resulted in one of the biggest hull losses in 2010.

2001 - 2010 Loss Breakdown

Year	No. Of losses excess of US\$10m	Total Reserves US\$m	No. Of Fatalities
2010	17	2,079	745
2009	21	2,361	604
2008	21	1,363	353
2007	21	1,950	760
2006	18	1,300	880
2005	18	1,180	1,050
2004	9	1,000	530
2003	19	950	560
2002	21	1,350	1,120
2001 (Excluding 9/11)	14	1,800	875
Average	18	1,533	748

2011 Hull and Liability Insurance Market

Although the annual premium reduction for 2010 stands at 0.6%, we expect the December reduction of 6% is more likely to set the benchmark for at least the first 6 months of 2011 as the '2010 underwriting cycle' is completed; unless the market suffers a catastrophic single loss or a series of major losses in the early part of the year which has not occurred to-date. Although the trend will not become clear until after the April 2011 renewals due to the low number of renewals in the first quarter of the year.

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