AON BENFIELD

Insurance-Linked Securities

Fourth Quarter Update 2009

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reDEFINING Capital

Following the release of our 2009 Annual Insurance Linked Securities Report, "Adapting to an Evolving Market," in September 2009, Aon Benfield Securities is pleased to initiate its quarterly research coverage as another way to redefine capital advice and value for our clients. More frequent research will provide greater insight into the market, with analysis of activity and trends coupled with the Aon Benfield Securities outlook.

The fourth quarter has seen new issuance activity from repeat issuers following recent price tightening in the market. This inaugural quarterly update analyzes these and other market developments, providing readers with a current and in-depth view into this important market.

The ILS sector continues to gain momentum with fixed income investors. Emerging analytics, a growing investor base, and structural innovation all play a role in further developing Insurance Linked Securities as a seasoned alternative asset class.

Insurance-Linked Securities Markets Demonstrate Continued Value

In a market characterized by renewal, innovation and growth, the resilience of Insurance-Linked Securities ("ILS") has been significant, as demonstrated by the Aon Benfield Cat Bond Indices. These indices represent the return an investor would have achieved — on a sector-by-sector basis — by allocating a weighted amount of capital to each cat bond available in the market. Aon Benfield introduced these indices in 2008, and presents them on a rolling 12-month basis.

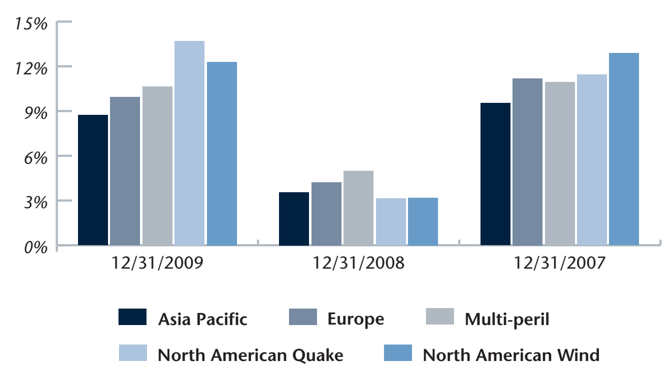
As a composite, ILS sectors provided a total return of 10.97 percent for the annual period ended December 31, 2009, up from 4.16 percent in the previous 12 month period. Much of this increase was due to mark-to-market gains as spreads tightened from the highs experienced during the financial markets crisis. Secondary prices of existing, on-risk bonds increased as a result. North American Earthquake bonds experienced the largest benefit, with annual returns increasing to 13.70 percent from 3.14 percent return one year earlier.

Given a lack of major catastrophes, continued reductions in spreads are expected, as financial markets (including ILS) rebound from the 2008 — 2009 dislocation. Spread tightening, in turn, will improve mark-to-market returns as prices rise. In addition, the dynamic between traditional reinsurance rates and the capital markets will affect sponsors' desire to issue bonds. With reinsurance rates expected to remain steady or marginally decline going into the first quarter of 2010, ILS will present a comparatively more attractive form of risk transfer.

From an investor's perspective, impressive trends in ILS returns combined with the low correlation of the asset class with other financial markets should compel portfolio managers to add and expand ILS holdings as an alternative asset class.

AON BENFIELD CAT BOND INDICES BY SECTOR

	Twelve Months Ended		
ILS SECTOR	**12/31/2009**	**12/31/2008**	**12/31/2007**
Asia/Pacific	8.72%	3.55%	9.54%
Europe	9.94%	4.23%	11.19%
Multi-peril	10.65%	4.99%	10.96%
N.A. Earthquake	13.70%	3.14%	11.44%
N.A. Wind	12.29%	3.19%	12.88%
ALL ILS SECTORS	10.97%	4.16%	11.35%
BENCHMARKS			
3 - 5 Year US Treasury Notes	(0.76%)	12.21%	9.83%
3 Year US Corporate BB+	19.61%	0.95%	5.18%
S&P 500	26.47%	(37.00%)	5.60%
ABS 3 - 5 Yrs, Fixed Rate	23.92%	(18.15%)	1.75%
CMBS Fixed Rate 3 - 5 Yrs	28.22%	(10.89%)	6.76%



Source: Aon Benfield Securities

Fourth Quarter ILS Market Review

Transaction Review

In total, the 2009 calendar year has seen 18 catastrophe bond transactions close, totaling $3.4 billion. The first nine transactions of the year, all closing before June 30, demonstrated the buoyancy of the market after a prior year marked by financial market distress.

In hindsight, sponsors paid a premium to come to market as spreads throughout this period were some of the highest the market had seen, even surpassing post-Katrina levels. General market dislocation played a significant role in increasing the risk premiums. More importantly, however, traditional reinsurance markets presented limited capacity during this period in contrast to the ILS market which offered an available risk transfer option. This supply-demand dynamic, combined with market contagion, led to the significant price increases.

The fourth quarter, which experienced transactions totaling $1.6 billion, continued a dramatic decline in spreads which began just months prior. The most dramatic decreases have been in the U.S. Wind and Multi-Peril sectors which have decreased 36 percent and 26 percent respectively on a non-seasonal adjusted basis. Also, as ILS spreads have become competitive with traditional reinsurance markets throughout this period, there has been an increase in interest in the sector from sponsors seeking to access alternative forms of risk transfer.

Spread compression in the fourth quarter led sponsors to transfer risk for diversifying perils and top layer exposures. Transactions such as the recent Longpoint Re II and Redwood Capital XI deals paid comparatively lower coupons that would not have been possible in the first half of the year.

The market has also seen investor willingness to take on new risks as evidenced in the recent Lakeside Re II transaction. Lakeside Re II, sponsored by Zurich American Insurance Company and Zurich Insurance Company Ltd., was one of the only transactions ever to transfer commercial California Earthquake risks to the capital markets on an indemnity basis. Generally, the indemnity basis was often used prior to the 2008 financial markets dislocation and then fell out of favor with investors as the ILS market regained footing in 2009. With the transaction oversubscribed and priced at the low end of the initial guidance, the transaction may foretell a resurgence of the indemnity structure.

Notably, there were just two new sponsors to the market in the year. The high spreads witnessed during the first half of the year deterred many potential new sponsors from issuing. Consequently, many such sponsors lost the opportunity to take advantage of the rapid decrease in spreads toward year-end. Instead, most issuance came from seasoned sponsors that had transaction structures allowing them to tap the market at any time, thus taking advantage of an improved market.

2009 ILS TRANSACTION SUMMARY

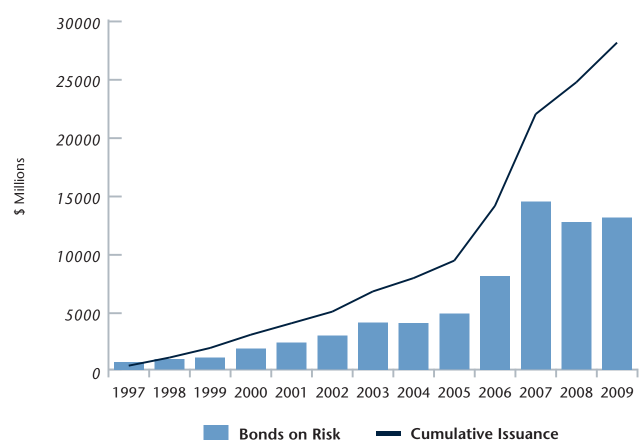
Issue	Perils	Size ($MM)
Atlas V Capital - 1	US Wind, US EQ	50
Atlas V Capital - 2	US Wind, US EQ	100
Atlas V Capital - 3	US Wind, US EQ	50
Mystic Re II 2009	US Wind, US EQ	225
East Lane Re III	US Wind	150
Blue Fin - 2	US Wind, US EQ	180
Successor II F-IV [1]	US Wind, US EQ	60
Ibis Re A	US Wind	75
Ibis Re B	US Wind	75
Residential Re 2009 - 1	US Wind, US EQ	70
Residential Re 2009 - 2	US Wind, US EQ	60
Residential Re 2009 - 4	US Wind, US EQ, WS, ST, WF	120
Ianus Capital [2]	EU Wind, Turkey EQ	70 / €50
Calabash Re III A	US Wind, US EQ	86
Calabash Re III B	US EQ	14
Parkton Re	US Wind	200
Eurus II [3]	EU Wind	210 / €150
MultiCat Mexico 2009 - A	Mexico EQ	140
MultiCat Mexico 2009 - B	Mexico HU	50
MultiCat Mexico 2009 - C	Mexico HU	50
MultiCat Mexico 2009 - D	Mexico HU	50
Successor X I-S1 [4]	US Wind, US EQ, EU Wind	50
Successor X I-U1 [4]	US Wind, US EQ	50
Successor X I-X1 [4]	US Wind, US EQ	50
Montana Re - A	US Wind, US EQ	75
Montana Re - B	US Wind	100
Redwood Capital XI	CAL EQ	150
Atlas VI [5]	EU Wind, JP EQ	110 / €75
Longpoint Re II - A	US Wind	250
Longpoint Re II -B	US Wind	250
Lakeside Re II	CAL EQ	225
Total		**3,395**

[1] Successor II F-IV was issued at 78.5% of the Original Principal Amount
[2] 1€ = 1.401USD
[3] 1€ = 1.403USD
[4] Successor X I-S1, I-U1 & I-X1 were issued at 80%, 88% & 84% of the Original Principal Amount respectively
[5] 1€ = 1.471USD

Source: Aon Benfield Securities

OUTSTANDING CATASTROPHE BOND VOLUME BY YEAR

(Ending December 31)



Source: Aon Benfield Securities

Conservative Collateral Standards

Since our 2009 annual ILS review 'Adapting to an Evolving Market', transactions have continued to utilize forms of collateral management developed earlier in the year. Money market funds proved to be the most popular method of collateral management in the fourth quarter (in MultiCat Mexico, Successor XI, Longpoint Re II, Lakeside Re II, and Redwood Capital IX), as the structure demonstrated investors' and sponsors' desire for more conservative collateral, less dependent upon the credit worthiness of counterparties seen in other structures.

The market also saw use of the collateral structure involving a tri-party repurchase agreement. This structure involves the investment of collateral funds in a pool of securities which are managed by a third-party trustee and meet strict eligibility criteria. The pool is marked to market on a daily basis with the opportunity to immediately exchange an asset for another if it fails the eligibility test. Since the Eurus II transaction in July, this structure was also used in the fourth quarter transactions, Montana Re 2009-1 and Atlas VI. As a more aggressive and complicated collateral solution than money market funds, sponsors receive the benefit of greater investment income in exchange for a higher spread charged by investors.

No transactions in the fourth quarter utilized medium-term notes ("MTN") as collateral. In June, Blue Fin - 2, Ianus Capital, and Calabash Re III employed this structure, which included support for the MTN by highly-rated financial institutions.

Support for conservative collateral structures can be demonstrated over the entire calendar year. Although four of the transactions completed in the first half of 2009 utilized a traditional total return swap structure, these transactions recognized the conservative trend by restricting investments in the swap structure to Treasury securities or securities otherwise supported by the U.S. Treasury. Even with these restrictions, the swap structure seems to be losing favor with investors, as none of the transactions completed in the second half of the year used a total return swap.

International View

As fourth quarter issuances demonstrated continued emphasis on U.S. exposures, pricing levels for non-U.S. geographies declined. Lower levels, however, remained above costs for traditional reinsurance and rendered ILS pricing for non-U.S. risks comparatively expensive for the sector. The lack of supply for non-U.S. ILS explains the 80 percent share of the 2009 transactions covering U.S. perils. Indeed, outside western Europe and Japan, competition among reinsurers has driven traditional reinsurance margins to very low levels in these non-peak regions.

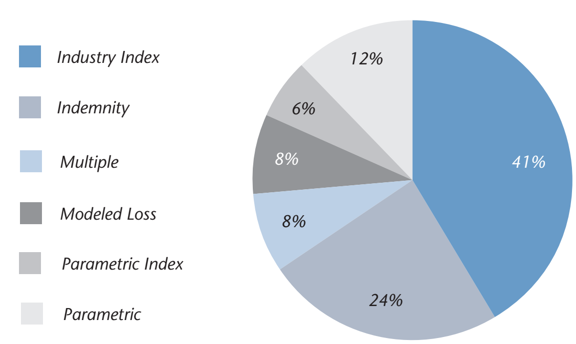
While global ILS investors are constantly looking for diversification by peril and geography, the pricing differential with traditional reinsurance and the basis risk inherent in non-indemnity cat bond structures remain the primary reasons why non-U.S. sponsors still think carefully before accessing the capital markets.

2009 CATASTROPHE BOND COLLATERAL STRUCTURE USAGE
(Year ending December 31)

Issue	Assets	Counterparty
TOTAL RETURN SWAP		**21.3%**
Atlas V Capital 1, 2 & 3	TLGP, UST	Deutsche Bank
Mystic Re II 2009	TLGP, UST	Goldman Sachs
East Lane Re III	TLGP, UST	Citibank
Ibis Re A & B	TLGP, UST	Goldman Sachs
MEDIUM TERM NOTES		**10.3%**
Blue Fin - 2	MTNs	KfW
Ianus Capital	MTNs	KfW
Calabash Re III A & B	MTNs	IBRD
MONEY MARKET FUNDS		**53.8%**
Successor II F-IV	UST, Cash	N/A
Residential Re 2009 1, 2 & 4	UST, Cash	N/A
Parkton Re	UST, Cash	N/A
MultiCat Mexico 2009 A, B, C & D	UST, Cash	N/A
Successor X I-S1, I-U1 & I-X1	UST, Cash	N/A
Redwood Capital XI	UST, Cash	N/A
Longpoint Re II	UST, Cash	N/A
Lakeside Re II	UST, Cash	N/A
TRIPARTY REPURCHASE AGREEMENT		**14.6%**
Eurus II	BBB- Corporates and A- Sovereign Debt with over-collateralization	BNP Paribas
Montana Re	BBB Corporates and A- Sovereign Debt with over-collateralisation	Goldman Sachs
Atlas VI	BBB- Corporates and A- Sovereign Debt with over-collateralization	BNP Paribas

Source: Aon Benfield Securities

2009 CATASTROPHE BOND ISSUANCE BY LOSS TRIGGER
(Year ending December 31)



Source: Aon Benfield Securities

Demand Drives Secondary Market

Investors optimistically anticipated that trading volumes would pick up once new issues began to reach the primary market in the fourth quarter. However, throughout the quarter, trading volumes remained at average levels as investors deployed excess cash to the new issues, many of which closed with high levels of oversubscription and price tightening. In particular, U.S. Wind-exposed cat bond spreads saw tightening throughout this period due to seasonality adjustments and an increase in demand. Different methodologies in calculating risk adjusted spreads allowed several investors to see a slight disconnect in risk adjusted pricing across various cat bonds. These investors were able to take advantage of the market inefficiency by buying at (perceived) low risk adjusted levels and selling at higher levels.

The quarter can be characterized by demand for bonds far outweighing supply in the market. Tightening spreads tempted several investors to test the market with offers that were one to two points higher than indicative price sheet levels. Several of these high offers were accepted, causing further tightening in spreads to the new levels. Investors with foresight and available cash were willing to lead the market by purchasing bonds above posted levels, expecting that the market would soon follow as spreads tightened and investors adapted to the new levels.

Through the fourth quarter, several bonds issued earlier in the year traded at very high levels, demonstrating the dislocation of the market when these bonds were issued. For example, in October, Aon Benfield Securities traded Ibis Re A at 109, Ibis Re B at 112 and Mystic II 2009 at 108. Other active issues included short dated bonds such as the Osiris series with some investors in these bonds looking to free up capital, anticipating opportunity in the primary market. On Aon Benfield Securities' desk, the most active series of bonds in Q4 was the Residential Re series.

Upon the closing of the Montana Re transaction in late November, we saw a slight uptick in bonds put out to offer. Most of the trading was in off-risk U.S. Wind-exposed bonds and multi-peril bonds, in addition to heavy interest in Japan Quake bonds. The activity was short lived, however, as trading slowed towards mid-December and investors seemed to have set their portfolios for the year and new transactions had all been priced and closed. As we've witnessed in previous years, the primary market remains the main catalyst for trading activity as investors rebalance their portfolios when the new issue activity is strong. We expect this trend to continue and look forward to an active primary and secondary market in 2010.

Outlook

In both U.S. and non-U.S. markets, improving conditions have broadened the new issuance pipeline as sponsors have sought access to capacity at increasingly competitive prices. We see a trend towards more top layer and low expected loss deals as minimum pricing decreases. From an investor standpoint, we expect to see a trend towards use of the collateralized reinsurance market to fill risk buckets and return profiles which are currently unavailable in the ILS market.

As it has since its inception, the ILS market will continue to offer issuers multi-year fixed-price protection. Market participants are expected to demonstrate ongoing interest and resilience as issuers enjoy the ability to diversify their risk transfer programs, and investors take advantage of investment opportunities to replace and augment maturing issues.

Issuance volumes are expected to grow in the first half of 2010, as approximately $2 billion of transactions come off-risk and sponsors seek to replace that capacity again in the capital markets. This phenomenon will also fuel the already strong demand from investors for primary issuance. In addition, ILS will continue to be a strategic part of insurers' annual traditional reinsurance programs. We expect a continuance of the trend in which sponsors look to the capital markets each year to tap available capacity and smooth the pricing cycle with multi-year deals.

Finally, from a structural perspective, issuers and investors will continue to utilize the innovative collateral options developed this year. Money market funds, U.S. government securities portfolios, and medium term notes will prove popular due to their comparatively lower credit risk. Other options, such as total return swaps and tri-party repurchase agreements, may not be as readily received by investors as they take stock of the credit risks inherent in these structures.

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As a recognized leader in this investment banking market, Aon Benfield Securities is helping to redefine capital by offering expert underwriting and placement of new issues, financial advisory services, as well as securities trading in the secondary market. Aon Benfield Securities' integration with Aon Benfield's reinsurance operation expands its capability to provide analytics, modeling, rating agency, and other consultative services.

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