AON BENFIELD

Insurance-Linked Securities

First Quarter Update 2010

reDEFINING

Capital | Access | Advocacy | Innovation

reDEFINING Capital

Aon Benfield Securities again presents a quarterly review of the insurance-linked securities ("ILS") market, offering insight into market activity and the innovation which continues to characterize this alternative asset class.

Catstrophe Bond Returns Demonstrate Continued Increases

Aon Benfield Cat Bond Indices paint a positive picture for investors as overall returns increased in each sector for the recent 3- and 12-month periods. The indices represent the return an investor would have achieved by allocating a weighted amount of capital to each cat bond available in the market. Aon Benfield Securities presents these indices on a rolling basis.

Overall, returns increased to 13.02% in 2010 from 2.60% in 2009 for twelve months ended March 31. On a 3-month basis, returns increased to 3.39% from 0.95% in the comparable prior-year period. Mark-to-market gains remain primarily responsible for this significant increase, as spreads continued to tighten from early 2009 when prices were extraordinarily low due to financial markets distress.

Bonds covering North American Wind realized the largest increase of any sector on both a 12-month and 3-month basis. Initially bid-down as a sector in early 2009, hurricane bonds have regained favor with investors seeking stronger yield compared to other sectors.

ILS returns did not outperform benchmarks such as the S&P 500 index during either the recent 3-month or 12-month periods. Although ILS performance sometimes lags selected indices historically, the cumulative return for ILS since January 2008 has exceeded these indices. Further, ILS consistently demonstrates a lower level of volatility, thus ILS investors enjoy greater stability versus general market metrics.

AON BENFIELD CAT BOND INDICES BY SECTOR

	Twelve Months Ended		Three Months Ended	
ILS SECTOR	**3/31/2010**	**3/31/2009**	**3/31/2010**	**3/31/2009**
Asia Pacific	9.22%	1.93%	2.48%	1.55%
Europe	11.32%	4.83%	4.46%	2.71%
Multi-peril	13.36%	3.47%	2.92%	0.35%
N.A. Earthquake	10.08%	1.74%	3.69%	2.92%
N.A. Wind	14.47%	0.30%	4.12%	0.51%
Investment Grade ILS	8.22%	2.00%	1.09%	(0.48%)
Non-investment Grade ILS	13.83%	2.72%	3.79%	1.24%
ALL ILS SECTORS	13.02%	2.60%	3.39%	0.95%
BENCHMARKS				
3 - 5 Year U.S. Treasury Notes	0.61%	6.70%	1.30%	(0.06%)
3 Year U.S. Corporate BB+	22.57%	0.68%	3.91%	1.40%
S&P 500	49.77%	(38.09%)	5.39%	(11.01%)
ABS 3 - 5 Yrs, Fixed Rate	24.63%	(13.69%)	3.78%	3.19%
CMBS Fixed Rate 3 - 5 Yrs	31.65%	(6.56%)	6.25%	3.48%

Source: Aon Benfield Securities

First Quarter 2010 ILS Market Review

Catastrophe Bond Transaction Review

Although catastrophe bond issuance for the first quarter was lower than prior years, the market continues to demonstrate strength. First quarters are traditionally slower than the second or fourth quarter in the ILS market, and are sometimes affected by "spillover" transactions which were attempted in a prior quarter but did not close. Q1 2010 did not include any spillover transactions from the prior quarter. In total, two transactions came to market during the first quarter for a total issuance of $300 million.

Hartford Fire Insurance Company ("Hartford") sponsored the first transaction of the 2010 year, Foundation Re III Ltd. A third iteration of Hartford's prior transactions, Foundation Re III covered Hurricane exposure along the eastern U.S. The transaction allows Hartford to receive up to $180 million when an index (derived from PCS Insured Industry Loss Amounts from a U.S. Hurricane) exceeds a trigger level. Collateral requirements for the transaction followed the conservatism demonstrated since the Lehman Brothers bankruptcy, with permitted investments in U.S. Money Market Funds invested in U.S. government obligations rated "AAAm-G" or "AAAm" by S&P. The variable rate notes pay an interest spread of 5.75% over the Money Market Fund Yield.

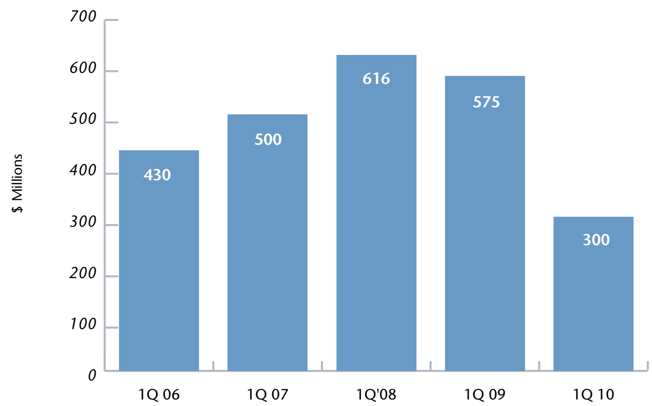
Swiss Re sponsored a new series of the Successor transaction later in the quarter. Class II-CN3 with $45 million of issuance, and Class II-CL3 with $35 million of issuance, both cover losses from U.S. Wind and Europe Wind. Class II-BY3, $40 million, covers U.S. Wind, Europe Wind, California Earthquake and Japan Earthquake. In addition to modeled loss and parametric triggers, all three classes were the first insurance-linked securities to use the PERILS AG industry loss index as one of the triggers. In the index, claims data is directly collected from insurance companies on an anonymous basis and extrapolated to a market level. The transaction allows Swiss Re to receive up to the issue principal amount if losses exceed the established trigger levels. Similar to Foundation Re III, all three new classes of Successor X require collateral to be invested in U.S. Money Market Funds. Class II-CN3, class II-CL3, and class II-BY3 pay an interest spread of 9.75%, 11.75%, and 16.75%, respectively.

Including first quarter issuance, on-risk catastrophe bond volume totaled $12.3 billion as of March 31.

Market Drivers

Due in part to the excess amount of maturities over new issuance in the prior quarter, investor demand has exceeded supply. Contributing to the demand, some funds successfully raised new capital, placing additional pressure on fund managers to fully invest available capital. These effects bid up bond prices and led to a decline in risk premium during the quarter, enticing sponsors to consider the ILS market again over other risk transfer options.

CATASTROPHE BOND ISSUANCE BY QUARTER



Source: Aon Benfield Securities

Structural Observations

As Aon Benfield Securities reported last quarter, conservative collateral standards developed in early 2009 continued into the fourth quarter. With both first quarter 2010 transactions utilizing U.S. Treasury Money Market Fund collateral, it is safe to say that these standards have now become more routine. Collateral alternatives to Money Market Funds — such as medium term notes, tri-party repurchase agreements, and bank deposits — may make a comeback later this year as sponsors and investors reconsider these options. Bank deposits, in particular, may become more interesting to investors as a way to increase yield without substantially increasing risk.

Catastrophe Activity

January 2010 will long be remembered for one of history's most devastating natural disasters: the magnitude-7.0 Haitian earthquake. Following this event, a second significant earthquake of magnitude-8.8 occured in Chile in February. Although economic losses are estimated in the billions of U.S. Dollars in Haiti, the insured loss figure was negligible. In Chile, however, with economic damage estimates in the tens of billions of dollars, insured losses will be in the single digit billions of dollars. Finally, Windstorm Xynthia swept across Europe causing insured losses in excess of $1 billion. (source: Impact Forecasting)

Although devastating events, these disasters are unlikely to significantly alter the ongoing trends in ILS. Specifically, structures will continue to remain conservative while still satisfying sponsors' risk management needs, and risk premium will remain at levels substantially below those of a year ago.

Industry Loss Warranties ("ILW")

Even excluding the large number of transactions effective at January 1, the first quarter saw steady ILW trading despite having been a quiet quarter in prior years. A broad mix of products were traded including some Second Event and Earthquake products. While clients routinely assessed portfolio exposures, such analysis did not precipitate panic buying. Further losses could encourage clients to use an ILW solution to buy down retentions. Anticipation of the annual U.S. wind season resulted in some price firming over recent weeks. Aggregate products continue to be of interest to buyers.

Traditional Reinsurance Market

Catastrophe losses in the first quarter did not impact pricing or capacity in critical reinsurer aggregate zones for traditional reinsurance. As with catastrophe bonds, the impact of the losses in peak and non-peak zones will be minimal outside of Chile. Even in Chile, where the July 1 renewal date is common, the impact is likely muted by the fact that the earthquake risk was well understood by reinsurers and appears to be contained within reasonable loss expectations given the magnitude of the event.

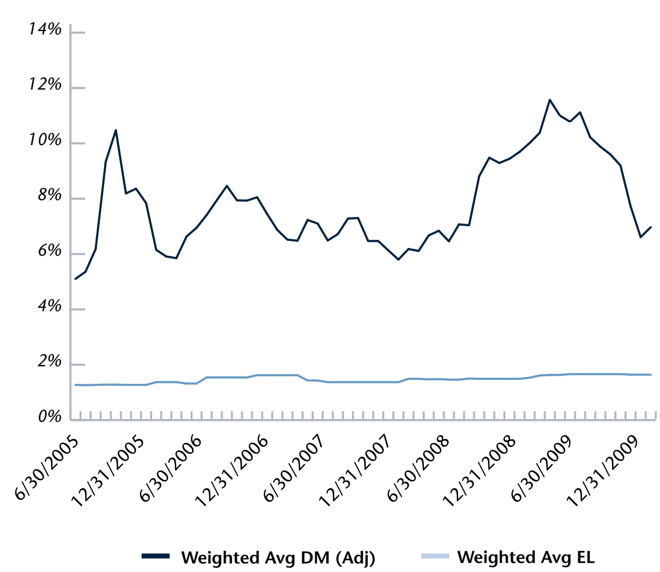
Aon Benfield's outlook for renewals in the second and third quarters of 2010 is continued softening in line with our guidance published in January. Generally, any hardening of catastrophe reinsurance rates witnessed in 2009 is being reversed in 2010. Markets that held firm in the midst of the crisis are now expected to return to a broad softening phase unless meaningful loss experience dictates otherwise. (source: Aon Benfield *April 1 Renewals Update*)

Demand Continues To Exceed Supply In The Secondary Market

With issuance low in the first quarter, investors looked to the secondary market to grow their portfolios and manage inflows. This demand for bonds continued to push prices to levels unseen in previous years. There was an especially strong demand throughout the quarter for any catastrophe bond not exposed to U.S. Wind, as well as high demand for bonds covering other perils. Towards the end of the quarter, investors gained an optimistic sense of the forward calendar, and the tide shifted to a more balanced market with investors looking to rebalance portfolios and release capital for new deals. Short-dated bonds exposed to U.S. Wind traded quite actively for this reason.

Catastrophe bond pricing in the beginning of 2010 has been driven by greater demand than supply, continuing the pricing trends seen in the fourth quarter. An example is seen by the weighted average adjusted discount margin (spread) for BB rated U.S. Multi-Peril bonds, which has decreased to approximately 6.66% for a weighted average expected loss of 1.33% in Q1 2010. This compares to a discount margin of 8.89% for an expected loss of 1.35% in Q4 2009. Seasonality plays a role in this analysis, as one quarter worth of "risk-free" wind exposure has elapsed. The increased market demand we have seen throughout the quarter has also resulted in margin decline. On an adjusted basis, relative discount margins of the recent quarter were on par with those experienced throughout 2007 and early 2008.

BB RATED WEIGHTED AVERAGE (ADJUSTED) DM



Source: Aon Benfield Securities

Because recent earthquake and windstorm activity has not caused losses to any outstanding bonds, events have had minimal effect on market pricing.

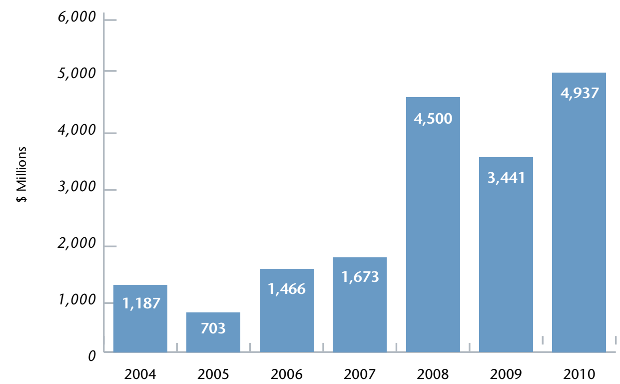
Strong ILS Market Outlook

Considering market drivers as well as comparatively lower volume in the first quarter, conditions are prime for increased ILS issuance in the remainder of the year. A trend toward lower expected loss transactions may result in pressure on what investors might consider minimum pricing.

Catastrophe bonds maturing in 2010 will approach $5 billion, and investors will be motivated to purchase new issues to replace these maturities. Further, primary issuance will drive secondary trading, as investors balance existing portfolios and attempt to grow those portfolios in the absence of primary issuance. Aon Benfield Securities anticipates $5-6 billion of new issuance over the calendar year.

Finally, diversification will be a theme for both sponsors and investors during the remainder of 2010. Sponsors will enjoy balanced risk management through the use of ILS, and investors will seek balance in their portfolio construction by diversifying perils.

CATASTROPHE BOND MATURING BONDS BY YEAR



Source: Aon Benfield Securities

About Aon Benfield Securities

Aon Benfield Securities, Inc. and Aon Benfield Securities Limited (collectively, "Aon Benfield Securities") provide insurance and reinsurance clients with a full suite of insurance-linked securities products, including catastrophe bonds, contingent capital, collateralized reinsurance, industry loss warranties, sidecars and derivative products.

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.

About Aon Benfield

Aon Benfield is redefining the role of the reinsurance intermediary and capital advisor. Aon Benfield offers unbiased capital advice and customized access to reinsurance and alternative markets around the globe. As a trusted advocate, we provide local reach to the world's markets, an unparalleled investment in innovative analytics, including catastrophe management, actuarial, and rating agency advisory, and the right professionals to advise clients in making the optimal capital choice for their business. With an international network of more than 4,000 professionals in 50 countries, our worldwide client base is able to access the broadest portfolio of integrated capital solutions and services.

200 E. Randolph Street, Chicago, Illinois 60601
t: +1 312 381 5300 | f: +1 312 381 0160 | www.aonbenfield.com