AON BENFIELD

Reinsurance Market Outlook

April 1, 2012 Update

Empower Results

Executive Summary—Value Creating Capital

April 1 renewals are concentrated on a few large U.S. programs and substantially all of the Japanese market. The trends witnessed for the U.S. market, where reinsurance demand far exceeds that of any other region, were as expected and similar to what was experienced at January 1. Demand for U.S. reinsurance continues to be very sensitive to price. New U.S. catastrophe models and substantial retained tornado and hail losses in 2011 have not generated meaningful new demand for additional U.S. reinsurance. U.S. insurers and their customers continue to benefit from material reinsurance capital that is transacted at accretive terms.

Substantial reinsurance capacity continues to be available for Japanese programs and the market remains in balance. The supply of capacity met Japanese insurer demand and allowed an orderly renewal albeit with increased prices. Japanese insurers continue to access reinsurance capital to support their underwriting operations at very accretive terms.

Japanese insurers all returned to the April 1 renewal date after a few extended some of their contracts to July 1 in 2011 to gain a better understanding of the scope of losses from the March 11, 2011 earthquake and tsunami. The impact of the 2011 flooding in Thailand also gave significant losses to the major non-life companies resulting in some substantial reinsurance recoveries. The combination of these two major losses in less than a year reinforced the value of the reinsurance product and the need for a robust process to ensure a clear understanding of the potential for global catastrophe losses.

For the Japanese related pre-renewal discussions a key topic was the ability of the Japanese non-life insurers to renew their earthquake pro rata treaties and at what terms. In the end, the substantial improvements to the rating and conditions of the underlying business meant that the capacity for these treaties stood up well with modest reductions in event limits and ceding commissions. With the underlying earthquake exposures not growing there was limited need for additional earthquake excess of loss reinsurance. Although tsunami risk was not included within the vendor model outputs, the actual loss from the Tohoku earthquake was well within the earthquake limits purchased by the Japanese insurers.

Investors in catastrophe-linked securities provided record first quarter capacity. Spreads in these securities appear attractive to yield-hungry investors as global credit-linked interest rates remain at very low levels. Insurer sponsors continue to bring incremental new demand more often to this market than the traditional market where they fear adding additional capacity demand to a market that is, at the least, talking about price uncertainty.

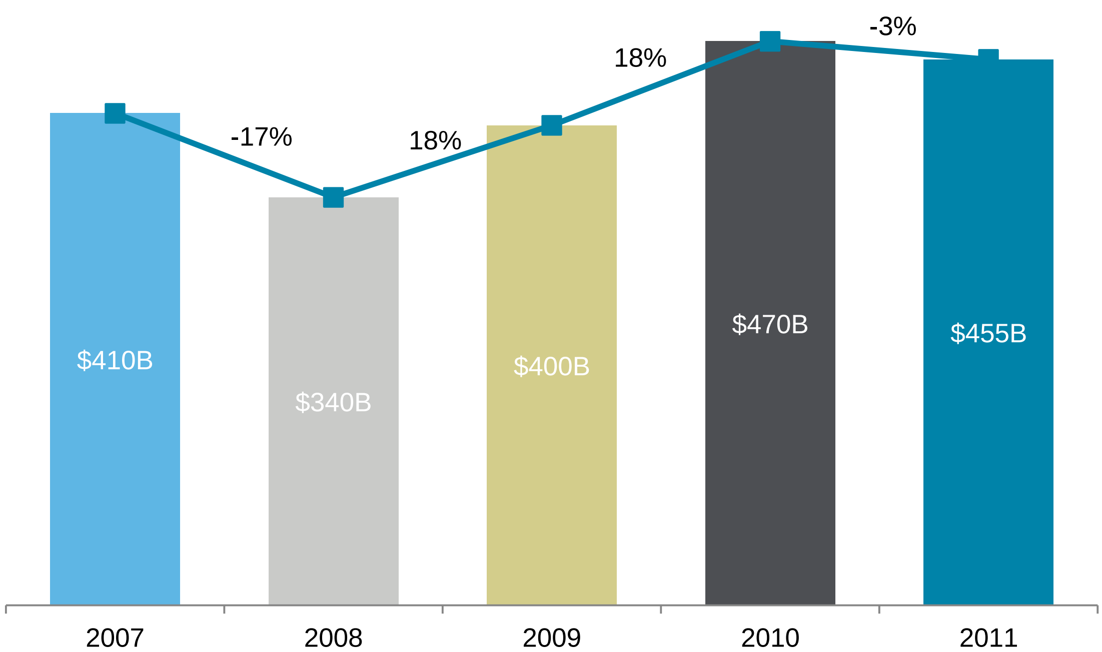
A summary of the April 1 rate on line, capacity and retention changes for all renewing markets as well as our outlook for the U.S. June and July renewals can be obtained by clients of our firm through the professionals serving their account.

Supply and Demand

Reinsurance capacity ended 2011 down 3 percent over FY 2010 despite nearly USD113 billion in insured catastrophe losses during 2011. Reinsurers covered a higher proportion of losses in 2011 than they have in prior major catastrophe years because affected insurers generally held lower retentions and utilized substantial proportional contracts. Reinsurance capacity for affected regions remains stable.

The market for June and July 2012 renewals is sensitive to material new demand for traditional catastrophe reinsurance; however, material new demand is not anticipated. This expectation differentiates the market following 2011 from other post-loss markets where insurers have in many cases fully or nearly exhausted their reinsurance programs and then sought higher limits in the following years. Substantial additional capital is available to reinsurers should returns rise above existing expectations.

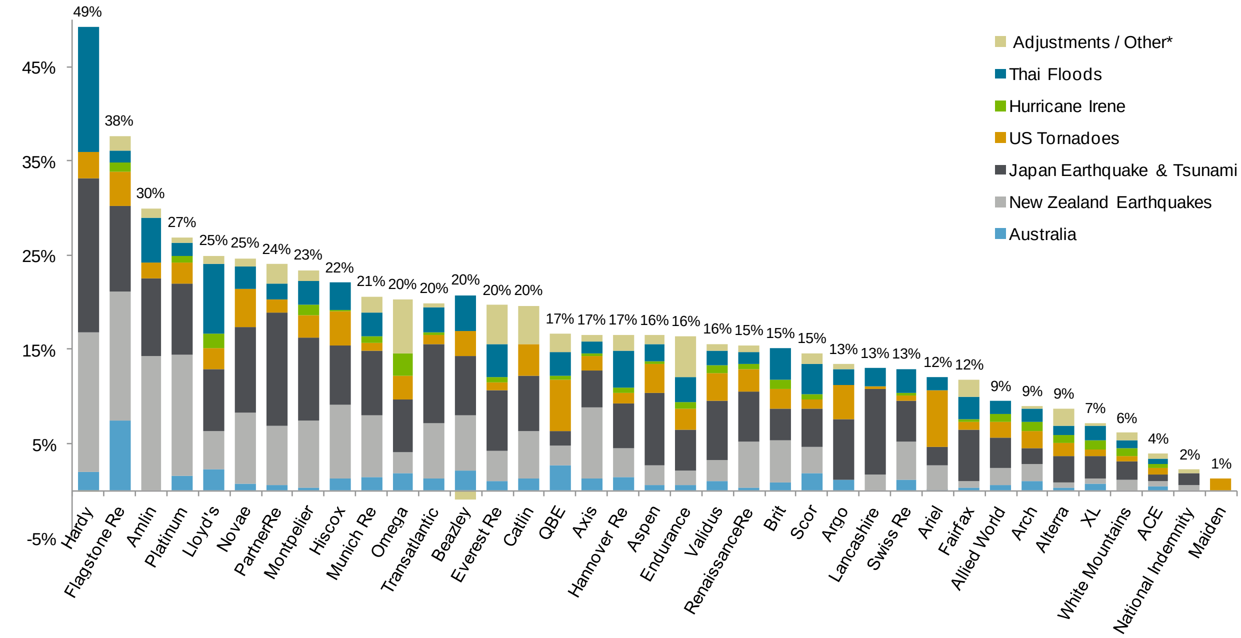
Figure 1: Change in Reinsurer Capital



Source: Individual company reports, Aon Benfield Analytics

The impact of catastrophe losses on individual reinsurers varied widely, as shown in Figure 2.

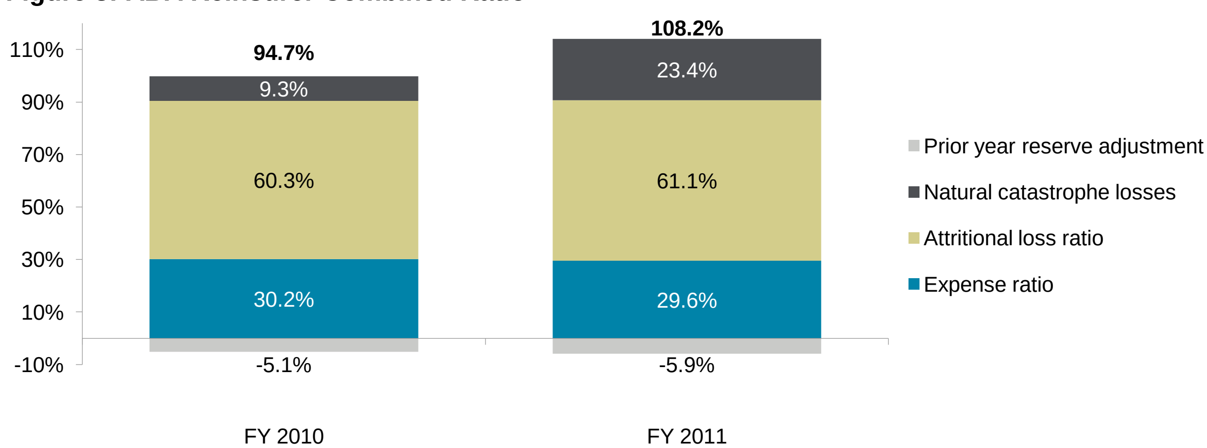
Figure 2: 2011 Catastrophe Losses as Percent of FY 2010 Shareholders' Funds



*Includes other major events, additions/releases from previous quarter(s) loss estimates (when not split by event), reinstatements, FX reconciliations, etc.
Splits by event are shown as latest reported, i.e. could be from Q1, Q2, Q3 or FY 2011 results. Some Thai flood loss estimates are from preliminary announcements
All losses are assumed pre-tax
All losses are net of reinstatement premiums except for Validus and ACE
All losses converted to USD at 2011 full year average FX rates
US tornadoes includes Hurricane Irene for Argo, Ariel and Novae
Source: Individual company reports, Aon Benfield Analytics

For the Aon Benfield Aggregate (ABA) group of reinsurers, the combined ratio increased to 108.2 percent, an increase of 13.5 percentage points compared to 2010 with a 14.1 percentage point increase in natural catastrophe losses.

Figure 3: ABA Reinsurer Combined Ratio



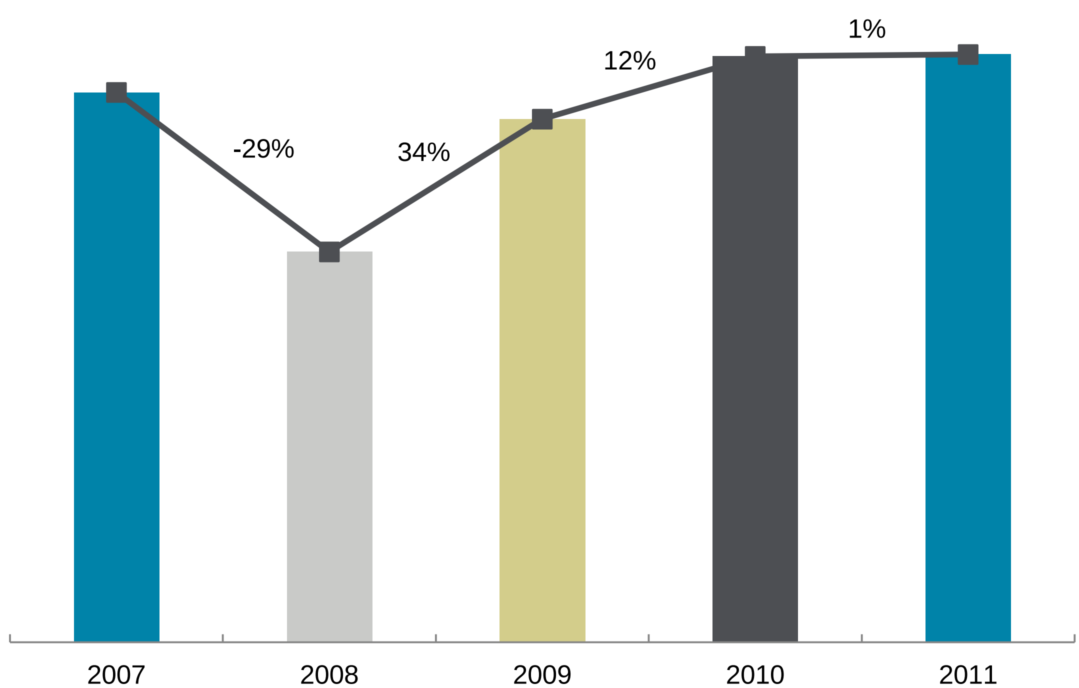
Source: Individual company reports, Aon Benfield Analytics

Catastrophe losses through Q1 in 2012 are significantly less than where the industry was at the same time in 2011. By comparison, 2012 has resulted in approximately USD10 billion in economic loss and nearly USD3 billion in insured loss compared to USD270 billion in economic loss in Q1 2011 and almost USD53 billion in insured loss.

Reinsurer returns on equity in 2011 dropped to 3 percent due to catastrophe losses and lower investment yields. Analyst consensus earnings for public reinsurers show returns on equity rebounding to the 10 percent range for 2012 and 2013. These analyst estimates are in line with historical sector-wide returns.

Insurer capital increased 1 percent year over year and reinsurance demand remains stable with some insurers decreasing capacity amid higher prices and a stable capital level. While both global reinsurer and insurer capital bases have increased since 2008, 2011 was the first year where insurers increased while reinsurers declined. With low catastrophe loss activity in Q1, demand will continue to be sensitive to price increases sought be reinsurers throughout renewals in the remainder of 2012.

Figure 4: Change in Insurer Capital



Source: Individual company reports, Aon Benfield Analytics

Japan Market Update – One Year Later

Little over a year later, more than 4,000 people remain missing, the death toll is almost 16,000 and nearly 6,000 were injured following the mega-earthquake and tsunami that struck the northeastern coast of Japan on March 11, 2011. The Japanese government estimated total economic losses at JPY16.3 trillion (USD210 billion), making this the costliest, singular economic natural disaster ever recorded. Impact Forecasting estimates insured losses (including those covered by the Japanese Earthquake Reinsurance Co. Ltd) at between JPY2.3 to 3.1 trillion (USD30 to 40 billion).

As of February, despite significant drops in evacuees living in evacuation centers, hotels, or the homes of friends and relatives, more than 300,000 now live in temporary or public housing. Concern over radioactive food and water continues and the government has set up a system for inspections to measure radioactivity levels to ensure health and safety.

Japan's economy experienced growth in GDP of 1.4 percent in Q3 2011 over the prior quarter, but fell again in Q4. Annual GDP fell by approximately one percent for 2011. While the manufacturing sector made efforts to recover throughout the summer of 2011, despite constraints in electricity, it remained under pressure throughout fall of 2011 due to the floods in Thailand, European debt problems, and appreciation of the yen.

All but two of Japan's nuclear reactors are now idled, shutting off a source that provided approximately 30 percent of the country's energy supply. Extreme measures have been adopted, including rolling blackouts, to conserve energy.

The Japanese government estimates that the reconstruction period will last ten years with the first five years being the "concentrated reconstruction period". While both the first and second supplemental budgets geared towards recovering from the earthquake were mainly for emergency relief and recovery (totaling approximately 6 trillion yen), almost 97 percent of the 12.1 trillion yen approved as part of the third supplementary budget in November 2011 is allocated for reconstruction.

Insurance companies in Japan remained financially stable following the Japanese earthquake and a number of companies actually experienced a greater loss of capital following the flooding in Thailand during the fall of 2011.

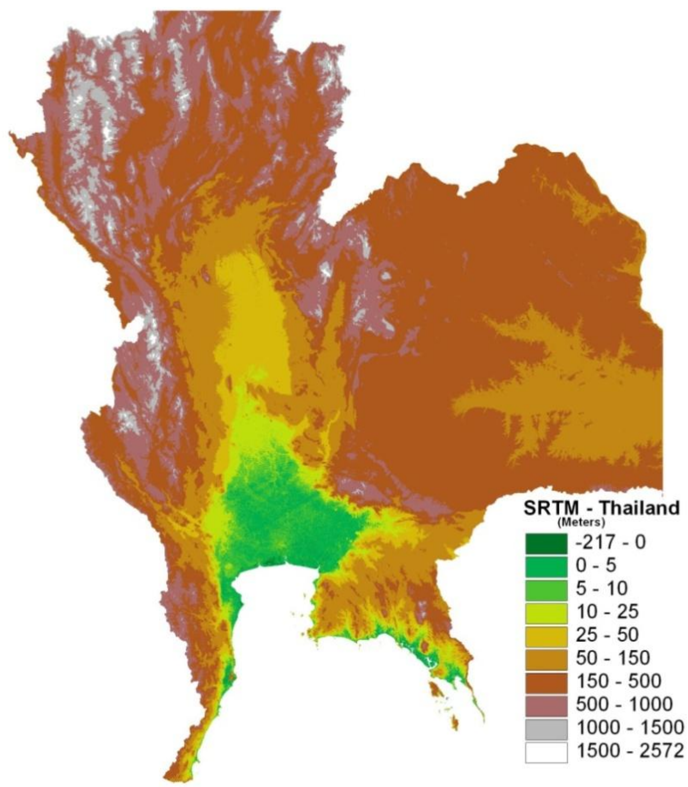
Thailand Flood Update

2011 was a very notable year in Thailand as the country endured enormous damage in the wake of the worst flooding in at least five decades. Throughout the entire calendar year, more than 884 people were killed and millions of residents were either left homeless or displaced following significant flooding. The most extensive flooding occurred between late July and early December across nearly every section of the country. In total, 65 of Thailand's 77 provinces were impacted during this timeframe and damage was widespread and severe in many locations. Economic losses were estimated by the World Bank at THB1.4 trillion (USD45.7 billion), which makes the floods one of the top five costliest natural disaster events in modern history.

Figure 5: Map of Thailand

Source: CIA World Factbook

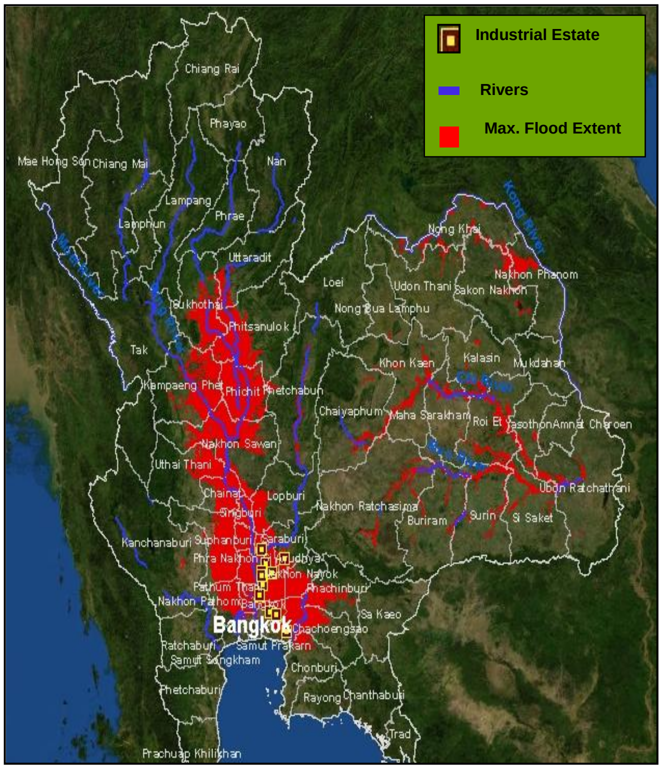
Figure 6: Elevation Map of Northern and Central Thailand



Source: NASA's SRTM

Some of the likely reasons for the floods included excessive rainfall, urbanization, high tides, insufficient drainage and flood protection systems, subsidence, the possible role of sudden release of waters from upstream dams and the general slope of land.

Figure 7: Maximum Flood Extent as of November 15, 2011



Many of the primary sectors that form the backbone of the Thai economy (such as agriculture, manufacturing, tourism and personal property) were significantly affected during the flooding of 2011. The loss of production throughout the floods led to a disruption of the global supply chain for major industries such as automobiles and electronics that may last through the first half of 2012.

The insurance industry, which plays a vital role in the risk management of various sectors, suffered as much as THB480 billion (USD15.5 billion) in losses — as published recently in the *Bangkok Post* citing figures from Thailand's Office of Insurance Commission — and the industry has already undergone major changes as a result. Many insurers have started to seek a change in flood insurance policy coverage, modifying the current structure which sees flood insurance typically included with fire coverage.

Source: Thailand's GISTDA, Impact Forecasting

Due to the extensive nature of the floods, several international rating agencies began to reevaluate Thai insurers. Each of the rating agencies noted that the high level of insured losses would have a negative impact on both the life and non-life insurance sectors in Thailand.

Moving forward, reinsurers consider Thailand as being at risk for natural catastrophes, which could lead to significant changes in flood insurance policies — including increased pricing and decreased coverage.

In the wake of the floods, the Thai government enacted a broad response including a new natural disaster fund that would help insurers cover costs should another major natural disaster event of a similar magnitude strike again. The government also announced water management and flood projects to better prepare for flooding along the Chao Phraya River Basin.

Impact Forecasting, the catastrophe model development center of excellence within Aon Benfield, has embarked on developing a riverine flood risk model to assist its clients during January 2013 renewals. The model will be released on Impact Forecasting's software platform ELEMENTS and will include residential, commercial and industrial lines of business.

The March edition of the *2011 Thailand Floods Event Recap Report* can be found at http://thoughtleadership.aonbenfield.com/ThoughtLeadership

Florida Market Update

The limited apportionment company coverage (LAC) that provided USD10 million in excess of 30 percent of insurer capital for companies that typically have less than $20M in surplus and write more than 25 percent of their premium in Florida was not extended in the 2012 legislative session resulting in reduction of Florida Hurricane Catastrophe Fund (FHCF) obligations of approximately USD400 million (USD200 million coverage with a pre-paid reinstatement).

In addition, the maximum available optional Temporary Increase in Coverage Limits (TICL) capacity provided by the FHCF reduces again by USD2 billion of available capacity for the 2012 hurricane season (to USD4 billion) as part of the law that was passed in 2009. That said, with only USD994 million of the maximum available TICL USD6 billion of limit purchased for the 2011 season, a further reduction in the selected capacity is not expected to have a material impact on the private market supply/demand balance for reinsurance.

Further reductions in elected TICL capacity and the elimination of the LAC layer coverage will help solidify the FHCFs ability to meet its claims paying obligations for the 2012/2013 contract year. Although the average estimates in October for the prior season were enough to cover the potential obligations, two of the four advisors included low ranges that might have resulted in a shortfall for the fund. The reduction in estimated claims paying capacity and increased fund balance with another year of premium should help bridge the gap to a more financially sound position.

In addition to the capacity transferred to the private market from the FHCF, Citizens also plans to shift USD1 billion of risk to the private market for the 2012 hurricane season, an increase of USD 425 million from what was placed for 2011. This is expected to be comprised of USD250 million from alternative market capacity, resulting in an increase to the traditional market of approximately USD175 million.

Despite these impacts that could increase demand for capacity in 2012, a number of companies were acquired or ceased writing business since before the 2011 wind season. It is our expectation that the increased demand outlined above will be offset by the additional business in Citizens, reductions in capacity from other entities and the demand for capacity that has left the market from companies that have gone out of business.

Capital Markets Maintains Strong Momentum

In the first quarter of 2012 the Insurance-Linked Securities (ILS) market continued the strong momentum from the fourth quarter of 2011. Nine catastrophe bonds were successfully closed, providing USD1.5 billion of new capital to sponsors. Further, three catastrophe bonds priced in the last week of March to kick off the second quarter with an additional USD495 million in issuance. Higher than customary issuance levels in the quarter were attributable to both repeat and new sponsors.

Figure 8: Q1 Catastrophe Bond Issuance

Beneficiary	Issuer	Series	Class	Size (MM)	Covered Peril(s)	Trigger	Rating	Expected Loss	Interest Spread
Swiss Re	Successor X Ltd.	Series 2012-1	Class V-D3	$40	US HU	Industry Index	B2 (Moody's)	2.91%	11.00%
			Class V-AA3	$23	US HU, EU W	Industry Index	Not Rated	5.59%	16.50%
Assurant	Ibis Re II Ltd.	Series 2012-1	Class A	$100	US HU	Industry Index	BB- (S&P)	1.58%	8.35%
			Class B	$30	US HU	Industry Index	B- (S&P)	3.78%	13.50%
Aetna Life Insurance Company	Vitality Re III Limited	Series 2012-1	Class A	$105	Health	Indemnity (MBR)	BBB+ (S&P)	0.01%	4.20%
			Class B	$45	Health	Indemnity (MBR)	BB+ (S&P)	0.23%	6.20%
Zenkyoren	Kibou Ltd.	Series 2012-1	Class A (top)	$300	JP EQ	Parametric Index	BB+ (S&P)	0.76%	5.25%
			Class A (drop)					2.87%	9.00%
California Earthquake Authority	Embarcadero Reinsurance Ltd.	Series 2012-1	Class A	$150	CAL EQ	Indemnity	BB- (S&P)	2.36%	7.25%
Munich Re	Queen Street V Re Limited			$75	US HU, EU W	Industry Index	BB- (S&P)	1.95%	8.50%
Liberty Mutual Insurance Company	Mystic Re III Ltd.	Series 2012-1	Class A	$100	US HU, EQ	Indemnity	BB (S&P)	1.49%	9.00%
			Class B	$175	US HU, EQ	Indemnity	B (S&P)	2.37%	12.00%
Chubb Group[1]	East Lane Re V Ltd.	Series 2012	Class A	$75	US HU, ST	Indemnity	BB (S&P)	1.54%	9.00%
			Class B	$75	US HU, ST	Indemnity	BB- (S&P)	2.13%	10.75%
COUNTRY NC Farm Bureau	Combine Re Ltd.		Class A	$100	US HU, EQ, ST, WS	Indemnity	Baa1 (Moody's)	0.01%	4.50%
			Class B	$50	US HU, EQ, ST, WS	Indemnity	Ba3 (Moody's)	0.62%	10.00%
			Class C	$50	US HU, EQ, ST, WS	Indemnity	Not Rated	2.45%	17.75%
				$1,493					

[1]Chubb Group includes Federal Insurance Company, Vigilant Insurance Company, Chubb Lloyds Insurance Company of Texas, Chubb National Insurance Company, Chubb Indemnity Insurance Company, Great Northern Insurance Company, Pacific Indemnity Company, Executive Risk Indemnity Inc., Executive Risk Specialty Insurance Company and Chubb Custom Insurance Company

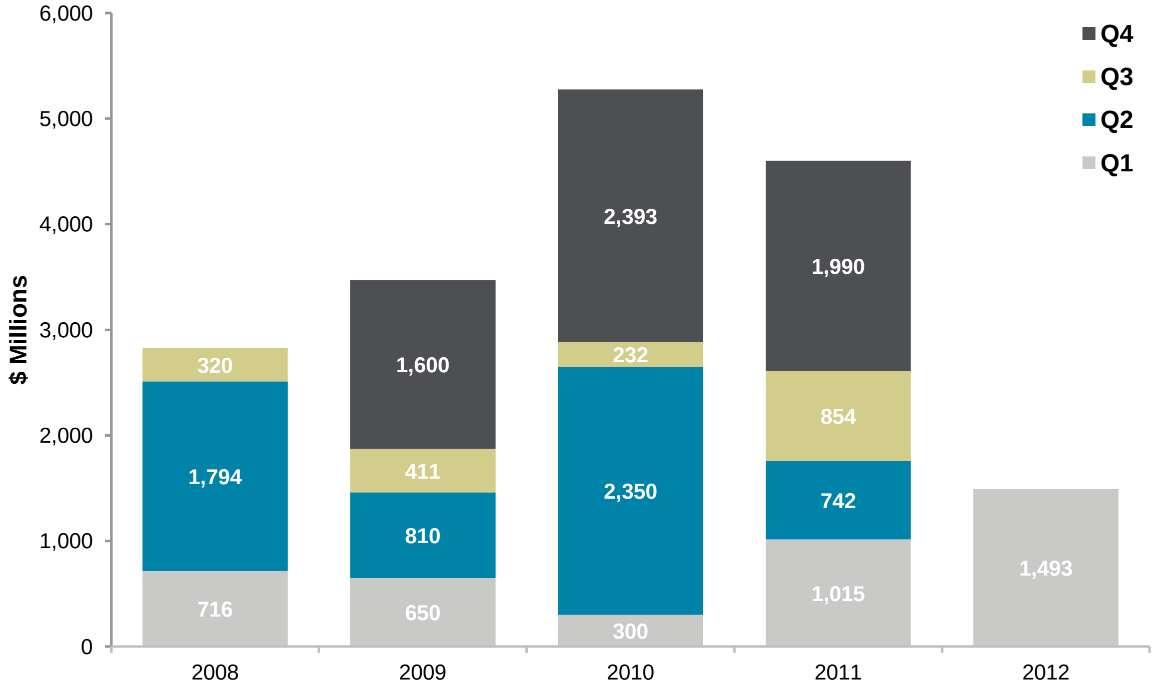
Legend: HU – Hurricane; W - Wind; EQ – Earthquake; CAL – California; EU – Europe; WS - Winter Storm; US - United States; ST - Severe Thunderstorm

Source: Aon Benfield Securities, Inc.

In total, the first quarter of 2012 proved to be the most active on record for new issuance. Investors purposefully deployed additional capital to keep up with the issuance pace. As of March 31, 2012, there was USD14.2 billion of catastrophe bonds on risk, compared to USD13.1 billion at the same period in 2011.

The first quarter activity combined with an active pipeline, annual issuance for 2012 is on track to exceed USD5 billion.

Figure 9: Catastrophe Bond Issuance by Quarter



Source: Aon Benfield Securities, Inc.

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