AON BENFIELD

Insurance-Linked Securities

First Quarter Update 2012

Empower Results

First Quarter 2012 Catastrophe Transaction Review

The year 2012 started strongly with the successful closing of $1.493 billion of new catastrophe bonds during the first quarter. Issuance in the first quarter of 2012 proved to be the most active for any first quarter on record and investors deployed additional capital to keep up with the pace. With an active pipeline and market momentum in the first quarter, annual issuance is on track to exceed $5 billion. Several transactions were able to secure additional capacity than initially requested, including Liberty Mutual Insurance Company's ("Liberty Mutual") Mystic Re III Ltd., which was upsized from $150 to $275 million. The table below summarizes the terms of the deals that closed during the first quarter as well as three bonds which priced prior to the quarter end.

Deals marketed in the first quarter, but closed in the second quarter, included cedants Allianz SE and Mitsui Sumitomo Insurance Co., Ltd. ("Mitsui") returning to the market with the $240 million Blue Danube Ltd. and the $130 million Akibare II Ltd., respectively. Meanwhile, first-time sponsor Louisiana Citizens Property Insurance Corporation ("LA Citizens") secured $125 million of capacity with Pelican Re Ltd.[1]

Q1 Catastrophe Bond Issuance

Beneficiary	Issuer	Series	Class	Size (millions)	Covered Perils	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*	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 and 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%
Total Closed During Q1				**$1,493**					
Louisana Citizens Property Insurance Corporation[1]	Pelican Re Ltd.	Series 2012-1	Class A	$125	LA HU	Indemnity	Not Rated	3.54%	13.75%
Allianz SE[1]	Blue Danube Ltd.	Series 2012-1	Class A	$120	US HU, EQ; MX HU; CAN EQ	Industry Index	BB+ (S&P)	0.59%	6.00%
			Class B	$120		Industry Index	BB- (S&P)	1.77%	10.75%
Mitsui Sumitomo Insurance Co., Ltd.[1]	Akibare II Ltd.	Series 2012-1	Class A	$130	JP TY	Modeled Loss	BB (S&P)	1.05%	3.75%
Total Marketed During Q1				**$1,988**					

Source: Aon Benfield Securities, Inc.

* *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

- CAL — California
- CAN — Canada
- LA — Louisiana
- MX — Mexico
- EQ — Earthquake
- EU — Europe
- JP — Japan
- HU — Hurricane
- MBR — Medical Benefit Ratio Index
- ST — Severe Thunderstorm
- US — United States
- W — Windstorm
- WS — Winter Storm

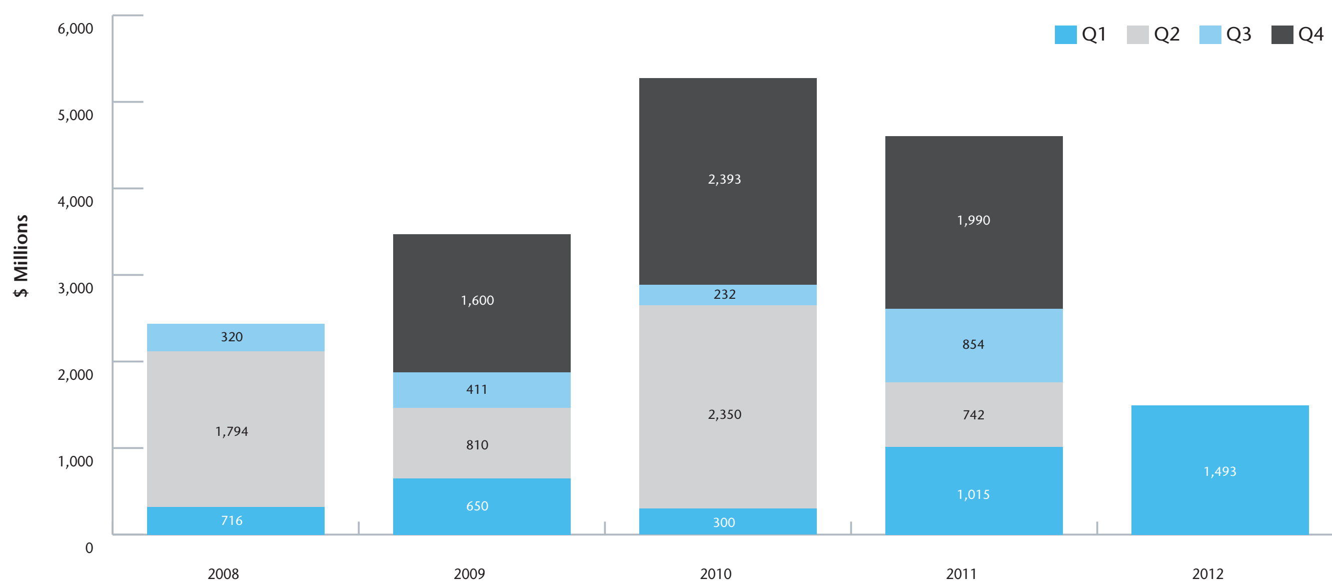
[1] *Blue Danube Ltd., Akibare II Ltd. and Pelican Re Ltd. priced prior to the end of the first quarter, but closed/settled early in the second quarter.*

Repeat sponsors dominated first quarter issuance. They included:

- Assurant, which sponsored its third transaction and was the first sponsor to utilize the Verisk Catastrophe Index;
- Zenkyoren, which returned to the market following a full recovery on the $300 million Muteki Ltd. after the Great East Japan Earthquake in 2011;
- Liberty Mutual, which sponsored its fifth transaction and successfully transitioned from industry-indexed to indemnity coverage; and
- Chubb Group, which sponsored its fifth transaction and included a significant contribution from severe thunderstorm component.

New entrants included the aforementioned LA Citizens, as well as COUNTRY Mutual Insurance Company ("COUNTRY") and North Carolina Farm Bureau Mutual Insurance Company ("NC Farm Bureau"). COUNTRY and NC Farm Bureau jointly sponsored Combine Re Ltd., which secured $200 million capacity.

Catastrophe Bond Issuance by Quarter



Source: Aon Benfield Securities, Inc.

Aon Benfield ILS Indices

The Aon Benfield ILS Indices are calculated by Thomson Reuters using month-end price data provided by Aon Benfield Securities[2]. All bonds posted negative returns for the quarter due to mark-to-market adjustments as the market faced a slight rate hardening. The All Bond and BB Rated Bond Indices were down 0.06 percent and 0.14 percent, respectively, an improvement over Q1 2011 returns which were affected by mark-to-market losses from the Great East Japan Earthquake. The U.S. Hurricane Bond and U.S. Earthquake Bond Indices were down 0.32 percent and 0.17 percent, respectively, for the first quarter.

For the trailing twelve months all indices posted gains. The Aon Benfield All Bond and BB rated Bond indices posted returns of 3.93 percent and 5.10 percent, respectively, while the U.S. Hurricane and U.S. Earthquake Bond indices posted returns of 3.55 percent and 2.84 percent, respectively.

In the fourth quarter review, we forecasted that index returns in the first half of 2012 would be driven by coupons, rather than by mark-to-market gains. While we were correct to predict that there would be no mark-to-market gains, mark-to-market losses exceeded coupons causing negative returns for the quarter. However, we still expect to see positive returns for the year in the absence of any severe catastrophic events.

Aon Benfield ILS Indices

Index Title	Index Value				Return for Quarterly Period Ending March 30		Return for Annual Period Ending March 30	
Aon Benfield ILS Indices	**03/30/2012**	**12/31/2011**	**03/30/2011**	**12/31/2010**	**2012**	**2011**	**2012**	**2011**
All Bond	240.25	240.40	231.17	235.98	-0.06%	-2.04%	3.93%	5.10%
BB rated Bond	229.36	229.68	218.24	225.47	-0.14%	-3.21%	5.10%	3.41%
U.S. Hurricane Bond	239.56	240.32	231.35	229.29	-0.32%	0.89%	3.55%	7.75%
U.S. Earthquake Bond	203.35	203.69	197.73	196.36	-0.17%	1.21%	2.84%	6.72%
Benchmarks								
3-5 Year U.S. Treasury Notes	321.33	322.50	302.45	302.72	-0.36%	-0.09%	6.24%	4.32%
3-Year U.S. Corporate BB	425.74	410.40	400.04	398.18	3.74%	0.47%	6.42%	7.08%
S&P 500	1408.47	1257.60	1325.83	1257.64	12.00%	5.42%	6.23%	13.37%
ABS 3-5 Year, Fixed Rate	350.94	345.25	329.35	325.81	1.65%	1.09%	6.56%	7.69%
CMBS Fixed Rate 3-5 Year	274.31	265.05	252.42	247.44	3.49%	2.01%	8.67%	11.54%

Source: Aon Benfield Securities Inc., Bloomberg

[2] The 3-5 Year U.S. Treasury Note Index is calculated by Bloomberg and simulates the performance of U.S. Treasury notes with maturities ranging from three to five years.

The 3-Year U.S. Corporate BB Index is calculated by Bloomberg and simulates the performance of corporate bonds rated BB on a zero coupon basis. Zero coupon yields are derived by stripping the par coupon curve. The maturities of the BB rated bonds in this index are three years.

The S&P 500 is Standard & Poor's broad-based equity index representing the performance of a broad sample of 500 leading companies in leading industries. The S&P 500 Index represents price performance only, and does not include dividend reinvestments or advisory and trading costs.

The ABS 3-5 Year, Fixed Rate Index is calculated by Bank of America Merrill Lynch (BAML) and tracks the performance of U.S. dollar denominated investment grade fixed rate asset backed securities publicly issued in the U.S. domestic market with terms ranging from three to five years. Qualifying securities must have an investment grade rating, a fixed rate coupon, at least one year remaining term to final stated maturity, a fixed coupon schedule, and an original deal size for the collateral group of at least $250 million.

The CMBS Fixed Rate 3-5 Year Index is calculated by BAML and tracks the performance of U.S. dollar denominated investment grade fixed rate commercial mortgage backed securities publicly issued in the U.S. domestic market with terms ranging from three to five years. Qualifying securities must have an investment grade rating, at least one year remaining term to final maturity, a fixed coupon schedule, and an original deal size for the collateral group of at least $250 million. The performance of an index will vary based on the characteristics of, and risks inherent in, each of the various securities which comprise the index. As such, the relative performance of an index is likely to vary, often substantially, over time. Investors cannot invest directly in indices.

Past performance is no guarantee of future results.

ILS Sales and Distribution

Despite a very active fourth quarter of 2011, in which many deals were upsized and priced at the low end of launch guidance, 2012 began on a cautious note following the spread increase on Loma Reinsurance Ltd. Series 2011-2 at the end of 2011. Additionally, ILW markets had repriced materially. This was partly due to the elevated level of global natural catastrophes in 2011, which produced an estimated $107 billion in insured losses[3] and caused the full loss of principal on the Mariah Re Ltd. Series 2010-1, Series 2010-2 and Muteki Ltd. positions.

Capacity concerns were again heightened early in January, with lower than expected participation in, and cancelation of, certain offerings of bonds. Gradually the market regained its footing in January through the successful closing of transactions within launch guidance and the market posted record level of issuances for the quarter.

Secondary prices were under selling pressure throughout the quarter as catastrophe bond investors took mark-to-market losses on many of their positions. Several large investors lowered their allocations to bonds in order to take advantage of opportunities in other collateralized markets, thus exacerbating selling pressure even further. Although several small to mid-sized investors had cash inflows at the beginning of the year and deployed capital at higher prices, the market lacked significant depth and selling pressure from large bid lists overshadowed the market. The majority of market focused on the primary issuance pipeline and only looked to add positions in the secondary opportunistically.

The secondary market was fairly active throughout the first quarter of 2012 and experienced a broad decline in pricing. U.S. hurricane and multi-peril bonds were affected most as both experienced price declines of over 2.00 percent on average (excluding short dated transactions) with some of the more actively traded issues being Johnston Re Series 2010-1 A and classes of Compass Re Ltd. Series 2011-1. The declines were also felt in other perils with Japan declining 1.30 percent and U.S. earthquake declining 1.00 percent with actively traded issues being Kizuna Re Ltd and Embarcadero Re Ltd. Series 2011-1. Europe bonds faired the best as price declines were only 0.30 percent with the most actively traded issues being Calypso Capital Limited Series 2011-1.

On March 20, a 7.4 magnitude earthquake struck Mexico. Although no bonds were triggered, a payout on MultiCat Mexico 2009-I Ltd Class A, which covers earthquake risk on a parametric basis, was narrowly avoided. If the earthquake had occurred only a small distance to the north, the bond would have suffered a full loss of principal. Shortly after the quake, a small lot of the notes traded at par, below our previously marked prices of 101.94. The trade, however, also represented confidence from investors that the bonds would not suffer a loss of principal. Given the loss activity in 2011, some investors breathed a sigh of relief.

Spreads continued to widen at the end of the quarter as many deals priced towards the high end of, or above launch guidance. Investors called up additional capital to meet demand and further cash inflows are expected. As such, the secondary market appears to be stabilizing and we expect trading levels to resume a more typical level in the second quarter of 2012.

Europe

As expected, the European capital markets experienced a relatively benign first quarter following an active primary market in the fourth quarter of 2011.

Two European sponsors closed transactions during the quarter. Swiss Re issued two tranches totalling $63 million from its Successor X Ltd. program to cover U.S. hurricane and Europe windstorm. This was followed by Munich Re which issued the $75 million Queen Street V Re Limited bond also covering both U.S. hurricane and Europe windstorm. Although Allianz's Blue Danube Ltd. bond priced in the first quarter, it did not settle until after the quarter-end. Interestingly, both Munich Re and Allianz elected for the first time to use Bermuda-based Special Purpose Insurers as issuers.

[3] Source: *"Annual Global Climate and Catastrophe Report," Impact Forecasting - 2011*

In the same manner that models for additional regions and perils help to drive a larger and healthier ILS market, the increased availability of loss triggers will also continue to encourage growth as evidenced by the success of PERILS AG. PERILS' industry loss index for Europe windstorm has been used for approximately $1.5 billion catastrope bonds as well as for ILWs and other collateralized structures. In December 2011 PERILS launched its industry exposure database and loss data for UK inland flood. The next challenge is to overcome the modeling requirements for flood deals—since flood losses are more sensitive to precise locations than that of windstorm events, an enhanced level of granularity is required.

Asia

Economic losses in Asia alone accounted for 65 percent of total losses for 2011, more than six times the average annual economic loss for that region in recent years[4].

In 2012, Japan insurers returned to the more customary April 1 renewal date after sensibly extending their contracts to July 1, 2011 in an effort to gain a better understanding of the scope of losses from the March 2011 earthquake and tsunami. In addition, the impact of the Thailand floods during the second half of 2011 triggered additional reinsurance payments to Japan insurers. Reinsurance combined with pre-event catastrophe reserves helped insulate Japan insurers' earnings and capital from substantial direct volatility[5].

The Japan related pre-renewal discussions centered on the possibilities that Japan insurers may (i) see a substantial erosion of terms on their long-standing proportional covers, (ii) demand new excess of loss covers to replace lost capacity from proportional programs and (iii) demand more significant limits for higher magnitude earthquake events as well as a better accounting for the extent of damage that can be caused by largely un-modeled tsunami losses. While these potential demand drivers will continue to be considered, almost no new demand materialized for capacity at this renewal[5].

Substantial reinsurance capacity continues to be available for Japanese programs and the market remains competitive. This capacity allowed for a very orderly renewal. Japanese insurers continue to access reinsurance capital to support their underwriting operations at accretive terms[5].

Major catastrophe events were absent in the first quarter of 2012. The Thailand flooding and a series of land-falling typhoons caused losses for the top five Japan insurers, reducing their cat reserves by more than ten percent year-on-year as of the end of March[6]. Aon Benfield's Impact Forecasting revised the estimate of total economic losses for the Great East Japan Earthquake to ¥16.3 trillion ($210 billion) while total insured losses will exceed ¥2.7 trillion ($35 billion)[7] up from its September 2011 estimate of approximately $32 billion. Impact Forecasting revealed that the Thailand flooding affected 65 out of the country's 77 provinces and damages were significant in many locations. Estimated economic losses by the World Bank reached THB1.4 trillion ($45.7 billion), making the Thailand flooding one of the top five costliest natural disasters in modern history[8].

Two Japan sponsors returned to the catastrophe bond market in the first quarter of 2012. Kibou Ltd. was upsized to $300 million, replacing the Muteki Ltd. bond, which provided beneficiary Zenkyoren a full recovery in 2011. This transaction utilizes a top-and-drop structure where the coverage drops to a lower attachment level upon the occurrence of a qualifying activation event. Final pricing of the top layer went at the high end of launch guidance while the drop down layer had to be widened to close. The second Japan sponsor that returned to the market was Mitsui Sumitomo Insurance Company with Akibare II Ltd., which priced just prior to the quarter end, upsizing from launch size of $90 to $130 million. To achieve the upsize, the spread was increased from launch guidance.

[4] Source: *Aon Benfield Reinsurance Market Outlook January 2012*
[5] Source: *Aon Benfield Reinsurance Market Outlook April 2012*
[6] Source: *Nikkei article March 8, 2012*
[7] Source: *"2011 Thailand Floods even Recap Report," Impact Forecasting – March 2012*
[8] Source: *"Annual Global Climate and Catastrophe Report," Impact Forecasting - 2011*

An Interview with Michael Stahel, Managing Director and Head of Insurance-Linked Investments, Clariden Leu

1. *Your recent announcement about the sale of Clariden Leu's Insurance-Linked Investments business to LGT Capital Management is noteworthy. Could you give an overview of how things will work between now and the closing of the deal?*

Since the announcement, we have filed for an official change of investment manager from Clariden Leu to LGT Capital Management with each of the regulatory authorities for the four jurisdictions where we maintain our funds (Switzerland, Liechtenstein, Luxembourg and Guernsey). The respective approvals are expected to be granted within the next weeks. Simultaneously, we have already begun establishing the necessary infrastructure at our new LGT Capital Management headquarters—coordinating the installation of our portfolio management system and third party models; establishing new trading and advisory agreements; and of course testing the new infrastructure with our actual portfolio data. Once we receive the regulatory approval, and complete all the tests successfully, we will finalize the move. Currently, the target date for the transfer, after which we will manage our funds and mandates from LGT Capital Management, is June 1, 2012.

2. *Could you describe the team for us?*

The core portfolio management team has remained unchanged since the launch of Clariden Leu back in 2006—Christian Bruns is head of the portfolio management team, Hilary Paul is responsible for non-life underwriting, and I am chairing the investment committee and in charge of investor relations. Pascal Koller joined us back in 2010 to head up and develop our life underwriting portfolio. The core portfolio management team is supported by six specialists, who focus on modeling and risk management. All other services such as sales, operations/mid/back-office, IT, facility management and HR are presently provided by Clariden Leu. In the new setup, similar services will be offered by LGT Capital Management.

3. *Coming from a reinsurance background, what factors have helped you build an ILS business?*

The strong backgrounds of our team members in the traditional reinsurance industry, and especially on the structuring side of cat bonds—Hilary at Converium, Pascal and myself at Swiss Re, Christian at the Insurance & Banking Practice of the Boston Consulting Group—have clearly been advantageous. Having worked in the traditional markets in underwriting, structuring, and risk modeling—as well as having placed cat bonds in the market—enables us to fully assess risk-transfer solutions such as ILS, reinsurance/retro, ILWs, and side car structures. Due to the extensive experience within our team, we have a solid understanding of the many potential pitfalls surrounding the transfer of insurance risk to the financial markets: from the motivation of counterparties (insurers, reinsurers, and corporates) to risk assessment/price-to-risk, from market cycles to accounting, tax and legal elements.

4. *Where do you hope to have the funds positioned three years from now?*

Aside from the mandates and managed accounts that we oversee on behalf of large pensions funds, we maintain four open-ended funds in four different jurisdictions, currently totaling $2 billion in assets under management. Each of these funds is positioned with a specific risk/return target—an important element of our value proposition as investment manager—and managed on a constant risk budget. As such, the risk levels of all of our funds have remained unchanged since we assumed responsibility for the investment management of the respective strategies. In the case of our Swiss Cat Bond Fund, the track record extends back more than a decade, always at precisely the same risk level. In response to investor demand, we have plans to add two additional strategies in the near future, one focusing on a higher risk/return target and one on pure life risks (mortality/longevity).

5. *What insurance/reinsurance markets are most interesting to you at the moment?*

In the first quarter 2012, Cat Bonds have been viewed very favorably with a strong volume of new issuance and emissions coming at attractive spread levels. In addition, some of the newly issued ILS have attempted to offer more 'creative' structures to investors to help reduce the concentration of risk in certain peril regions. Our appetite for collateralized reinsurance remains the same and we have seen appealing premium rate increases in the aftermath of the loss-ridden year of 2011. We have continued to provide support for our long-term business partners in 2012 and plan to expand the capacity we offer in reinsurance form as the year progresses.

6. *Could you give us some ideas and thoughts on evaluating ILS/reinsurance products beyond price?*

First and foremost, the level of data quality in any submission package — be it an offering circular of a cat bond or a data pack for a reinsurance placement — has always been fundamental in our decision making process. Good data quality allows us to fully utilize our modeling capabilities and leads to an improved decision making process. Quality presentation and analysis of data are important indications for the overall business of any insurer or reinsurer.

7. *In your opinion, how do we grow the market in the near and long term?*

The asset class is continuing to see increased interest amongst institutional investors. More money is being allocated into this space — and as such, the interest for new transactions is very solid. We are expecting sponsors to respond to this interest and hope to see more issuance volume in the pure cat bond market. The new solvency regime in Europe, changes to catastrophe models, and more focus on counterparty credit risk will further support the high demand for capacity in the peak insurance regions. To use some banking terminology — we are bullish on market growth. It will be interesting to see how much of the current collateralized reinsurance and ILW capacity can be transformed into cat bonds, but as we are to a large degree indifferent to the format of these transactions (cat bonds or financial insurance contracts), we are expecting a further shift of capacity away from traditional reinsurance to financial market placements.

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As one of the most experienced investment banking firms in this market, Aon Benfield Securities offers expert underwriting and placement of new debt and equity issues, financial and strategic advisory services, as well as a leading secondary trading desk. Aon Benfield Securities' integration with Aon Benfield's reinsurance operation expands its capability to provide distinctive analytics, modeling, rating agency, and other consultative services.

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