AON BENFIELD

Reinsurance Market Outlook

April 1, 2013 Update

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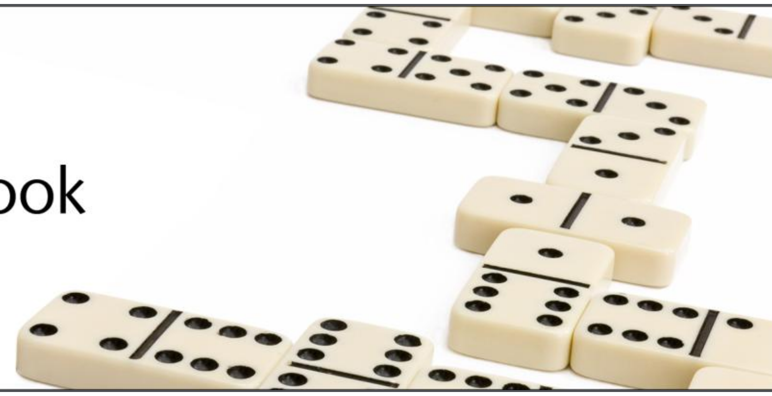


Executive Summary—Alternative Market Capital Flows and Record Reinsurance Capital Drive Materially Better Terms for Reinsurance Buyers

New capital flowing into the insurance-linked securities (ILS) and collateralized reinsurance market materially altered the course of April renewals for peak U.S. perils and are expected to have a continuing material benefit for clients as we look forward to the June and July renewals. Clients renewing significant capacity in the ILS market saw their risk adjusted pricing decrease by 25 to 70 percent for peak U.S. hurricane and earthquake exposed transactions. The ILS market is now offering the lowest cost of reinsurance for peak perils witnessed since Hurricane Andrew.

Traditional reinsurance capital grew 11 percent during 2012, to end at USD505 billion. Reinsurance demand was flat. The traditional reinsurance market is beginning to respond to the competition from the alternative markets. Relationships and continuity continue to be highly valued by cedents and leading reinsurers are taking positive actions to lower their costs of managing assumed volatility.

Outside the U.S., substantially all of the Japanese market renews at April 1 where an orderly market prevailed. Programs in India and Korea also found adequate capacity despite multiple 2012 storm losses in Korea.

Broader Implications

If the new price points available from the ILS and collateralized markets persist—clearly a big question given the size of recent moves—then the strategic options for property insurers expand greatly. If the financial management of severe catastrophe outcomes can be attained at multiple year terms well inside the cost of equity capital, then at the extreme, primary property growth in active zones could resume for companies previously restricting supply. Even moderate plans will begin to consider the lower cost of catastrophe risk transfer.

Cedents with reasonable financial strength ratings enjoy the greatest benefits from the ILS markets. Reinsurers operating on a collateralized basis have sourced similar capacity and share the lower costs of this capacity with all cedents. With rating agency models causing insurers and reinsurers to take less risk per unit of capital than ever before, it is now clear that the ILS and collateralized markets can be competitive with traditional reinsurance in peak zones. The largely equity financed business model of the reinsurance market will begin to change.

Insurers and reinsurers are likely to find additional innovative ways to use the ILS and collateralized markets. We expect securitizations of complex commercial property, commercial liability and other new risks to access these alternative sources of risk transfer. Insurers will closely examine potentially diversifying coverage options and use the increased capacity to compete and grow.

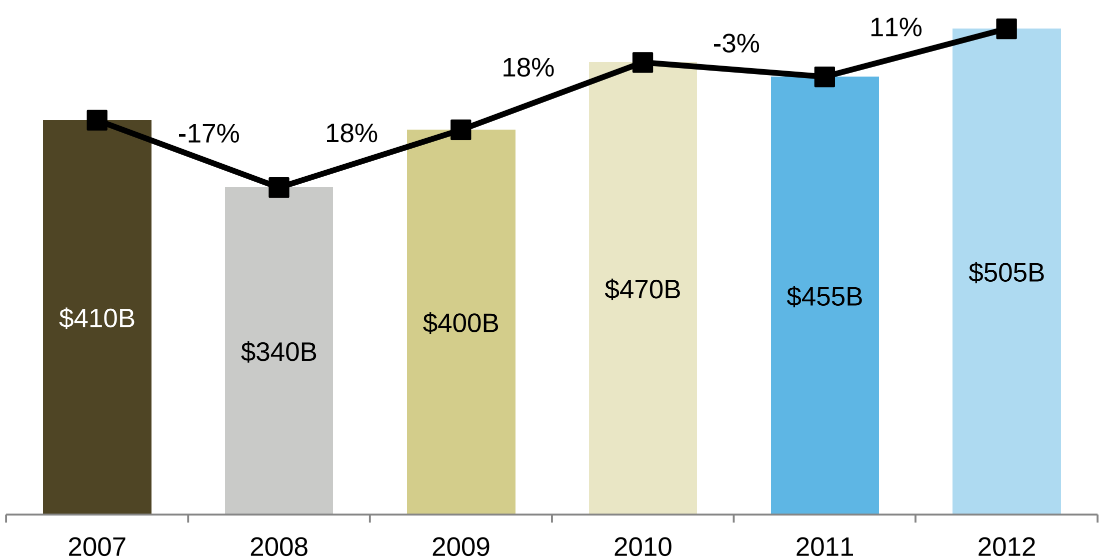
Note: This reinsurance market outlook report should be read in conjunction with our firm's views on rate on line, capacity and retention changes for each cedent's market. Our professionals are prepared to discuss variations from our market sector outlook that apply to individual programs due to established trading relationships, capacity needs, loss experience, exposure management, data quality, model fitness, expiring margins and other factors that may cause variations from our reinsurance market outlook.

Supply and Demand

Reinsurer capital continued to increase throughout Q4 2012, albeit at a slower pace than earlier in the year. Year end 2012 reached a peak capital level with an increase of 11 percent over year end 2011, closing 2012 at USD505 billion. Despite Hurricane Sandy being a significant event in the U.S., catastrophe activity was substantially less in 2012 compared to 2011.

Reinsurance supply continues to exceed demand in all major global catastrophe regions, leaving the reinsurance industry in a continued position to provide the desired reinsurance capacity to insurers.

Exhibit 1: Change in Reinsurer Capital

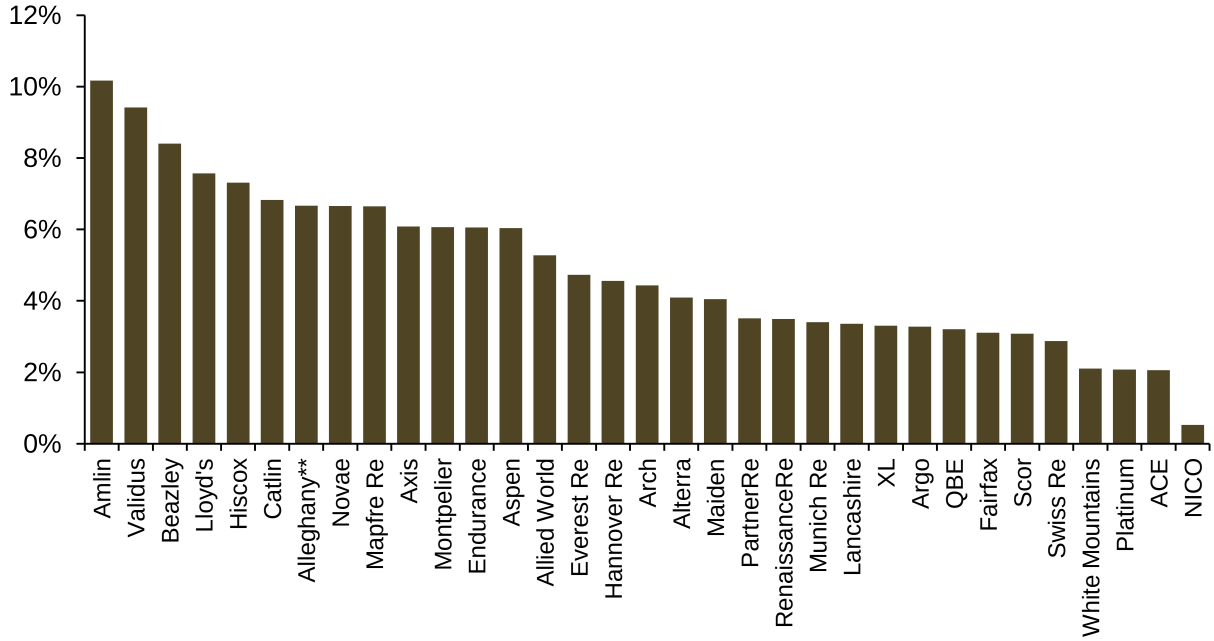


Source: Individual company reports, Aon Benfield Analytics

Hurricane Sandy Impact

Reinsurer Hurricane Sandy loss estimates expanded to include additional reinsurers since January but the average impact on shareholders' funds was reduced slightly from 5.3 to 4.9 percent and remained an earnings event for the majority of the Aon Benfield Aggregate[1] (ABA) group of reinsurers.

Exhibit 2: Reinsurer Hurricane Sandy Losses as a Percent of 2011 Shareholders' Funds



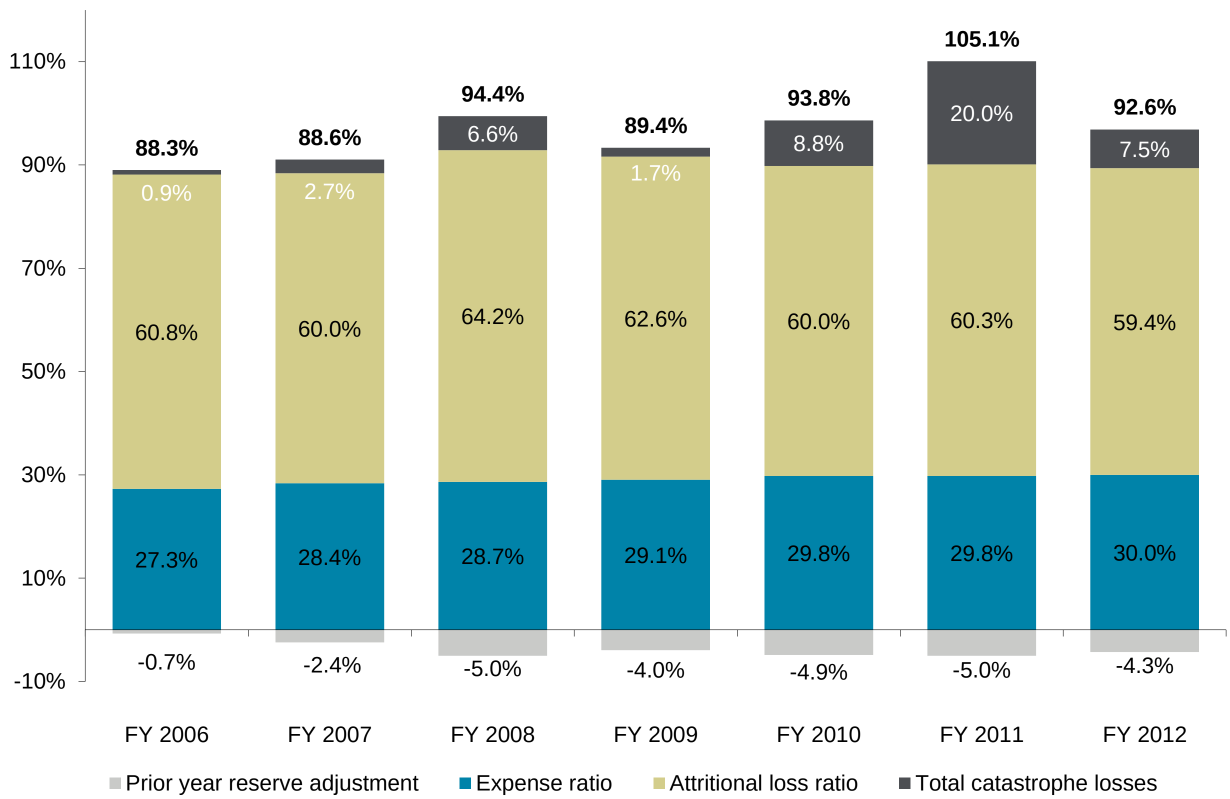
**Alleghany SHF as of March 31, 2012 to incorporate Transatlantic acquisition
Mid-points used where a range of loss was disclosed
Chart represents most recent disclosure

Source: Individual company reports, Aon Benfield Analytics

[1] The Aon Benfield Aggregate is a group of 31 of the world's leading reinsurers; latest ABA study can be found at http://thoughtleadership.aonbenfield.com

The 2012 ABA group of reinsurers showed an improved combined ratio of 92.6 percent, decreasing 12.5 percentage points from 2011 as a result of a 60 percent decline in total catastrophe losses.

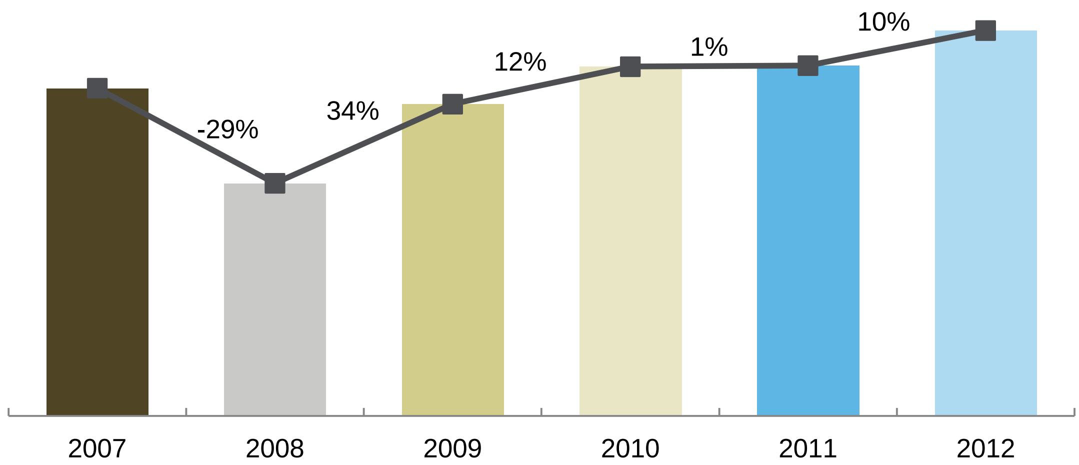
Exhibit 3: ABA Reinsurer Combined Ratio



Source: Individual company reports, Aon Benfield Analytics

Lower catastrophe losses and higher primary premiums resulted in significant growth in insurer capital in 2012, increasing 10 percent since 2011 and a slight increase from the 9 percent experienced through Q3 2012.

Exhibit 4: Change in Insurer Capital



Source: Individual company reports, Aon Benfield Analytics

New Opportunities for Reinsurance to Add Value—U.S. Flood Risk

Although the Biggert – Waters Act passed in summer 2012 extended the flood coverage that the NFIP provides for five years, requirements to increase rates to an actuarially sound level provide an opportunity for a broader private market solution from both insurers and reinsurers. Subsidies from the past will be gradually eliminated through premium increases of up to 20 percent annually with even higher increases on certain properties.

Flood losses from Hurricane Sandy have heightened awareness for this coverage and since flood insurance is mandated by mortgages in flood prone regions, insureds who receive rate increases will likely seek alternatives to the NFIP coverage.

While the rate increases will gradually phase in, high capital levels for both insurers and reinsurers provide a positive environment for expansion into this new market segment.

Q1 2013 Catastrophe Bond Review

As 2012 came to a close, total new issuance was at the highest levels since 2007 and the total bonds outstanding at year end reached a new record of USD16.5 billion. Despite a slower start than expected, the cat bond market picked up around the middle of the quarter, with several deals in the market at the same time. Notably, all transactions that priced during the first quarter provide indemnity coverage for repeat sponsors. This provided investors with a variety of risks to choose from, including regional earthquake and hurricane, health as well as U.S. nationwide multi-peril.

Market conditions in the first quarter signaled a significant downward shift in interest spreads, estimated between 10 percent and 20 percent since the fourth quarter of 2012. The cat bond market consistently offered more aggressive rates than the traditional reinsurance market, cementing the value of this market for sponsors.

The table below summarizes the terms of the deals that were marketed and priced during the first quarter:

Beneficiary	Issuer	Series	Class	Size (millions)	Covered Perils	Trigger	Rating	Expected Loss*	Interest Spread
Aetna Life Insurance	Vitality Re IV Limited	Series 2013-1	Class A	$105	Health	Indemnity (MBR)	BBB+	0.01%	2.75%
			Class B	$45	Health	Indemnity (MBR)	BB+	0.25%	3.75%
Nationwide Mutual	Caelus Re 2013 Limited	Series 2013-1	Class A	$270	US HU, EQ	Indemnity	BB-	1.42%	5.25%
Citizens Property Insurance Corporation	Everglades Re Ltd.	Series 2013-1	Class A	$250	FL HU	Indemnity	B	3.18%	10.00%
Total Closed During Q1				**$670**					
State Farm	Merna Re IV Ltd.			$300	New Madrid EQ	Indemnity	Not Rated	0.39%	2.50%
North Carolina JUA/IUA	Tar Heel Re Ltd.	Series 2013-1	Class A	$500	NC HU	Indemnity	B+	2.77%	8.50%
Nationwide Mutual	Caelus Re 2013 Limited	Series 2013-2	Class A	$320	US HU, EQ	Indemnity	Not Rated	1.92%	6.85%
Total Marketed During Q1				**$1,790**					

Legend

FL - Florida
NC – North Carolina
US – United States
EQ – Earthquake
HU – Hurricane

*Annualized modeled expected losses, with warm sea surface temperature results for hurricane risks
Source: Aon Benfield Securities, Inc.

In February, Nationwide Mutual and Nationwide Insurance Company of Florida (Nationwide Mutual) came to market with Caelus Re 2013 Limited (Caelus Re 2013), looking to secure coverage prior to hurricane season for the maturing Caelus Re II Limited. The transaction experienced strong demand and closed well below initial price guidance. As a result, Nationwide Mutual returned to the market several weeks later with a second series, which again was received strong investor demand and prompted Nationwide Mutual to upsize the transaction. In total, Nationwide Mutual secured USD590 million in indemnity protection from U.S. hurricanes and earthquakes.

The aggressiveness of the catastrophe bond market was further highlighted by Everglades Re Ltd., sponsored by Citizens Property Insurance Corporation (Florida Citizens). Following their initial issuance in 2012, Florida Citizens returned to the market seeking indemnity coverage and secured interest spreads far below those offered in the traditional markets for Florida hurricane exposure.

In March, State Farm Fire and Casualty Company (State Farm) returned to the catastrophe bond market seeking coverage to replace the maturing Merna Reinsurance II Ltd., which provided indemnity coverage against earthquake occurring in the New Madrid region. State Farm secured USD300 million in capacity via Merna Re IV Ltd., which was several times oversubscribed. The transaction closed with an interest spread of 2.50 percent, which is the lowest threshold for minimum spreads in five years.

Strong issuance volumes are expected to continue leading up to hurricane season, with an estimated USD4 billion expected to close.

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