AON BENFIELD

Insurance-Linked Securities

First Quarter 2013 Update

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First Quarter 2013 Catastrophe Bond Transaction Review

As 2012 came to a close, total new issuance for the 12-month period was at its highest level since 2007. The total bonds outstanding at year end also reached a new record of USD16.54 billion.

Despite a slower start to 2013 than expected, the cat bond market picked up around the middle of the first quarter, with several deals in the market at the same time. 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. Notably, all transactions that priced during the first quarter provide indemnity coverage for repeat sponsors.

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:

First Quarter 2013 Catastrophe Bond Issuance

Beneficiary	Issuer	Series	Class	Size (USD millions)	Covered Perils	Trigger	Rating	Expected Loss[1]	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			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					

Source: Aon Benfield Securities, Inc.

Legend

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

[1] *Annualized modeled expected losses, with warm sea surface temperature results for hurricane risks*

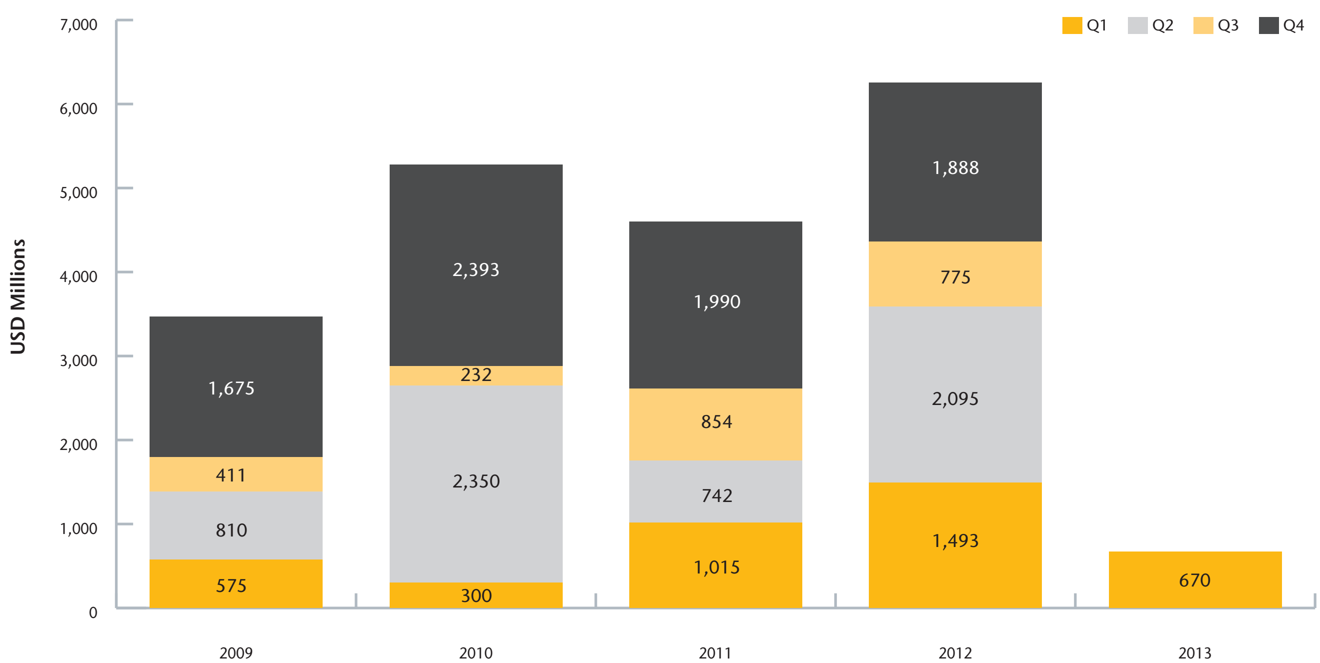
In February, Nationwide Mutual and Nationwide Insurance Company of Florida ("Nationwide Mutual") came to market with Caelus Re 2013 Limited ("Caelus Re 2013"), looking to secure coverage prior to hurricane season for the maturing Caelus Re II Limited. The transaction experienced strong demand and closed well below initial price guidance. As a result, Nationwide Mutual returned to the market several weeks later with a second series from Caelus Re 2013, which again was well-received 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 cat bond market was further highlighted by Everglades Re Ltd. Series 2013-1 ("Everglades Re 2013"), sponsored by Citizens Property Insurance Corporation ("Florida Citizens"). Following its 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 exposures.

In March, State Farm Fire and Casualty Company ("State Farm") returned to the cat 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. ("Merna Re IV"), which was several times oversubscribed. The transaction closed in April 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 in the approach to hurricane season, with an estimated USD4 billion of cat bonds expected to close by June 30.

Catastrophe Bond Issuance by Quarter



Source: Aon Benfield Securities, Inc.

Aon Benfield ILS Indices

The four separate Aon Benfield ILS Indices are calculated by Thomson Reuters using month-end price data provided by Aon Benfield Securities. For the first quarter of 2013, all indices had posted significant gains when compared to the first quarter of 2012. During the period, the All Bond and BB-rated Bond Indices posted returns of 3.13% and 2.25% respectively (2012: 0.54%; 0.53%). Over the same period, the U.S. Hurricane Bond and U.S. Earthquake Bond Indices posted returns of 2.29% and 2.38%, respectively (2012: 0.28%; 0.14%). All Aon Benfield ILS Indices outperformed comparable fixed income benchmarks for the first quarter; however, the returns did not exceed the S&P 500 index's strong performance, which posted gains of 10.03% for the period. On the back of strong mark-to-market gains, all Aon Benfield ILS Indices ended the quarter in a stronger position than for the first quarter of 2012.

For the trailing 12 months, all Aon Benfield ILS Indices posted gains, outperforming the prior year trailing 12-month period. The Aon Benfield All Bond and BB-rated Bond Indices posted returns of 12.69% and 9.40%, respectively (2012: 5.90%; 6.86%). Meanwhile, the U.S. Hurricane Bond and U.S. Earthquake Bond Indices posted returns of 12.74% and 7.33% (2012: 5.50%; 4.24%), respectively. Returns for the All Bond Index outperformed all benchmarks listed below for the trailing 12-month period, demonstrating the value of a diversified book of cat bonds.

In the absence of severe catastrophic events, we expect 2013 to be another positive year of returns for the ILS market.

Aon Benfield ILS Indices[2]

Index Title	Return for Quarterly Period Ending March 31		Return for Annual Period Ending March 31	
Aon Benfield ILS Indices	**2013**	**2012**	**2013**	**2012**
All Bond Bloomberg Ticker (AONCILS)	3.13%	0.54%	12.69%	5.90%
BB-rated Bond Bloomberg Ticker (AONCBB)	2.25%	0.53%	9.40%	6.86%
U.S. Hurricane Bond Bloomberg Ticker (AONCUSHU)	2.29%	0.28%	12.74%	5.50%
U.S. Earthquake Bond Bloomberg Ticker (AONCUSEQ)	2.38%	0.14%	7.33%	4.24%
Benchmarks				
3-5 Year U.S. Treasury Notes	0.25%	-0.36%	2.19%	6.24%
3-Year U.S. Corporate BB	2.23%	3.74%	6.05%	6.42%
S&P 500	10.03%	12.00%	11.41%	6.23%
ABS 3-5 Year, Fixed Rate	0.53%	1.66%	5.18%	6.57%
CMBS Fixed Rate 3-5 Year	0.23%	3.51%	7.31%	8.69%

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

The first quarter of 2013 began with Superstorm Sandy in the rear view mirror. It became clear that the only cat bond potentially impacted by the storm could be Successor X Ltd. Series 2011-3 Class V-F4 ("Successor V-F4"), which was marked at a bid price of 75 on December 31, 2012. On January 18, Property Claim Services ("PCS") released a re-survey estimate of insured property damage for Sandy, revising the preliminary estimate of USD11.00 billion to USD18.75 billion. The Successor V-F4 bonds were marked down to a bid price of 50, with the event index value just below the attachment level.

Superstorm Sandy Insured Industry Loss Estimates (USD billions)

AIR[3]	EQE[4]	RMS[5]	PCS[6]	Impact Forecasting[7]
USD16 – 22	USD10 – 20	USD20 – 25	USD18.75	USD28.2

PCS released a second re-survey estimate on March 22, 2013. The total insured industry loss estimate remained unchanged at USD18.75 billion, with increases in Connecticut, New York, Pennsylvania and West Virginia offset by decreases in Maryland and Virginia. The Successor V-F4 bonds ended the first quarter marked at a bid spread of 65, as investors remained cautious that any further increase in the PCS insured industry loss estimate would likely impact the transaction.

Primary issuance for property cat bonds began a little later in the year than is typical. Caelus Re 2013 was the first property cat bond marketed in 2013, and encountered a market with excess capital. As a result, Caelus Re 2013 closed at a historically low level and received broad market support, indicating that capital for ILS is flowing into funds across the market.

Other transactions also demonstrated a heightened demand for new issuance. Everglades Re 2013 closed at an interest spread of 10.00 percent, representing a significant decrease from 2012 pricing of 17.75 percent despite having a higher expected loss. Additionally, Merna Re IV closed at the lowest absolute spread level in five years at 2.50 percent. Overall, this is a very positive development for the ILS market as spreads became more competitive than traditional reinsurance pricing. This is expected to encourage more sponsors to utilize the ILS market during 2013.

Given the later start to primary market issuance during the first quarter, investors were drawn to the secondary market for additions to their portfolios. Despite some reluctance from sellers, investors were able to secure positions in the secondary market for a premium. Demand for ILS assets led to strong mark-to-market gains throughout the first quarter. The Aon Benfield All Bond Index increased by 0.9 percent—a significant increase given that U.S. hurricane seasonality typically reduces absolute spread levels during the first half of the year. At the midpoint of the quarter, secondary market trading decreased as investors' focus shifted to the primary issuances in the market.

As the first quarter ended, several cat bond transactions were in the marketing process, achieving similar success to those that had closed during the period. Given the strong demand for ILS solutions, we expect 2013 to be an active market for both primary issuance and secondary trading.

Asia and Pacific Region

In January, Tokio Marine & Nichido Fire Insurance Co., Mitsui Sumitomo Insurance Co. and Sompo Japan Insurance Inc. announced their participation in the Pacific Disaster Risk Financing Pilot Program, a joint initiative between the World Bank and the Japan government. The program is designed to offer around USD45 million coverage to the Solomon Islands, Tonga, Marshall Islands, Samoa and Vanuatu via derivative contracts intermediated by the World Bank. The derivative contracts utilize a modeled loss trigger and cover losses from natural disasters including earthquakes, tsunamis and tropical cyclones.

[3] *AIR Worldwide Corporation ("AIR") as of November 26, 2012*

[4] *EQECAT, Inc. ("EQE") as of November 1, 2012*

[5] *Risk Management Solutions, Inc. ("RMS") as of November 14, 2012*

[6] *PCS as of March 22, 2013*

[7] *Impact Forecasting's Annual Global Climate and Catastrophe Report:2012*

An Interview with Liz Frederick, Director and Global ILS Practice Group Leader, Aon Captive & Insurance Management ("ACIM")

1. Could you give us an overview of ACIM, its services and yourself?

As a business unit within Aon Global Risk Consulting, ACIM specializes in the formation and management of re/insurance entities worldwide, including protected and incorporated cell facilities, special purpose vehicles, specialist insurance and reinsurance companies, and captives. The team comprises more than 450 experts globally and is entrusted with the management of over 1,100 re/insurance entities across 23 domiciles. ACIM is a separate and distinct team from Aon Benfield Securities, which specializes in the planning, structuring, capital raising, and execution of ILS transactions.

Several years ago, ACIM recognized significant growth opportunities across the ILS industry and the synergies between the expertise and skill-sets needed to manage these vehicles and its existing business model. ACIM's primary objective is to provide innovative and flexible ILS management solutions to its clients by offering a full range of management services that are delivered by a multi-disciplined team of professionals intimately familiar with all aspects of ILS structures including the formation, on-going administration, claims management and liquidation cycles.

Currently, we manage a variety of structures including SPVs/SPIs, hedge fund-backed reinsurers, and transformers, which issue or invest in a variety of products including cat bonds, ILWs, and collateralized reinsurance across both the P&C and life markets. We also offer ILS investors the opportunity to utilize the White Rock Group, which comprises Aon-owned protected cell, incorporated cell and segregated account companies in Bermuda, Gibraltar, Guernsey, the Isle of Man and Malta.

In October 2012, I joined the ACIM team to provide further support and direction to the ILS management initiative. In my career, I have overseen the management of over 50 catastrophe bonds in both Bermuda and the Cayman Islands, several of which have experienced trigger events, and I have worked with teams on several sidecars, and have assisted with the development of services provided through segregated account transformers. I am currently responsible for growing the ILS insurance management business and ensuring best practices are utilized across all of our ILS domiciles, including Bermuda, the Cayman Islands, Dublin and Guernsey.

2. What obstacles do you face as the administrator in a cat bond transaction?

Prior to a transaction closing, the biggest challenge we face is managing the expectations of different deal teams and ensuring that transaction timelines are upheld. We pride ourselves in removing execution risk wherever possible in our role, and, therefore, we take a very proactive approach towards managing these transactions. Additionally, over the years, we have had the pleasure of working with many different structuring teams and deal counsels, and they each have had their own traits which define how a transaction is run. We have found that it is exceptionally helpful to have a strong working relationship with all of the deal teams in the industry, as we can anticipate, where possible, any bottlenecks before they occur, and ensure we work around any potential issues.

Post close, the biggest challenge we face is in managing the unexpected. This is where the true value of an experienced insurance manager comes in to play. Having worked on the majority of transactions which have triggered since 2005, I can assure you that while the basic mechanics are built into the underlying deal documents, these vehicles do not run on "auto-pilot". We are lucky to have a diverse and experienced ILS team within ACIM, all of whom bring different skills and expertise to strengthen the team as a whole. This ensures we are well-resourced to manage the known and the unknown, no matter what the situation.

3. How does the role of the administrator help to make a difference in a transaction?

Based on events over the past several years, it is clear that administrators have an opportunity to educate the market on the importance of our role and the importance of having an experienced team managing transactions during the life of a deal. It is easy to overlook this value if one assumes a transaction will not be triggered. Through the events of the last several years, from Katrina to the financial crisis to the Tohoku Earthquake and tsunami event, we have learned to be nimble and, therefore, it is imperative that cedants, investors and deal teams alike understand the experience and skill set of the administration teams in the market. Only then can they select those who have a broad basis of knowledge and expertise in the ILS industry.

Separately, it is important that the deal teams, the cedant, and the investors in any individual transaction have confidence in the abilities and expertise of the administrator, as we are the party that has been appointed to run the SPV/SPI after the notes are issued and after the reinsurance contract is executed. Through our experiences with an extensive subset of the ILS market, we have learned the value of having a diverse internal management team made up of accountants, legal specialists, insurance experts and claims management professionals, who have an in-depth understanding of the mechanics of the transactions and strong relationships within the ILS community. The ACIM team takes a very proactive approach towards the management of the vehicles during the entire lifecycle of a deal; whether it is ensuring that routine premium payments occur, managing a potential claim, or handling the loss of a primary service provider.

4. Could you walk us through the steps of the administrator's role in bringing a cat bond to market?

Upon appointment, we work with the deal teams to understand the transaction specifics, the parties to the transaction, and the transaction timeline. As the administrator, we will be involved very early on in the process, working with local counsel to ensure the new SPV/SPI becomes incorporated and licensed in accordance with the deal schedule. Prior to closing, as we often provide at least one director to the board of the SPV/SPI, we will review all of the transaction documents and provide feedback where appropriate. While we work with the deal teams to ensure we fully understand the intent of the structure and ensure this is captured in the documents, our primary focus is on the execution of the intent. Our goal is to add value to each transaction on which we are appointed, based on our past experiences with other deals, pointing out best practices, and what works and doesn't work from a day to day perspective. This helps to provide a different viewpoint to the deal team.

5. Five years from now, how will the cat bond issuance process have changed from ACIM's perspective?

It is the responsibility of all parties involved in the ILS industry to ensure that any transaction brought to market benefits both the cedants and the investors, and that the terms and conditions of the deal are appropriate based on the intent of all parties. Since the financial crisis, we have seen an increased interest in the robustness and transparency of ILS structures, and an increase in information being made available to investors. Additionally, we have seen an increased focus on the corporate governance of the ILS vehicles. I expect this will continue over the next several years and, as a result, we will likely see additional changes to the structures. One of the most exciting aspects of this industry is the innovation and the pace with which it adapts to the needs of the cedants and investors. I expect this to continue, and I am excited that our ACIM team has the opportunity to participate in developing these changes.

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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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