AON BENFIELD

Insurance-Linked Securities

Second Quarter 2014 Update

Empower Results®

Second Quarter 2014 Catastrophe Bond Transaction Review

In response to the advantageous market conditions witnessed in the first quarter, 12 catastrophe bond transactions closed during the second quarter of 2014, representing USD4.5 billion of issuance—the most of any quarter in the history of the ILS market.

When combined with a near-record first quarter, catastrophe bond issuance for the first half was the highest on record, exceeding the prior year period by almost 50% and reflecting continued strong demand both from sponsors and investors. If this trend continues, ILS issuance for 2014 could surpass the annual market peak set in 2007.

At June 30, total outstanding bonds remained at a record high of USD22.4 billion, reflecting the sustained deployment of additional investor capital into catastrophe bonds.

New sponsors, Heritage Property & Casualty Insurance Company ("Heritage"), Assicurazioni Generali S.p.A ("Generali"), Everest Reinsurance Company ("Everest"), Sompo Japan Nipponkoa Insurance Inc. ("SJNK") and Texas Windstorm Insurance Association ("TWIA") joined first quarter newcomers American Strategic Insurance Group and Great American Insurance Company, representing a total of seven new sponsors for the first half of 2014. This figure matches the total number of new sponsors for the full year 2013, and is the most to enter the sector over a single calendar year period since 2007.

The table below summarizes the terms of the deals that closed during the second quarter:

Second Quarter 2014 Catastrophe Bond Issuance

Beneficiary	Issuer	Series	Class	Size (USD millions)	Covered Perils	Trigger	Rating	Expected Loss[1]	Interest Spread
Heritage Property & Casualty Insurance Company	Citrus Re Ltd.	Series 2014-1	Class A	150	FL HU	Indemnity	Not Rated	1.53%	4.25%
		Series 2014-2	Class 1	50			Not Rated	1.21%	3.75%
Assicurazioni Generali S.p.A[2]	Lion Re I Limited			263	EU W	Indemnity	B+	1.01%	2.25%
Everest Reinsurance Company	Kilimanjaro Re Limited	Series 2014-1	Class A	250	SE HU	Industry Index	BB-	1.79%	4.75%
			Class B	200	NA HU, EQ			1.62%	4.50%
American Coastal Insurance Company	Armor Re Ltd.	Series 2014-1	Class A	200	FL HU	Indemnity	Not Rated	0.62%	4.00%
Citizens Property Insurance Corporation	Everglades Re Ltd.	Series 2014-1	Class A	1,500	FL HU	Indemnity	B	2.68%	7.50%
Allstate Insurance Company	Sanders Re Ltd.	Series 2014-1	Class B	330	US HU, EQ	Industry Index	BB+	0.79%	3.00%
			Class C	115			BB	0.97%	3.25%
			Class D	305			BB	1.28%	3.90%
Castle Key Insurance Company and Castle Key Indemnity Company	Sanders Re Ltd.	Series 2014-2	Class A	200	FL, HU, ST, EQ	Indemnity	Not Rated	0.88%	3.90%
National Mutual Insurance Federation of Agricultural Cooperatives ("Zenkyoren")	Nakama Re Ltd.	Series 2014-1	Class 1	150	JP EQ	Indemnity	Not Rated	0.75%	2.25%
			Class 2	150			Not Rated	0.75%	2.50%
United Services Automobile Association	Residential Reinsurance 2014 Limited	Series 2014-I	Class 10	80	US HU, EQ, ST, WS, WF, Others	Indemnity	Not Rated	11.31%	15.00%
			Class 13	50			Not Rated	0.63%	3.50%
Sompo Japan and Nipponkoa Insurance Company	Aozora Re Ltd.	Series 2014-1	Class B	100	JP TY	Indemnity	BB	0.52%	2.00%
Texas Windstorm Insurance Association	Alamo Re Ltd.	Series 2014-1	Class A	400	TX HU	Indemnity	B	3.09%	6.35%
Total Closing During Q2				4,492					

Source: Aon Benfield Securities, Inc.

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

[2] EUR = 1.384 USD

Legend

EU – Europe
FL – Florida
US – United States
NA – North America
SE – Southeast U.S.
JP – Japan
TX – Texas
EQ – Earthquake
HU – Hurricane
ST – Severe Thunderstorm
TY– Typhoon
WF – Wildfire
W – Windstorm
WS – Winter Storm

Second Quarter 2014 Catastrophe Bond Transaction Review

Catastrophe bond pricing remained at historic lows during the second quarter, as investor demand kept pace with increased supply, allowing sponsors to expand coverage at competitive rates.

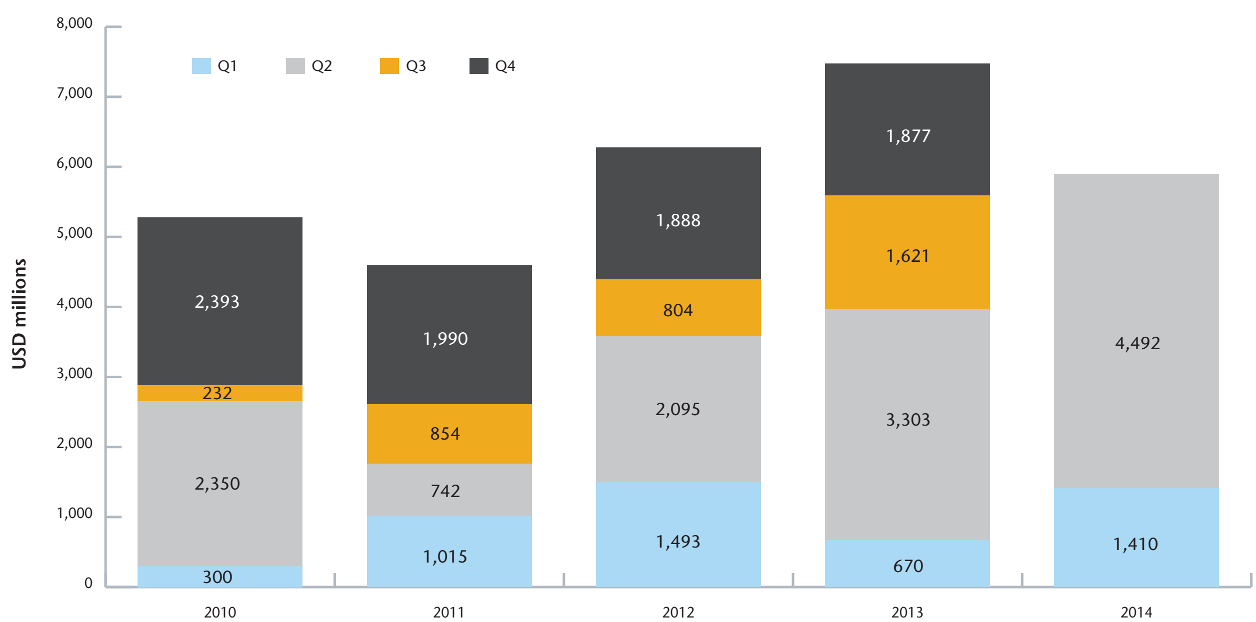
Repeat sponsors, Allstate Insurance Company ("Allstate") and Citizens Property Reinsurance Company ("Florida Citizens") saw the favorable market environment as an opportunity to expand the share of ILS in their risk transfer programs. Allstate, along with its dedicated Florida property insurance companies (Castle Key Insurance Company and Castle Key Indemnity Company), utilized Sanders Re Ltd. to secure USD950 million of capacity during the quarter. Florida Citizens doubled its previous largest issuance from 2012 with Everglades Re Ltd. 2014-1, which provides the sponsor with USD1.5 billion in aggregate indemnity coverage.

The second quarter of 2014 saw the launch of Lion Re I Limited, marking the entrance of Generali, the third largest European insurance group, into the catastrophe bond market, securing coverage for Europe windstorm. Everest also entered the market for the first time through Kilimanjaro Re Limited. The transaction, which includes an aggregate tranche, gives the reinsurer North American index protection against hurricanes and earthquakes. The transaction was well received by investors, allowing Everest to upsize its issuance by 80% to USD450 million while the interest spreads for each class of notes closed 50 basis points below the low ends of initial price guidance.

Zenkyoren's Nakama Re Ltd. 2014-1 utilizes two classes of notes which each provide USD150 million in Japan earthquake coverage on an indemnity basis, utilizing per occurrence and annual aggregate recovery mechanisms. The aggregate tranche is the first such coverage secured on an indemnity basis for Japan earthquake risk.

The chart below shows historical catastrophe bond issuance by quarter:

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.

Each ILS index posted increases for the second quarter of 2014. The All Bond and BB-rated Bond Indices were up 0.80% and 0.32%, while the U.S. Hurricane Bond and U.S. Earthquake Bond Indices were up 0.86% and 0.87%, respectively in the quarter. All Aon Benfield ILS Indices underperformed all comparable fixed income benchmarks for the quarter, and the S&P 500 index. Returns for all indices ended the quarter lower than comparable returns for the second quarter of 2013 as mark-to-market gains slowed versus a strong period in 2013.

For the trailing 12 months, all Aon Benfield ILS Indices posted gains. The Aon Benfield All Bond and BB-rated Bond indices posted returns of 7.74% and 4.99% while the U.S. Hurricane and U.S. Earthquake Bond indices posted returns of 8.94% and 4.33%, respectively. While the indices results were positive during the last 12 months, they were lower than the trailing 12 month performance from the prior year. Returns for the All Bond Index outperformed all comparable fixed income indices for the trailing 12 months except the 3-5 Year BB US High Yield Index, demonstrating the value of a diversified book of catastrophe bonds.

In the absence of severe catastrophic events, we would expect the remainder of 2014 to be another positive year as the market broadens the spectrum of available risks.

Aon Benfield ILS Indices[1]

Index Title	Return for Quarterly Period Ended June 30		Return for Annual Period Ended June 30	
Aon Benfield ILS Indices	**2014**	**2013**	**2014**	**2013**
All Bond Bloomberg Ticker (AONCILS)	0.80%	2.20%	7.74%	12.14%
BB-rated Bond Bloomberg Ticker (AONCBB)	0.32%	1.33%	4.99%	8.16%
U.S. Hurricane Bond Bloomberg Ticker (AONCUSHU)	0.86%	2.34%	8.94%	13.19%
U.S. Earthquake Bond Bloomberg Ticker (AONCUSEQ)	0.87%	1.91%	4.33%	6.89%
Benchmarks				
3-5 Year U.S. Treasury Notes	0.90%	-1.57%	1.75%	-0.61%
3-Year U.S. Corporate BB	1.59%	-1.19%	10.11%	7.50%
S&P 500	4.69%	2.36%	22.04%	17.92%
ABS 3-5 Year, Fixed Rate	1.25%	-1.77%	3.91%	1.55%
CMBS 3-5 Year, Fixed Rate	1.35%	-1.03%	4.26%	4.73%

Source: Aon Benfield Securities Inc., Bloomberg

[1] *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 3-5 Year, Fixed Rate 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

Investors had many opportunities to put capital to work throughout the second quarter of 2014. A record of USD4.5 billion in new catastrophe bond issuance was brought to market allowing investors to allocate capacity in an efficient manner. New issuance outpaced the USD1.4 billion of bonds maturing over the same period.

For some sponsors, ILS became a more significant portion of their reinsurance spend in 2014; for example, Allstate increased its catastrophe bond protection by 2.7x compared to 2013 and Florida Citizens purchased twice the amount of its maturing capacity.

New issuance during the quarter enabled investors to add a variety of perils and regions to their ILS portfolios, including Europe windstorm, Japan earthquake, Japan typhoon and Texas hurricane. Investors were also receptive to new currencies, as Aozora Re Ltd. launched the first catastrophe bond denominated in Japanese yen. Investors demonstrated interest in portfolio diversification for non-U.S. risks pushing yields in these bonds to issuance spreads of 2.50% or below. The ILS market’s interest in assuming some non-modeled perils, for example Residential Reinsurance Limited’s inclusion of meteorite and volcanic eruption, provides a good backdrop for continued expansion.

Investors were presented with a variety of risks in the second quarter with particular emphasis on Florida hurricane. A total of USD2.1 billion was secured across five transactions which covered Florida only.

April and May were active months in the secondary market. The large volume of new bonds issued during this period resulted in some investors reallocating their portfolios to free-up capacity for new purchases. Demand in the secondary market was strong for both diversifying perils and high yielding transactions. As we approached June, the secondary market began to slow as investors assessed their allocations from the primary issuance market and focused their attention on the June 1 traditional reinsurance renewal season. Investors accessed a record amount of catastrophe bonds on the primary market, with many putting a large proportion of their funds to work. This led to small pricing declines in the secondary market in June.

We continue to see new capital flowing into ILS strategies which we believe will put downward pressure on ILS spreads. We also anticipate the market's interest in high-yield transactions to continue as ILS investors search for methods to increase the absolute yield on their portfolios.

An Interview with Bryon Ehrhart, CEO Aon Benfield Americas

Bryon Ehrhart serves as the CEO of Aon Benfield Americas, the world's leading reinsurance intermediary and full-service capital advisor. He has most recently served as the Chief Strategy Officer for Aon Benfield, Chairman of Aon Benfield Analytics and of Aon Benfield's Investment Banking group.

1. *There's been a lot of discussion on the amount of alternative capital entering the risk transfer markets. What impact has this had on the traditional re/insurance markets to date?*

There is recognition now across a very large group of investors that our clients' risks are opportunities to diversify away from credit, interest rate and equity market risks, and this has brought far greater opportunities for our clients to manage risk capital. Traditional reinsurers did not incorporate alternative capital into their value proposition sufficiently over the past decade, and as a result they lost substantial market and position share. Many reinsurers are now actively working to incorporate alternative capital into their capital structures and improve their value proposition. Alternative capital providers have now built their own traditional-style vehicles and they add materially to the competitive landscape. The lower return requirements of the alternative capital vehicles have greatly reduced the cost of reinsurance for our clients.

2. *Alternative capital allocations to the risk transfer markets are expected to keep growing. Discuss the landscape for buyers and sellers in five years' time.*

In five years, it is possible that insurers will be growing again in catastrophe-prone regions because they will have had a sustained period of renewing multiple year reinsurance capacity at very efficient prices. Insurers will have, by then, materially lowered their cost of underwriting capital. Policyholders will have many more options available from insurers.

Sellers of reinsurance have been trying to stimulate more demand. In recent renewal periods supply has exceeded demand. In five years, it is possible that new demand for efficiently priced multiple year programs cold grow materially to support the growth plans of insurers.

The development of the market over the next five years is still sensitive to significant catastrophe events. Last year we shared our view that another USD100 billion of alternative capital will enter the market over the next five years and it will be far more transformative than the first USD50 billion has been to the reinsurance market. We now believe this estimate is conservative.

We believe this next wave of alternative capital will drive consolidation, share repurchases and special dividends. It will also cause reinsurers to form alternative asset management units to manage diversifying portfolios for investors.

3. *What size / type of catastrophe event do you think it would take to reverse the current low rate environment?*

From the low risk adjusted pricing levels today, an event that would impact reinsurer capital by five to seven percent would likely stop further price reductions. To move pricing upward, an event greater than five to seven percent would be required. Reinsurer capital stands at well over a half a trillion US dollars and that figure would not be impacted until insurer retentions were exceeded. To trigger a reinsurer capital loss of 10 percent, an industry insured loss of USD80 billion to USD100 billion would need to occur.

4. *What are your thoughts on the "Hedge Fund Re" strategy?*

The hedge fund reinsurance strategy creates legitimate reinsurers that offer value to our clients that traditional reinsurers have been unable to align with their business plans and returns expectations. We do not believe there will be sufficient reinsurance market business to allow these plans to remain just in the reinsurance business. These vehicles are therefore likely to enter the insurance business. There are a variety of insurance classes where these vehicles could produce mutually beneficial value.

5. *What does the insurance-linked securities market look like in 2020?*

Our 2020 view shows a maturing relationship between a consolidating reinsurance market and investors that seek returns from taking risks that are not tied to credit, interest rate or equity market risks. This maturing relationship will incorporate around USD150 billion of catastrophe bonds, sidecars, collateralized reinsurers and hedge fund managed insurance and reinsurance companies. Reinsurers will have a more consistent value proposition for insurers because they will have incorporated the accretive alternative capital.

Aon Benfield
200 E. Randolph Street
Chicago, Illinois 60601
t +1.312.381.5300
f +1.312.381.0160
aonbenfield.com

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, sidecars, collateralized reinsurance, industry loss warranties, and derivative products.

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.

Aon Benfield Inc., Aon Benfield Securities, Inc. and Aon Benfield Securities Limited are all wholly-owned subsidiaries of Aon plc. Securities advice, products and services described within this report are offered solely through Aon Benfield Securities, Inc. and/or Aon Benfield Securities Limited.

© Aon Benfield, LLC, 2014. All rights reserved.
This document is intended for general information purposes only and should not be construed as advice or opinions on any specific facts or circumstances. The comments in this summary are based upon Aon Benfield's preliminary analysis of publicly available information. The content of this document is made available on an "as is" basis, without warranty of any kind. Aon Benfield disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on that content. Aon Benfield reserves all rights to the content of this document.
#14998 - 6/2014

AON BENFIELD