AON BENFIELD

Reinsurance Market Outlook

April 1, 2014 Update

Empower Results®

Executive Summary - Record Traditional and Alternative Capital Flows Continue to Benefit Ceding Companies

The transformative impact of alternative capital flows into the reinsurance industry continues to benefit reinsurance buyers. Traditional reinsurers have begun to employ the alternative capital flows to enhance their value propositions and match the price points available directly from funds that have not developed relationships with cedents. While the traditional reinsurance market has only begun its transformation, it is clear that it will match the new lower disaggregated (diversifying) price-points of alternative investors. Reinsurance buyers are now able to imagine a future where very heavy margin loadings for peak zones may not be part of the long-term future.

Reinsurance renewals at April 1 are concentrated on substantially all of the Japanese market and a few large U.S. programs. Ceding companies at these renewals continued to see material benefit from record traditional and alternative capital dedicated to reinsurance, and we expect continued benefits to be realized by ceding companies at the June and July key renewal dates. Benign catastrophe losses in 2013 contributed to a sub-90 reinsurer combined ratios, and coupled with a 28 percent growth in alternative capital led to a 7 percent increase in total reinsurer capital during 2013, representing a nearly 60 percent increase since the reinsurer capital level of 2008.

Abundant reinsurance capacity was available for Japanese renewals including the largest programs. Traditional reinsurers provided capacity at improved pricing with the Tohoku Earthquake now three years past and alternative capital maintained a presence in Japan earthquake risk. Relationship continuity continues to be highly valued by cedents particularly where significant value was realized in the Tohoku event.

Minimum spreads in the catastrophe bond market continue to decline. Overall, Q1 2014 saw USD1.4 billion of ILS issuance, continuing the building momentum from USD7.5 billion total 2013 issuance.

The limited number of U.S. treaty renewals also saw abundant capacity as well as continued improvement on contractual terms from traditional reinsurers, including relaxed hours clauses, more favorable reinstatement terms and other terms and conditions. Renewals in the U.K. and India were similarly focused on rate and improved terms and conditions, while Korean renewals experienced an orderly recovery from the losses experienced in 2012.

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. property catastrophe June and July renewals can be obtained by clients of Aon Benfield through the professionals serving their account.

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.

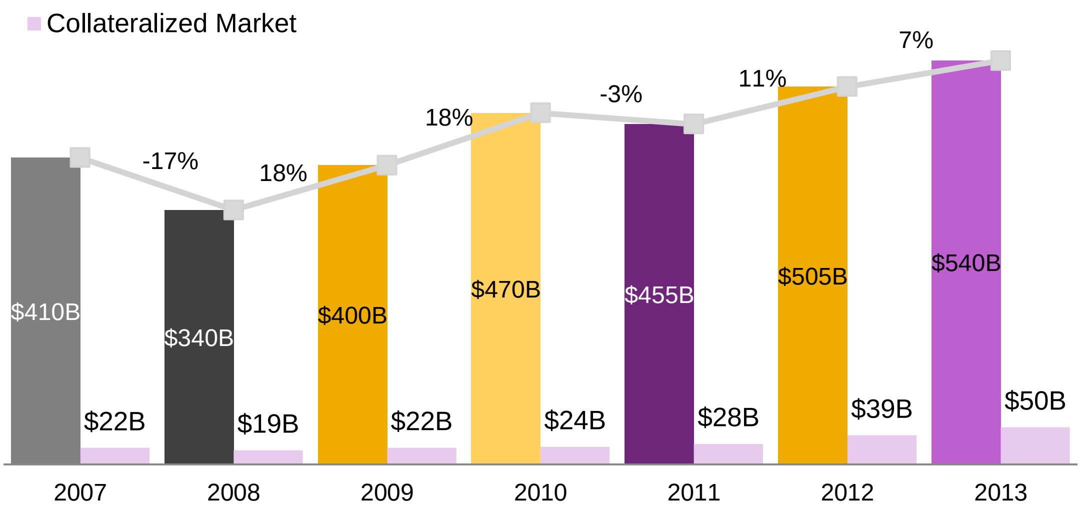
Supply and Demand

Global reinsurer capital stood at USD540 billion at the end of 2013, an increase of 7 percent over the year. This calculation is a broad measure of capital available for insurers to trade risk with and includes both traditional and alternative forms of reinsurer capital.

Growth in traditional reinsurer capital was supported by robust net income generation as companies benefited from low catastrophe loss activity and continued reserve releases. During 2013 alternative capital continued to grow, totaling USD50 billion or just over 9 percent of the total capital available for reinsurance at the end of the year. The influx of new funds from capital markets investors remains the main driver of growth in the alternative sector.

As a result of growth in capital across the traditional and alternative sectors, reinsurer capacity remains abundant in all regions.

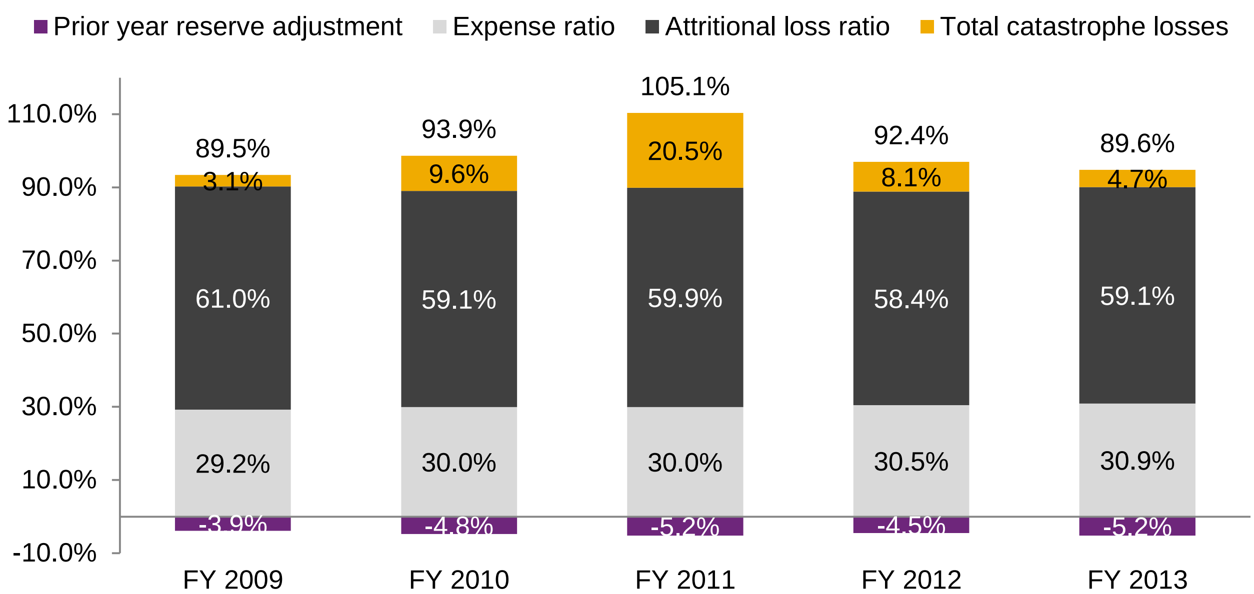
Exhibit 1: Change in Reinsurer Capital



Source: Individual company reports, Aon Benfield Analytics

The 2013 Aon Benfield Aggregate group of reinsurers showed a small but continued improvement in the combined ratio to 89.6 percent. Catastrophe loss activity continues to provide the largest volatility in results with the lowest contribution to the combined ratio since 2009 of 4.7 percent.

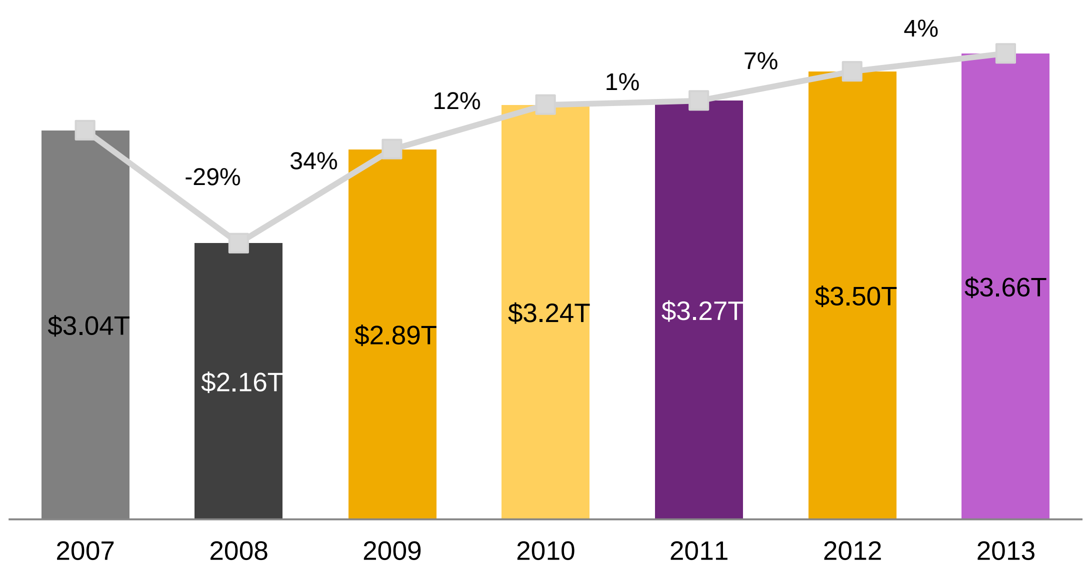
Exhibit 2: Aon Benfield Aggregate Reinsurer Combined Ratio



Source: Individual company reports, Aon Benfield Analytics

Insurer capital increased 4 percent throughout 2013 with the majority of the increase coming in Q4 2013. Low catastrophe loss activity in North America and Asia throughout 2013 contributed to increases in those regions.

Exhibit 3: Change in Insurer Capital

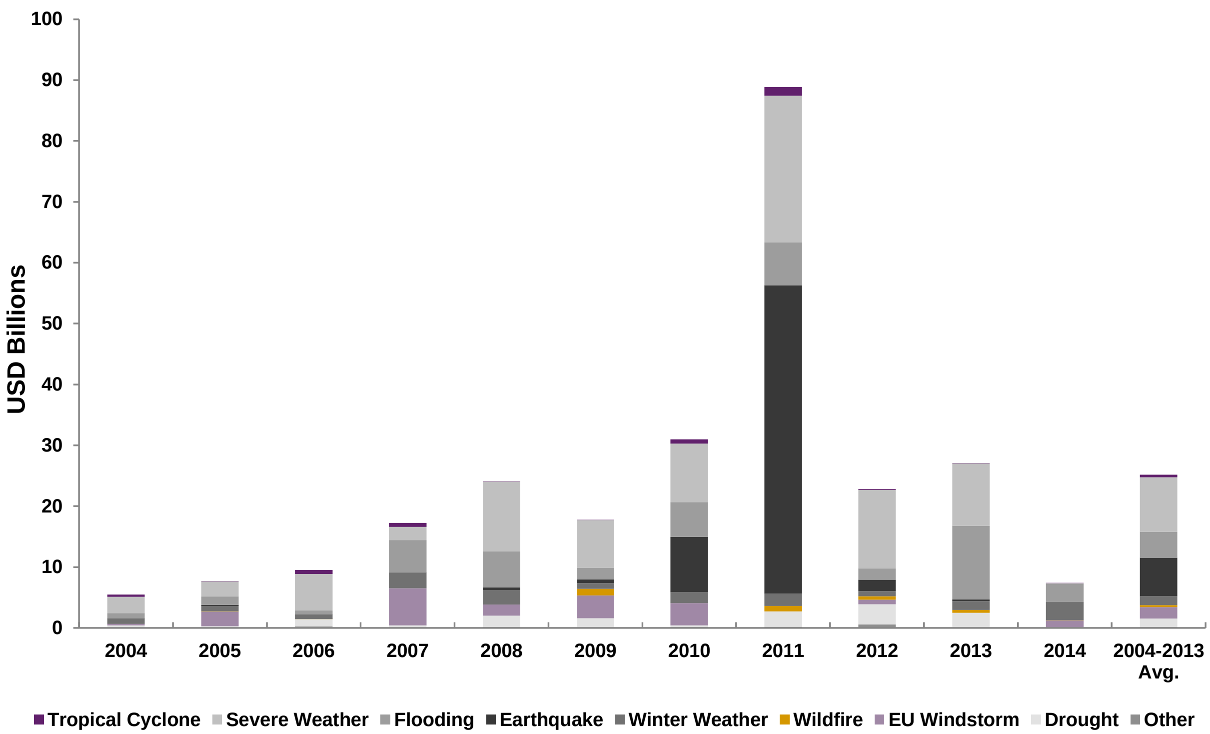


Source: Individual company reports, Aon Benfield Analytics

Q1 Global Catastrophe Losses Light

2014 has been characterized by heavy insured losses for both winter weather and flooding, with preliminary numbers suggesting losses of USD2.98 billion and USD2.96 billion, respectively. Nearly 74 percent of the winter weather losses occurred in the U.S., as an extremely active and harsh winter affected states as far south as Georgia. Concurrently, heavy rain fall in the UK led to extreme flooding, with approximately 93 percent of global flood losses to date.

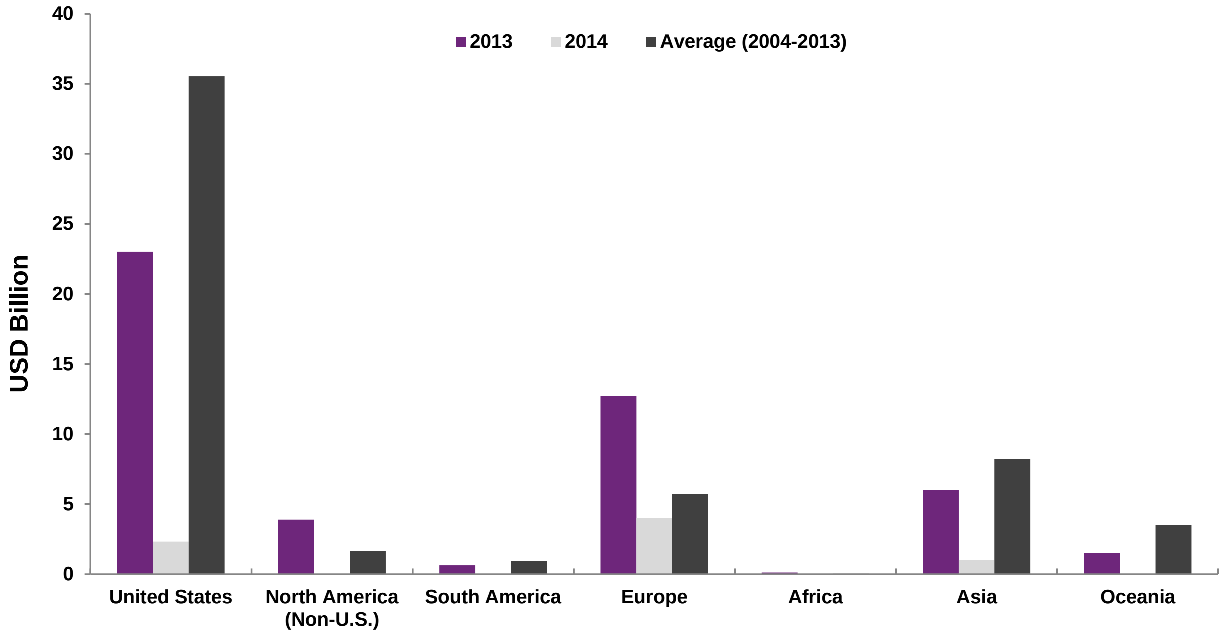
Exhibit 4: Global Insured Losses by Peril Q1 & Q2



Source: Aon Benfield Analytics

First quarter global catastrophe losses are historically light, with the exception of 2011's Asia Pacific earthquake losses. Exhibit 5 shows that preliminary Q1 insured losses in all regions are light compared to 2013 totals as well as 2004 to 2013 averages, with the exception of Europe, where Q1 insured losses are nearly 70 percent of the average. Flood losses in the UK make up 68.5 percent of total insured losses to the region so far. In addition, windstorm Tini affected Western Europe with approximately USD685 million in damage (17 percent of the overall Q1 total).

Exhibit 5: Annual Insured Losses by Region



Source: Aon Benfield Analytics

Updates to the numbers are expected throughout the year as losses continue to develop. Aon Benfield will provide additional information in the June and July Reinsurance Market Outlook.

First Quarter 2014 Catastrophe Bond Transaction Review

As 2013 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 recorded a new record of USD20.3 billion.

Picking up where the strong 2013 ended, seven transactions closed during the first quarter of 2014. Issuance in the first quarter proved to be the second most active for any first quarter on record. Market conditions for insurance linked securities followed the historic lows seen in 2013, as strong demand for cat bonds continued among sponsors and investors.

New sponsors American Strategic Insurance Group and Great American Insurance Company entered the market in the first quarter, along with ILS veterans State Farm, Munich Re and Chubb Group.

Investors were provided with a variety of risks to choose from, including regional U.S. earthquake, regional, nationwide and North American multi-peril, Japanese earthquake, worldwide hurricane and cyclone, and U.S. health. Following the 2013 trend in broadened coverage, all transactions that closed during the first quarter provided a form of indemnity coverage.

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

Exhibit 6: First Quarter 2014 Catastrophe Bond Issuance

Beneficiary	Issuer	Series	Class	Size (USD millions)	Covered Perils	Trigger	Rating	Expected Loss[1]	Interest Spread
Aetna Life Insurance	Vitality Re V Limited	Series 2014-1	Class A	$140	U.S. Medical Benefits Ratio	Indemnity	BBB+	0.01%	1.75%
			Class B	$60			BB+	0.20%	2.50%
Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft (“Munich Re“)	Queen Street IX Re Limited			$100	U.S. HU & AUS CY	Multiple	Not Rated	2.92%	5.50%
Chubb Group	East Lane Re VI Ltd.	Series 2014-1	Class A	$270	Northeast U.S. HU, EQ, ST & WS	Indemnity	BB+	0.88%	2.75%
American Strategic Insurance Group	Gator Re Ltd.	Series 2014-1	Class A	$200	U.S. HU & ST	Indemnity	Not Rated	1.73%	6.50%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	Kizuna Re II Ltd.	Series 2014-1	Class A	$200	JP EQ	Indemnity	Not Rated	0.21%	2.25%
			Class B	$45			Not Rated	0.57%	2.50%
Great American Insurance Company	Riverfront Re Ltd.			$95	U.S./CAN HU, EQ, ST & WS	Indemnity	BB-	1.34%	4.00%
State Farm Fire and Casualty Company (“State Farm”)	Merna Re V Ltd.			$300	New Madrid EQ	Indemnity	Not Rated	0.40%	2.00%
Total Closing During Q1				$1,410					

Country Legend: AUS – Australia, CAN – Canada, JP – Japan, U.S. – United States
Catastrophe Type Legend: CY – Cyclone, EQ – Earthquake, HU – Hurricane, ST – Severe Thunderstorm, WS - Winterstorm
Source: Aon Benfield Securities, Inc.

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

In the first quarter, Aetna Life Insurance returned to the market for its fifth issuance, Vitality Re V Limited with USD200 million in health capacity. Queen Street Re IX Limited provides Munich Re with coverage for earthquake in the U.S. and cyclone in Australia, while Chubb Group's East Lane Re VI Ltd. USD270 million cat bond gives the insurer regional multi-peril coverage in the Northeast. Such reissuances suggest the persistent benefit sponsors see in the catastrophe bond market and emergence as a permanent fixture of their risk transfer programs.

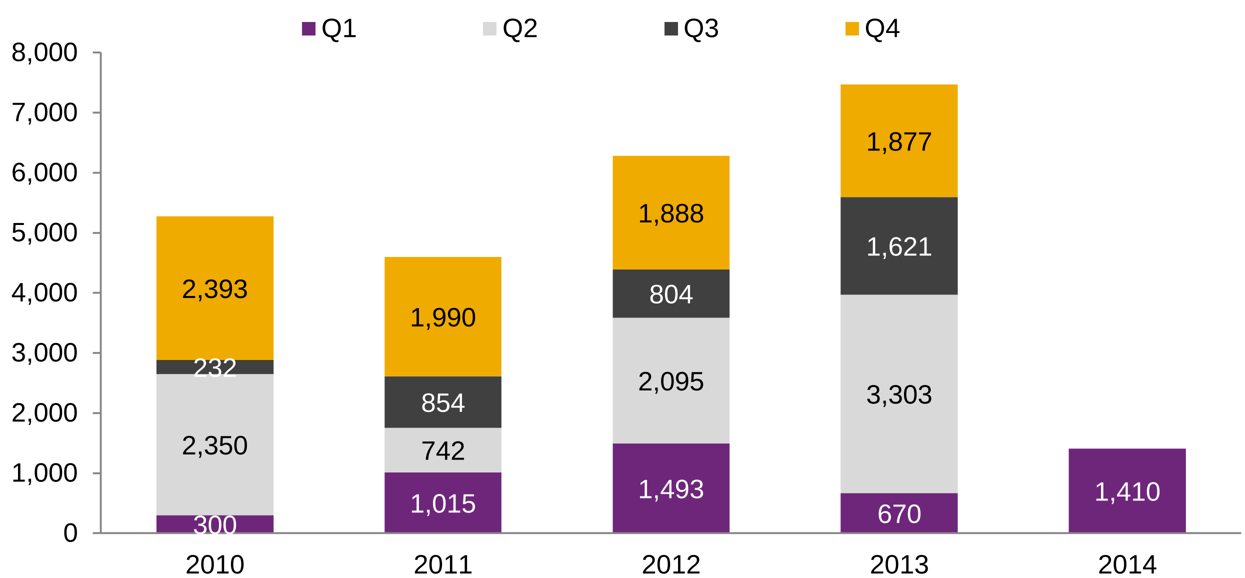
Also in the first quarter, ASIG, a newcomer to ILS, found hurricane and severe thunderstorm coverage in Gator Re Ltd. which utilizes a dual structure, sectioning the indemnity hurricane trigger as per occurrence and the indemnity severe thunderstorm trigger as annual aggregate. GAIC also came to the market with its first transaction, Riverfront Re Ltd., which provides multi-peril coverage in the U.S. and Canada. The transaction was well received by investors priced at 4 percent.

Tokio Marine & Nichido Fire Insurance Co., Ltd. successfully sponsored its second indemnity cat bond with the first Japanese non-life earthquake cat bond with significant commercial and industrial exposures in Japan. Kizuna Re II Ltd. provides the insurer with USD245 million in coverage for Japan earthquakes.

Merna Re V Ltd. provides State Farm with USD300 million of indemnity coverage against earthquakes in the New Madrid region. The offering closed in March with an interest spread of 2 percent, .5 percent lower than Merna Re IV Ltd., which marketed Q1 last year with a similar expected loss emphasizing the low rate environment.

The chart below shows catastrophe bonds issued by quarter:

Exhibit 7: Catastrophe Bond Issused by Quarter



Source: Aon Benfield Securities, Inc.

ILS Sales and Distribution

The ILS market continued to show strength as the first quarter came to a close. Investors secured USD1.41 billion in new issuance during the first quarter compared to USD 0.67 billion in the first quarter of 2013. Even with the 110 percent increase in issuance year over year, new issuances did not keep up pace with the USD2.0 billion of bonds that matured during the first quarter. New issuance demand was strong, as investors desired to redeploy capital into cat bonds, and new capital continues flowing into ILS strategies. Many transactions increased in issuance size and priced at the low end of, or below, interest spread guidance.

Many of the new issuances coming to market during the quarter enabled investors to diversify portfolios into non-peak risks. These risks included; New Madrid earthquake (Merna Re V Ltd.), Japan earthquake (Kizuna Re II Ltd.), Australia cyclone (Queen Street IX Ltd.) and medical benefit reinsurance (Vitality Re V Ltd.). Investors demonstrated interest in portfolio diversification pushing yields to benchmark lows. Investor demand in Merna Re V Ltd. pushed the spread down to 2.00 percent, representing a 20 percent decline in spread from a year ago and the lowest spread for non-investment grade bond in six years. Similarly, the investment grade rated Class A of Vitality Re V Ltd. closed at 1.75 percent, a 36 percent decline in last year. ILS market's interest in assuming non-peak perils provides a good backdrop for expansion into new peril types as the market continues to expand coverage.

To complement diversification, investors sought opportunities to increase absolute return on portfolios through sourcing high-yielding transactions in the secondary market. Investors holding an inventory of bonds required premiums to exit positions, driving the prices for bonds higher throughout the quarter. Throughout the quarter, transactions with relatively high coupons drew significant interest, although the primary market only provided one issuance yielding above 6.00 percent (Gator Re Ltd.), the targeted return of a number of ILS funds. Given the recent issuance of low-yielding transactions, higher-yielding transactions are likely to be in demand by portfolio managers as a means to improve portfolio returns.

We expect investor demand for ILS to continue to be strong into the second quarter as capital continues to flow into the market. As such, capital markets transactions should continue to look attractive to sponsors. We would anticipate investor interest in higher-yielding transactions to continue as investors search for methods to increase absolute yield on portfolios.

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