AON BENFIELD

Insurance-Linked Securities

Fourth Quarter Update 2010

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Aon Benfield Securities again presents a quarterly review of Insurance-Linked Securities ("ILS"), providing insight into this active market.

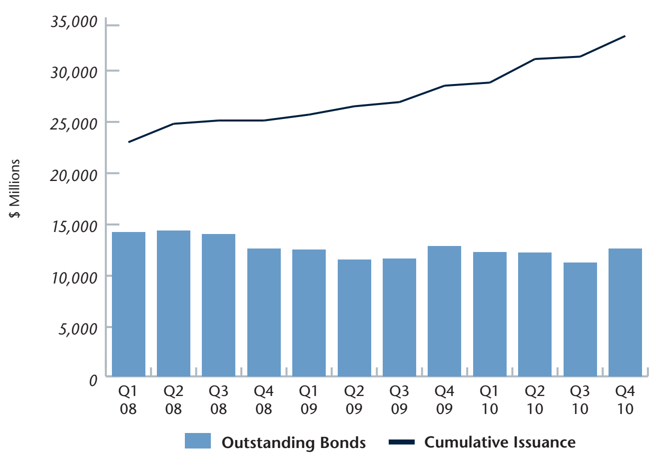
Catastrophe Bond Transaction Review

The 2010 calendar year was marked by an active ILS market. A total of twenty-three catastrophe bond transactions closed in 2010, totaling $4.8 billion in notional issuance volume, readily exceeding both the number of deals (18) and the issuance volume ($3.4 billion) observed in the 2009 calendar year.

While ILS issuance for the first half of 2010 consisted largely of U.S. Hurricane-exposed catastrophe bonds (10 of the 11 catastrophe bonds issued during the first half contained U.S. Hurricane risk), the second half, and particularly the fourth quarter, gave rise to a much more diversified offering of catastrophe bonds. This diversification provided investors with a welcome opportunity to invest in other perils and re-balance their existing portfolios by geography and peril.

The fourth quarter was capped by a strong flurry of transactions, concluding with 10 catastrophe bond transactions totaling $2.0 billion in issuance volume.

Outstanding Catastrophe Bond Volume By Quarter



Source: Aon Benfield Securities

Fourth Quarter Transactions

The €275 million Calypso Capital Limited catastrophe bond offering kicked off the fourth quarter by providing repeat sponsor AXA Global P&C with Europe Windstorm cover based on the PERILS industry index trigger. The deal received strong investor support and was subsequently upsized from the initial issuance amount of €150 million.

American Family Mutual Insurance Company followed in November with its first bond transaction, sponsoring $100 million of notes through Mariah Re Ltd. Series 2010-1. As the first ever securitization for pure U.S. Severe Thunderstorm risk, investors readily embraced the transaction, allowing the PCS indexed annual aggregate bond to price well below initial expectations.

A handful of sponsors decided to access the capital markets again with take-down issuances using established shelf programs following earlier issuances. SCOR P&C's €75 million Atlas VI Capital Limited Series 2010-1 transaction offered Europe Windstorm and Japan Earthquake risk using the Paradex trigger. The success of the Mariah transaction in November 2010 prompted American Family to sponsor a take-down issuance just one month later. The Mariah Re Ltd. Series 2010-2 bond provided an additional $100 million of similar U.S. Severe Thunderstorm coverage, although at different attachment and exhaustion points.

With a number of diversifying non-peak peril transactions having closed in the third quarter, and the conclusion of a relatively loss-free 2010 Atlantic Hurricane season, some sponsors of established shelf programs sought to secure additional capital markets capacity for U.S. peak perils as investors' capital inflows surged. The $300 million Residential Reinsurance 2010 Limited Series 2010-II notes provided sponsor USAA with indemnity-triggered protection for the U.S. perils of Hurricane, Earthquake, Severe Thunderstorm, Winter Storm, and Wildfire. This was USAA's second transaction for the year following its four tranche Residential Reinsurance 2010 Limited deal in May. Meanwhile, the Lodestone Re Ltd. Series 2010-2 catastrophe bond enabled sponsor Chartis to secure an additional $450 million of U.S. Earthquake and U.S. Hurricane cover using a PCS Index trigger after its initial $425 million Lodestone Re Ltd. Series 2010-1 transaction in May of 2010. In December, Flagstone-sponsored Montana Re Ltd. Series 2010-1 followed by issuing $210 million of multi-peril risk on a Paradex/parametric index basis for the perils of U.S. Earthquake, U.S. Hurricane, Cayman Islands Hurricane, Europe Windstorm, Japan Earthquake, and Japan Typhoon. The Montana transaction was the first deal to use RMS Paradex for U.S. perils.

The fourth quarter also saw the return of Vega Capital Limited from Swiss Re that renewed $106.5 million of cover from the initial 2008 Vega transaction. The Series 2010-1 Class C and Class D notes provided multi-event protection for U.S. Hurricane, California Earthquake, Europe Windstorm, Japan Earthquake, and Japan Typhoon. Continuing to take advantage of favorable market conditions, Swiss Re also came to market with a new series of the Successor X Ltd. program; Class III-R3 with $65 million of issuance, Class III-S3 with $50 million of issuance, and Class III-T3 with $55 million of issuance all cover losses for U.S. Hurricane, California Earthquake, and Australia Earthquake.

Following their Green Valley Ltd. Class A Series 2 bond in September of 2010, Groupama provided yet another France Windstorm transaction, Green Fields Capital Limited Series 2011-1 Class A, during the quarter. With Swiss Re as the sponsor (and Groupama S.A. as the reinsured), the €75 million Green Fields Series 2011-1 Class A bond provides four years of windstorm protection based on the PERILS industry index trigger.

The active fourth quarter also included transactions in the life and longevity market. Swiss Re issued another $175 million of excess mortality risk in October 2010 through Vita Capital IV Ltd. Aetna also entered the fray by sponsoring Vitality Re Limited, a $150 million transaction providing indemnity-based medical benefit claims protection for the sponsor conditional on the medical benefit ratio (MBR) of the covered business exceeding a pre-defined attachment point. Meanwhile, Swiss Re launched Kortis Capital Ltd., a $50 million longevity-linked risk bond. This bond was based on the difference in the annualized mortality improvement of U.K. males between the ages of 75 and 85 and of U.S. males between 55 and 65 over an eight year risk period using index data from the U.K. Office for National Statistics and the U.S. Center for Disease Control and Prevention, respectively.

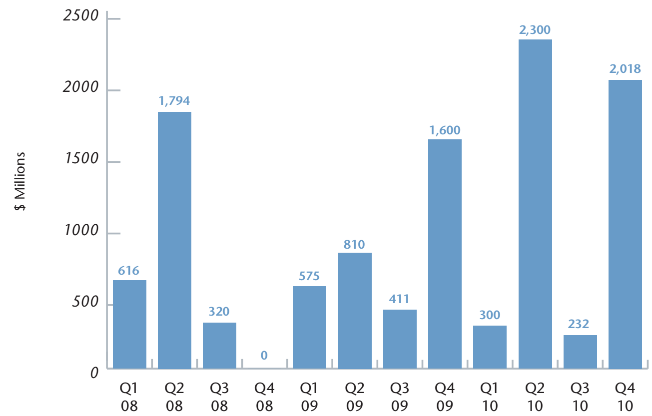
Structural Considerations

Models Changes & Reset

In September 2010, RMS announced that a major update of its U.S. Hurricane model would be completed in February 2011, and an update of its Europe Windstorm model in May 2011. Coincidentally, the changes by RMS follow U.S. Hurricane and Europe Windstorm updates incorporated by AIR in their model, released earlier in August of 2010. It is worth noting AIR's 2010 model changes addressed hazard and vulnerability updates that were different in scope to those planned by RMS for their scheduled 2011 release. For AIR's 2011 horizon, notable model updates are expected for Europe Earthquake, Caribbean Hurricane, Central America Hurricane, Australia Cyclone, Australia Earthquake, and Australia Bushfire.

To account for model changes during the course of a transaction, the typical solution has been to escrow the model in force at the inception of the deal and use the same model throughout the term of the transaction to perform resets. Alternatively, reset mechanics can specify that the most recently released commercial version of the

Catastrophe Bond Issuance By Quarter



Source: Aon Benfield Securities

model will be used. Both approaches have advantages and disadvantages, and both have appeared in transactions. With known model changes forthcoming, Q1 2011 issuances will be more likely to incorporate the latter structure.

Dodd-Frank Act

The Dodd-Frank Act of July 2010 imposed new liabilities in the United States for nationally recognized statistical rating agencies ("NRSROs") with the repeal of Rating Agencies' exemption from Regulation FD. The implications of being regarded as an expert for structured finance and asset backed securitization market resulted in the Agencies' withdrawal of their consent to permit ratings to appear in transaction documents. The impact for the ILS market was minimal, as catastrophe bonds already employ an expert risk analysis from one of the catastrophe modeling agencies. Nonetheless, the process of obtaining a rating for a catastrophe bond now involves additional compliance procedures as a result of SEC Rule 17(g)-5. This Rule requires that Rating Agencies which were not hired to rate a structured finance transaction have access to the same information as that available to the agency which rated the transaction. This may result in a somewhat lengthened transaction timeline.

Job Creation Act of 2010

Through the Job Creation Act of 2010, money market funds domiciled in the U.S. became subject to withholding tax requirements on investment income received. However, the passage of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 in December allowed for the money market fund withholding tax exemption to become retroactive for 2010 and to remain in effect through December 31, 2011. For cat bonds in which note proceeds are invested in U.S. money market funds, this passage provided a small, albeit positive, development for investors, allowing them to continue receiving interest-related proceeds from the money market funds reflective of the money market benchmark and further strengthening the appeal of money market funds as the preferred collateral choice for cat bonds over competing products.

Outlook

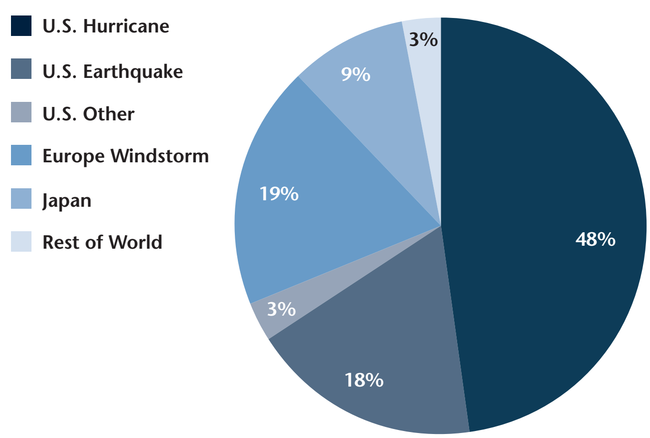
With the re-emergence of the catastrophe bond sector in 2010, Aon Benfield Securities expects the 2011 issuance volume to continue increasing in the first half of 2011. We anticipate 2011 issuance of $5 to $6 billion, representing continued year over year growth in the market. With catastrophe bond maturities approaching $4.0 billion in 2011, we expect both repeat and new sponsors to tap the ILS markets once again. As the broader reinsurance markets continue to experience price softening, Aon Benfield Securities sees the capital markets increasingly providing sponsors globally with viable risk transfer alternatives at competitive terms using fully collateralized multi-year fixed-price protection. We expect a trend towards more top layer or aggregate layer and low expected loss transactions as minimum pricing declines.

Note: The term "catastrophe bonds" refers to transactions covering property catastrophe.

ILS Investors Contribute To Market Strength, Activity

As noted in our last review, investors were actively looking for diversifying perils and demand for U.S. Hurricane risk was starting to pick up. Those trends continued into this quarter as witnessed by heavy secondary trading volumes across all perils and successful placements of new issues on the primary market. The benefits of shelf programs became evident as market conditions prompted several sponsors (including American Family, Chartis and USAA) to utilize their shelf programs to issue their second catastrophe bonds of the year. In the secondary market, prices for bonds increased in the beginning of the fourth quarter as investors looked to deploy capital. Later, those gains were given back as focus shifted to the primary market at year end causing pricing to finish relatively flat as compared to the prior quarter. The year ended with secondary and primary market pricing somewhat misaligned, with new issues priced more tightly than comparable secondary bonds. Spreads for these comparable bonds should realign as investors turn their attention to secondary market trading levels in the first quarter of 2011.

Catastrophe Bonds Outstanding By Peril (As at 12/31/2010)



Source: Aon Benfield Securities

October activity was particularly heavy for U.S. Hurricane exposed bonds that were completing their last U.S. Hurricane season. Trading in the Carillon E-2 bond was particularly heavy as investors with sizable positions sold these bonds to make room for new issues and other secondary opportunities. Such trading is common at the end of a season, with benefit to both buyers and sellers. Buyers with excess cash benefit by holding a bond with relatively little catastrophe risk while still earning an attractive short-term return. Sellers benefit by achieving prices above par, giving them more cash to put to work on new issues or higher yielding bonds.

Secondary trading remained heavy but balanced throughout November with similar trading volumes in bonds exposed and unexposed to U.S. Hurricane. Early in the month, investors expected a busy primary pipeline, and some looked to free up cash to participate. Mariah Re, the first bond to offer severe thunderstorm as a standalone peril, was the only bond to close in the month of November. Investor demand for Mariah drove the spread down from initial guidance and, in the next month, investors were offered a second issuance as the sponsor used its shelf to quickly issue a second layer attaching at a lower level.

The month of December was strong in both the primary and secondary market. Investors were anxious to deploy all their remaining cash before the end of the year, which in turn served to drive issuances up. This demand drove the Lodestone Re 2010-2 transaction to upsize from an initial target of $250 million to a final size of $450 million, making it the largest transaction of the year. KAMP Re, Zurich's catastrophe bond which suffered losses from Katrina, finally ended its extended redemption period by returning roughly 25 cents on the dollar to its investors. As is typical at year-end, trading volume increased in the market due to rebalancing activity.

Investor inflows are predicted to be strong as we head into 2011. A number of existing ILS funds are expecting increased investment in 2011 from both new and existing investors. We expect that the ILS sector will continue to feed investor interest as it has over the past couple years. In addition, reinvestment is expected to continue with a number of bonds maturing throughout 2011. Whether the supply of catastrophe bond issuance will be enough to satisfy the demand for new issues remains the key question for 2011.

Aon Benfield ILS Indices

The Aon Benfield ILS Indices are calculated by Thomson Reuters using month-end price data provided by Aon Benfield Securities. The ILS indices posted high returns for the fourth quarter and full year 2010, benefiting from a mild 2010 U.S. Hurricane season through December 31.

Results for 2010 were marginally lower than those of 2009 for each subsector. 2009 results benefited from larger mark to market increases resulting from the beginning of a recovery. The Aon Benfield All Bond Index posted a 2.6 percent return for the fourth quarter of 2010 compared to 2.6 percent for the same period in 2009. For the full year, the All Bond Index posted a 10.9 percent total return. The Aon Benfield BB rated Bond and Aon Benfield U.S. Hurricane Bond Indices produced similar results at 10.6 percent and 10.2 percent, respectively, for the full year. Due to the lower coupon of U.S. Earthquake bonds, returns were smaller but still substantial, with the Aon Benfield U.S. Earthquake Bond Index gaining 7.7 percent for the year.

Aon Benfield Cat Bond Indices By Sector

Index Title	Index Value				Return for Quarterly Period Ended 12/31		Annual Return for Period Ending 12/31	
Aon Benfield ILS Indices	**12/31/10**	**9/30/10**	**12/31/09**	**9/30/09**	**2010**	**2009**	**2010**	**2009**
All Bond	235.98	230.01	212.81	207.40	2.60%	2.61%	10.89%	12.11%
BB-rated Bond	225.47	220.14	203.95	198.12	2.42%	2.94%	10.55%	12.21%
U.S. Hurricane Bond	229.29	224.00	207.99	199.85	2.36%	4.07%	10.24%	13.88%
U.S. Earthquake Bond	195.36	192.53	181.48	179.97	1.47%	0.84%	7.65%	8.14%
Benchmarks*								
3-5 Year U.S. Treasury Note	302.72	307.62	286.22	287.10	-1.59%	-0.31%	5.77%	-0.76%
3-Year U.S. Corporate BB+	370.34	363.43	335.82	326.68	1.90%	2.80%	10.28%	19.61%
S&P 500	1257.64	1141.20	1115.10	1057.08	10.20%	5.49%	12.78%	23.45%
ABS 3-5 Year, Fixed Rate	325.81	327.53	294.68	288.08	-0.53%	2.29%	10.57%	23.92%
CMBS Fixed Rate 3-5 Year	247.44	245.67	212.99	207.31	0.72%	2.74%	16.18%	28.22%

Source: Aon Benfield Securities

Outlook

In the absence of major catastrophes, we expect spreads to fall in concert with the traditional reinsurance market throughout 2011. According to Aon Benfield Analytics, traditional reinsurance rates are expected to decrease 5 – 10 percent for the upcoming spring/summer 2011 renewal season. As this spread compression is slightly lower than we have seen the past year, we would expect full year 2011 results to be slightly lower than 2010.

Aon Benfield Securities publishes its indices each month on Bloomberg and through the Thomson Reuters online ILS community. Bloomberg tickers: AONCILS, AONCBB, AONCUSHU, AONCUSEQ.

* 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.

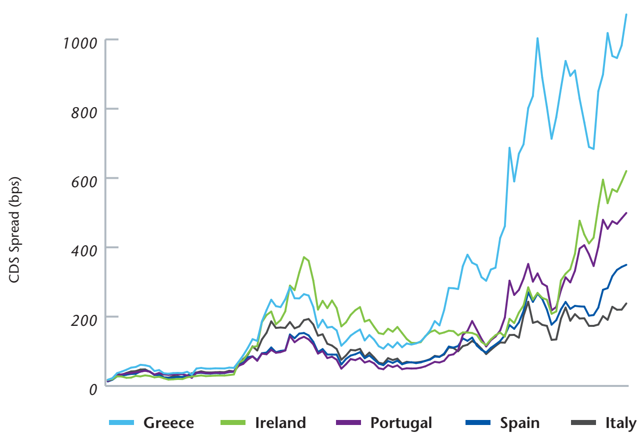
Past performance is no guarantee of future results.

Europe Windstorm – New Issuance Update

As forecast in our last update, 2010 closed with over €525 million of new Europe Windstorm issuance from six transactions. These diversifying non-U.S. peril transactions have been well received by investors. The quarter's transactions (Calypso Capital Limited Series 2010-1 Class A, Atlas VI Capital Limited Series 2010-1 and Green Fields Capital Limited Series 2011-1 Class A) were each priced at the low end of the indicative price guidance, with Calypso Capital and Atlas VI also securing an upsize from the original issuance amount.

Approximately 70 percent of the new Europe Windstorm issuance used industry loss indices, optimized with payout factors at CRESTA zone and line of business level using information reported by PERILS AG. A further 11 percent used a customized Paradex metric, the RMS proprietary parametric industry loss index. The growing acceptance of industry loss indices generated from information provided by PERILS AG or Paradex will assist sponsors in mitigating the basis risk in a non-indemnity transaction. As the scope of coverage from these two firms expands, this will encourage new sponsors to consider accessing the capital markets for capacity on their Europe Windstorm catastrophe risk and will potentially result in the end of pure parametric solutions for this peril.

Western Europe CDS Sovereign Spreads Since Dec 2008



Note spreads shown on a weekly basis

Euro-denominated Tri-party Repurchase Agreements

In light of the recent volatility in European sovereign debt markets, we have seen a tightening in the eligible investment criteria for the collateral supporting a Euro-denominated Tri-party Repurchase Agreement. Understandably, sovereign and corporate security issuers from Greece, Ireland, Italy, Portugal and Spain are now excluded from the list of eligible investments, which creates a challenge for the Repurchase Counterparty to generate a EURIBOR-linked return that is commercially acceptable to sponsors and investors, while providing a competitive cost of funding for its own institution.

The volatility in European sovereign debt markets is unlikely to be resolved in the short term. This is likely to lead to a shift towards the use of puttable Medium Term Notes issued by highly rated supra-national institutions, such as the European Bank for Reconstruction and Development, as the preferred collateral solution to generate a EURIBOR-linked return.

Related Markets Update

Although the collateralized market largely occupies the retrocession space due to the difficulty of providing a reinstatement, primary purchasers are beginning to pay greater attention to the benefits of secured first event coverage. Since our Third Quarter Update, there has been a growing interest in collateralized reinsurance as a means to mitigate the potential credit risk associated with large catastrophe events.

Several new entrants to the space announced their intentions to write collateralized retrocession and ILW business, demonstrating that a collateralized reinsurance platform can still offer an attractive investment option to diversify broader financial markets risk for its sponsor.

Additionally, the ILW market continues to be active, and more activity may be realized as counterparties take the opportunity to hedge the effects of the changes to the RMS model expected in the first half of 2011.

An Interview with Ms. Insa Adena of Allianz Re

Aon Benfield Securities recently spoke with Insa Adena of the Advanced Risk Intermediation Group of Allianz Re. Ms. Adena provided insight into Allianz's issuance of the Blue Fin Ltd. Series 3 in May of this year.

Strategic

1. What was the rationale for each Blue Fin Series transaction?

Actually, the rationale for all three Blue Fin transactions was similar. With all three we wanted to cede portions of our peak cat exposures to the capital markets. As a large, primary insurance company Allianz is well placed in having access to structured traditional and non-traditional reinsurance capacity. Given our needs for substantial cat capacity we are keen to develop additional sources of capital, and have a portfolio of providers, structures and terms for our protections.

2. What criteria does Allianz have in deciding whether to arrange an ILS transaction?

The following three criteria are most relevant for us:

(i) We must be convinced that a cover is effective, meaning basis risk should be sufficiently small such that we expect with a high degree of certainty to recover in the case of events that trigger the layer of risk that the ILS transaction is modeled on,

(ii) the transaction must fit into the overall protection landscape that we use to manage our global portfolio of cat risks, and

(iii) the transaction must be economic, i.e. broadly comparable in terms of pricing with alternative forms of protection.

Other criteria that matter in our decision process are:

(i) ongoing modeling complexity: for example pending new model releases during the life of a transaction matter as new models, irrespective of whether or not they result in a model reset, create complexity in monitoring transaction effectiveness;

(ii) transaction costs and structural complexity, e.g. through complex collateral solutions.

3. Did you have other objectives for ILS transactions?

We are keen to see the ILS market thrive and develop, as we believe in the medium term, the global demand for cat protection will increase. In addition, as underlined by the financial crisis, we value the additional differentiation of counterparties we transact with, both from a credit perspective as well as from a concentration perspective.

Execution

1. Were there questions/concerns from investors that were surprising?

We were surprised by the reservation some investors expressed towards modeled loss transactions. The fact that all unmodeled risk is by definition excluded was for us a clear "concession" to investors.

2. As a repeat sponsor, are there recent ILS developments over the past 12 to 24 months that have made execution more amenable for you?

Converging pricing levels, in particular for US cat perils, have been conducive to the (internal) recognition of ILS as a competitive supplement to reinsurance. Likewise, the market acceptance of structures with an aggregate cover has helped to highlight the role of ILS as instruments with complementary cover characteristics.

3. What would you consider doing differently in the next transaction?

We would reconsider what is the most suitable collateral solution taking into account changed tax and regulatory regimes.

Market

1. What would you expect from the ILS market in the future?

Stable capacity at competitive price levels.

2. From an issuer perspective, what are the largest issues to be resolved by the ILS market?

In our view the collateral question is not truly resolved yet. With FATCA on the horizon, we currently see clear drawbacks of the US Treasuries Money Market Fund collateral, although a lot of details relating to the practical implications of FATCA are still unclear. We continue to view tailor-made puttable notes issued by a suitable government sponsored entity as an attractive alternative. Solvency II and its implications for SPV structures is another important topic in particular for European sponsors like Allianz that needs further attention. A risk related issue that in our view requires more dislogue in the ILS community is the uses, benefits, and risks of remodeling of transactions using vendor models other than the one used for modeling the respective transaction.

About Aon Benfield Securities

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, collateralized reinsurance, industry loss warranties, sidecars and derivative products. As a recognized leader in this investment banking market, Aon Benfield Securities is helping to redefine capital by offering underwriting and placement of new issues, financial advisory services, as well as securities trading in the secondary market. Aon Benfield Securities' integration with Aon Benfield Inc.'s reinsurance operation expands its capability to provide 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 Corporation. Securities advice, products and services are offered solely though Aon Benfield Securities, Inc. and/or Aon Benfield Securities Limited.

About Aon Benfield

Aon Benfield is redefining the role of the reinsurance intermediary and capital advisor. Aon Benfield offers unbiased capital advice and customized access to reinsurance and alternative markets around the globe. As a trusted advocate, we provide local reach to the world's markets, an unparalleled investment in innovative analytics, including catastrophe management, actuarial, and rating agency advisory, and the right professionals to advise clients in making the optimal capital choice for their business. With an international network of more than 80 offices in 50 countries, our worldwide client base is able to access the broadest portfolio of integrated capital solutions and services.

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