



Q2 2014 Catastrophe Bond & ILS Market Report

The Biggest Quarter.
The Biggest Catastrophe Bond

ARTEMIS

Focused on insurance-linked securities (ILS), catastrophe bonds, alternative reinsurance capital and related risk transfer markets.

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INTRO

This report reviews the catastrophe bond and insurance-linked securities (ILS) market at the end of the second-quarter of 2014, looking at new risk capital issued and the composition of transactions completed during Q2 2014.

Risk capital issued in new cat bond and ILS during Q2 reached a stunning \$4.634 billion, according to the Artemis Deal Directory. This is a record; the highest level of new cat bond and ILS issuance recorded in any quarter of the markets history and also makes the first-half of 2014 a record as well, with \$6.219 billion issued.

Artemis recorded \$4.634 billion of new risk capital issued by 17 transactions during Q2. Artemis' data includes a number of 'cat bond lite' type deals, but even excluding them the volume of new ILS issued in Q2 2014 is a record for the quarter and the record quarter of all time.

Topping the second-quarter deals, helping the record level of issuance to be reached, was the largest single catastrophe bond ever issued, the \$1.5 billion latest Everglades Re 2014-1. So Q2 2014 saw a number of records tumble.

Finally, yet another record was reached this quarter. The market saw an amazing \$10 billion of issuance in a trailing 12 month period, far outstripping any other consecutive 12 month period in the history of cat bonds and ILS.

Artemis is the leading, freely accessible source of timely, relevant and authoritative news, analysis, insight and data on the insurance-linked securities, catastrophe bond, alternative reinsurance capital and related risk transfer markets. The Artemis Deal Directory is the leading, freely available source of information, data and analysis on issued catastrophe bond and insurance-linked securitization transactions.

Transaction Recap

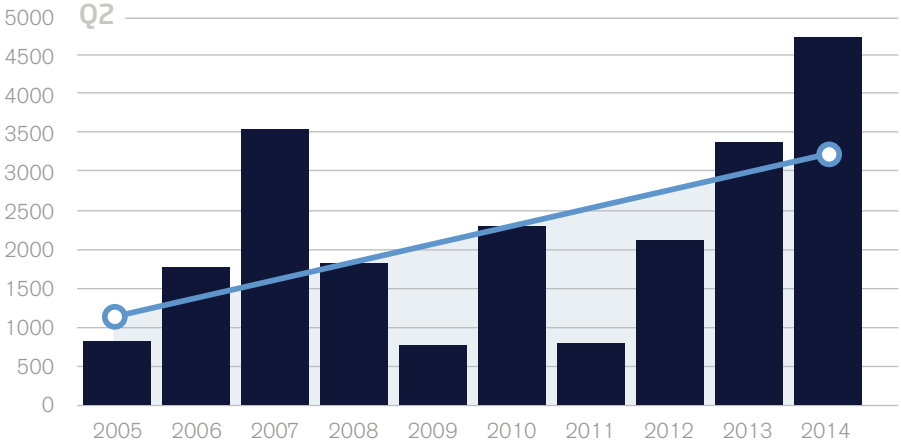
The second quarter of 2014 saw a brisk issuance market with a number of very large issues, including the largest ever, as well as some smaller ones. In total 17 deals were recorded during the quarter in the Artemis Deal Directory, with a total of 22 tranches of ILS notes from both repeat and new sponsors.

A number of new sponsors chose to make the most of attractive issuance conditions, including one of the world's largest insurers Allianz, Bermuda reinsurer Everest Re, Florida primary Heritage, TWIA, Sompo Japan and Nipponkoa Insurance Company and the World Bank. Repeat sponsors secured coverage from the keenly priced cat bond market.

ISSUER / TRANCHE	SPONSOR	PERILS	SIZE (\$M)	DATE
World Bank - CCRIF 2014-1	CCRIF	Caribbean hurricane & earthquake	30	Jun
Market Re Ltd. (Series 2014-2)	Unknown	Florida named storms	31.825	Jun
Oak Leaf Re Ltd. (Series 2014-1)	Unknown	Florida named storms	44.035	Jun
Alamo Re Ltd. (Series 2014-1)	Texas Windstorm Insurance Association (TWIA)	Texas named storms	400	Jun
Dodeka IV	Unknown	Florida and Gulf Coast wind	28	Jun
Residential Reinsurance 2014 Ltd. (Series 2014-1)	USAA	U.S. tropical cyclones, earthquakes, severe thunderstorms, winter storms, wildfire, meteorite & volcano	130	
Sanders Re Ltd. (Series 2014-2)	Allstate	Florida named storms, earthquakes, severe thunderstorms	200	May
Nakama Re Ltd. Series 2014-1	Zenkyoren	Japan earthquake	300	May
Aozora Re Ltd. Series 2014-1)	Sompo Japan and Nipponkoa Insurance Company	Japan typhoon	100	May
Market Re Ltd. (Series 2014-1)	Unknown	Florida named storms	10	May
Sanders Re Ltd. (Series 2014-1)	Allstate	U.S. named storms (excluding Florida), U.S. earthquake (CA, NY, WA)	750	May
Armor Re Ltd. (Series 2014-1)	American Coastal Ins. Company	U.S. named storms (Florida only initially)	200	May
Everglades Re Ltd. (Series 2014-1)	Citizens Property Ins.	Florida hurricanes	1500	May
Citrus Re Ltd. (Series 2014-2)	Heritage Property and Casualty Ins. Co.	U.S. named storms (Florida only initially)	50	Apr
Kilimanjaro Re Ltd. (Series 2014-1)	Everest Reinsurance Company	U.S. named storms, U.S. earthquakes	450	Apr
Lion I Re Ltd.	Assicurazioni Generali S.p.A.	European windstorm	260	Apr
Citrus Re Ltd. (Series 2014-1)	Heritage Property and Casualty Ins. Co.	U.S. named storms (Florida only initially)	150	Apr

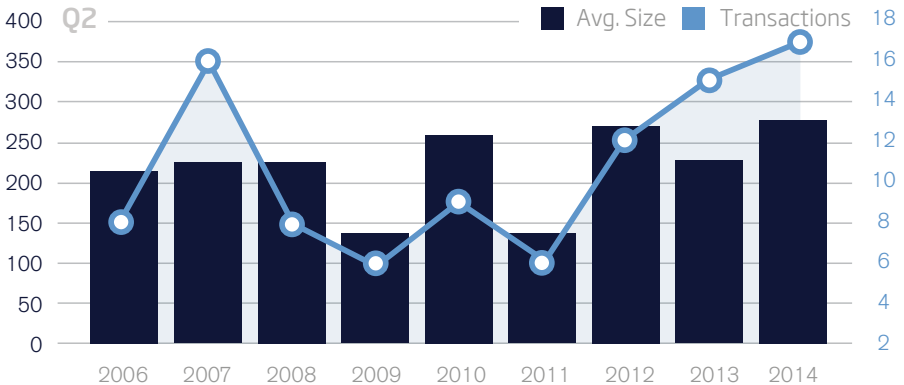
Q2 ILS issuance by year (\$M)

Q2 of 2014 saw a record level of risk capital issued and was the single biggest quarter ever seen in the cat bond and ILS markets history. The chart below shows second-quarter issuance over the last ten years. The \$4.634 billion of new risk capital issued beats the second highest figure from Q2 2007 by more than a billion.



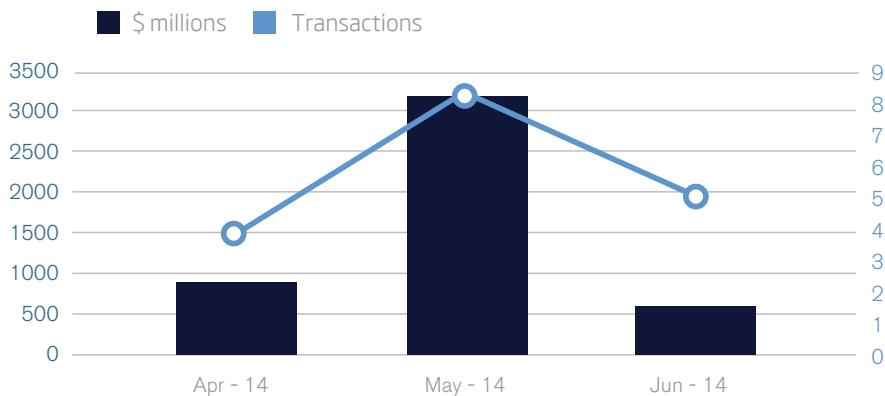
ILS average transaction size & number of transactions by year (\$M)

The average transaction size recorded in the Artemis Deal Directory for Q2 2014 was \$273m which is the highest seen. Excluding cat bond lite type deals, the average transaction size jumps to a huge \$374m. The 17 transactions equals the record, but removing cat bond lite deals lowers the number to 12.



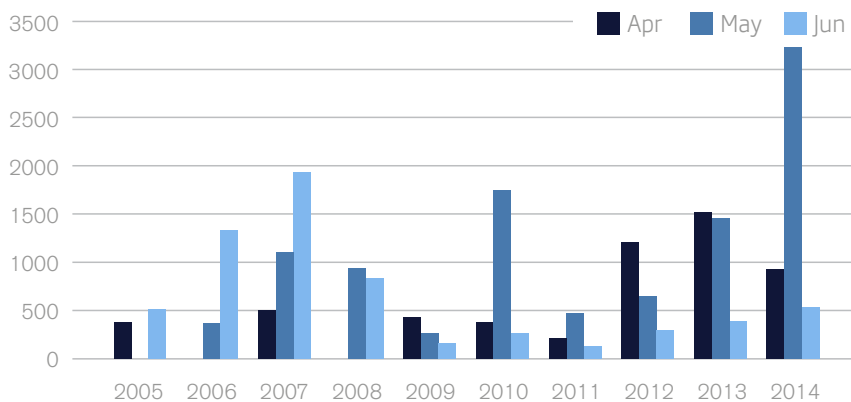
Number of transactions and volume issued by month (\$M)

May 2014 has become the largest single month of catastrophe bond and ILS issuance ever recorded in the Artemis Deal Directory, with \$3.19 billion of new risk capital issued. April and June actually come in around average, with May responsible for the records this quarter.



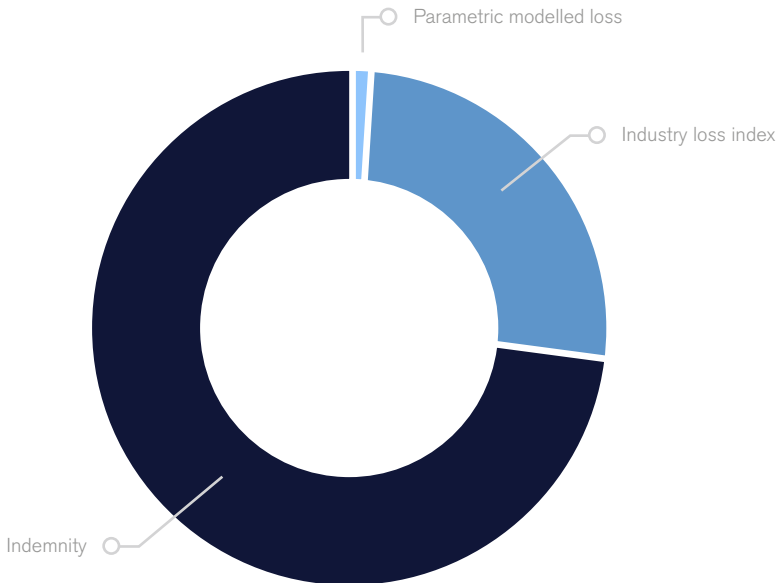
Q2 issuance by month & year

Looking at Q2 ILS issuance by month and year 2014 shows an interesting pattern with May a record month. The level of new ILS issued in May is responsible for the records beaten and as the chart shows below clearly outstrips any other Q2 month in the last ten years.



Q2 2014 ILS issuance by trigger type

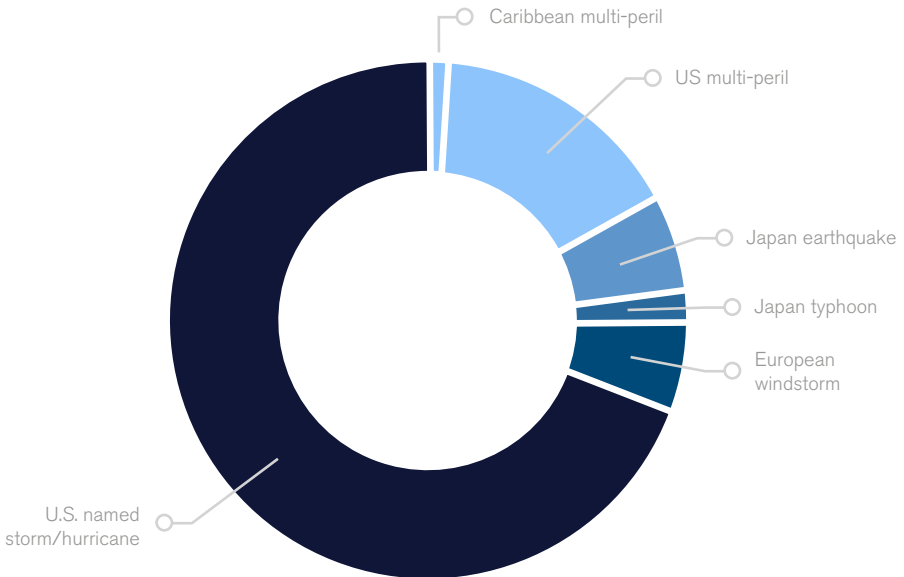
The Q2 issuance market was dominated by the indemnity trigger, with 73% of all risk capital issued using one. Industry loss triggers made up the majority of the rest, while the World Bank's first direct catastrophe bond note issuance for the CCRIF brought a very small element of parametric risk to market.



One of the drivers of indemnity catastrophe bonds in Q2 was the number of primary insurer sponsors, while there were fewer retrocessional transactions. Primary insurers sponsoring cat bonds tend to opt for an indemnity trigger, aiming to access coverage that fits with the remainder of their reinsurance programs, which are typically indemnity in nature.

Q2 2014 ILS issuance by peril

Q2 was dominated by U.S. wind risks, as is typical of the quarter, which coincides with the largest U.S. and Florida reinsurance renewal season. 68% of the risk capital issued during the quarter was linked to U.S. named storms or hurricanes, with a good proportion of that Florida focused.

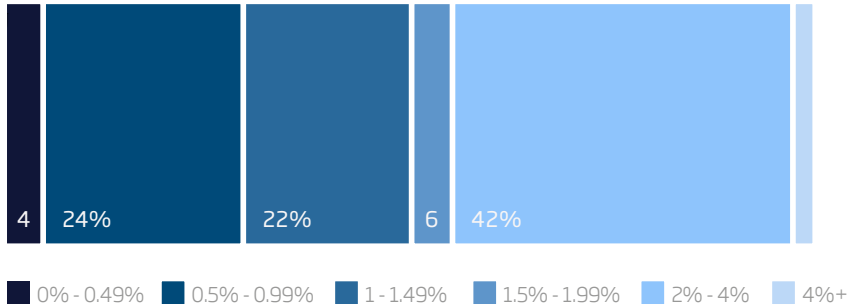


U.S. multi-peril catastrophe bonds were the next largest peril issued in Q2, at 17% of issuance. All of these U.S. multi-peril cat bonds contained U.S. wind risks to a degree, so the actual amount of U.S. wind exposure in the Q2 2014 issuance is over the 68% quoted above. In fact, as all of the U.S. multi-peril risk capital issued is exposed to U.S. wind we could actually say that of Q2 2014 issuance 86% has an exposure to U.S. named storms or hurricanes.

Adding some diversification were the Japanese perils of typhoon and earthquakes, European windstorm and Caribbean perils. Still, these diversifiers make up a small amount of total risk capital issued in the quarter, which can lead to diversification difficulties for some ILS asset managers.

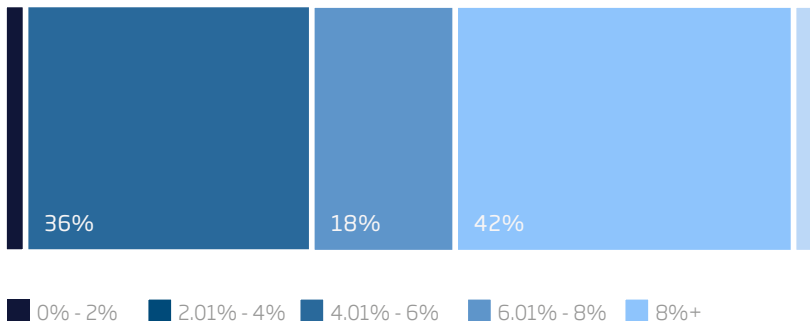
Q2 2014 ILS issuance by expected loss

Q2 2014 saw riskier transactions come to market than was seen in the first-quarter. Only 4% of risk capital issued, that we have an expected loss figure for, had an EL below 0.5%. 45% of issuance had an expected loss of between 0.5% and 1.49%, while 41% had an expected loss of between 2% and 4%. The average expected loss of ILS issued in Q2 2014 was 1.7%, double the average of Q1.



Q2 2014 ILS issuance by coupon pricing

With a higher expected loss, on average, you would expect Q2 2014's ILS issuance to have a higher average coupon as well. However, while the expected loss was double the level seen in Q1 the average coupon was only a little higher at 4.51%. 38% of issuance pays a coupon below 4% while 62% is above and 44% pays investors a coupon above 6%. So generally Q2 issuance pays higher returns but with the expected loss higher the return per unit of risk is perhaps lower.

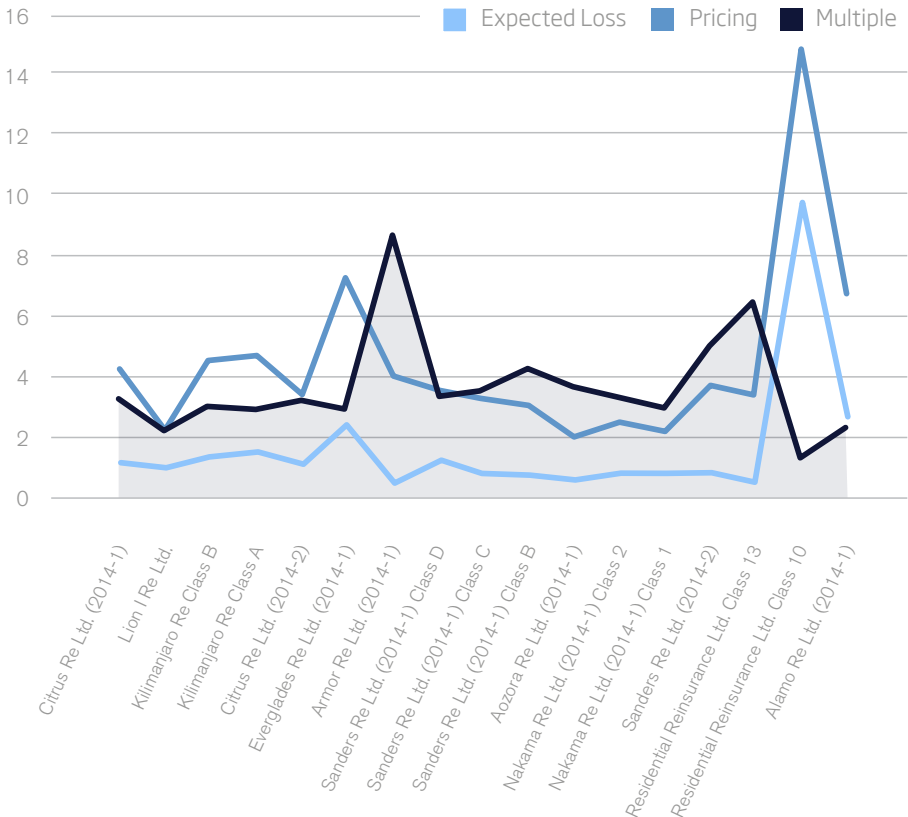


Pricing Multiples

The average multiple (price coupon divided by expected loss) of Q2's catastrophe bond and ILS issuance was 3.67. This is aligned with other recent quarters and shows that while pricing had continued to decline, the average multiple of the quarter's catastrophe bond and ILS issuance is not much lower than it was a year ago.

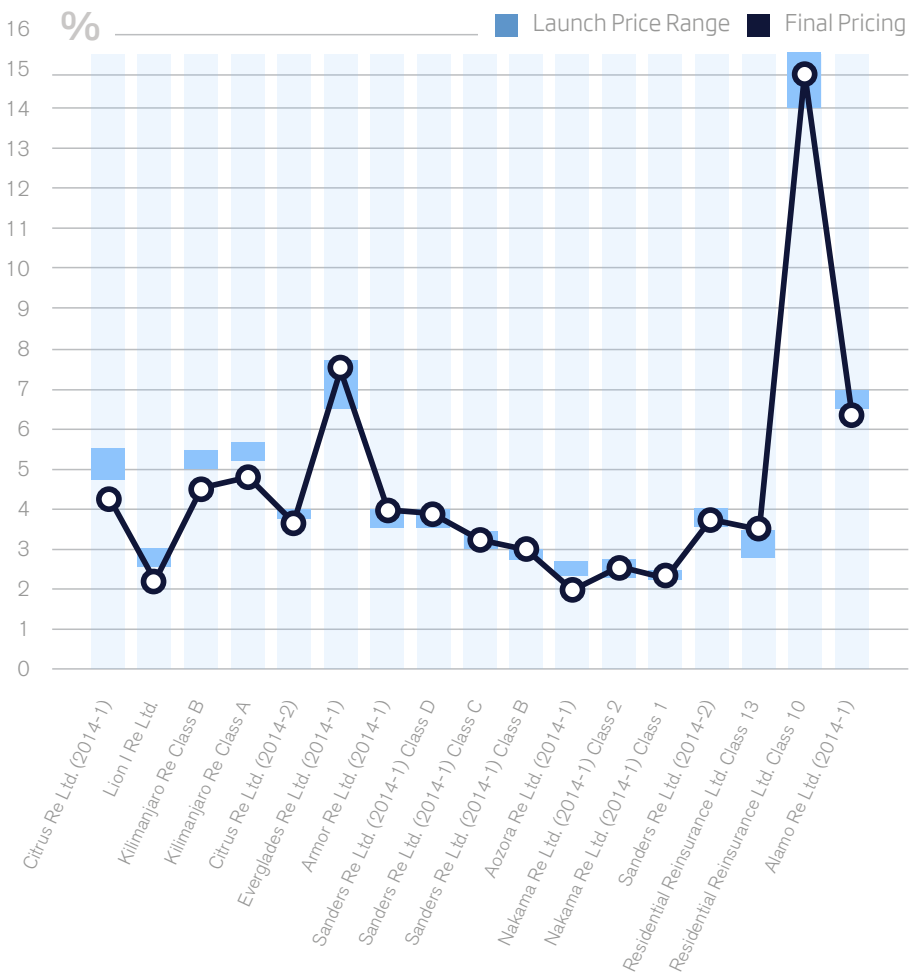
There are some exceptions to the rule however, and a number of transactions came to market during Q2 2014 with a multiple of below 3x expected losses.

Also noteworthy is the fact that some deals that priced at the top end of guidance saw investors demanding a higher multiple for their capital. Armor Re was a good example of this, pricing in the upper half of guidance and coming to market with a multiple of 8.7x its expected loss.



Cat bond and ILS price changes during Q2 2014 issuance

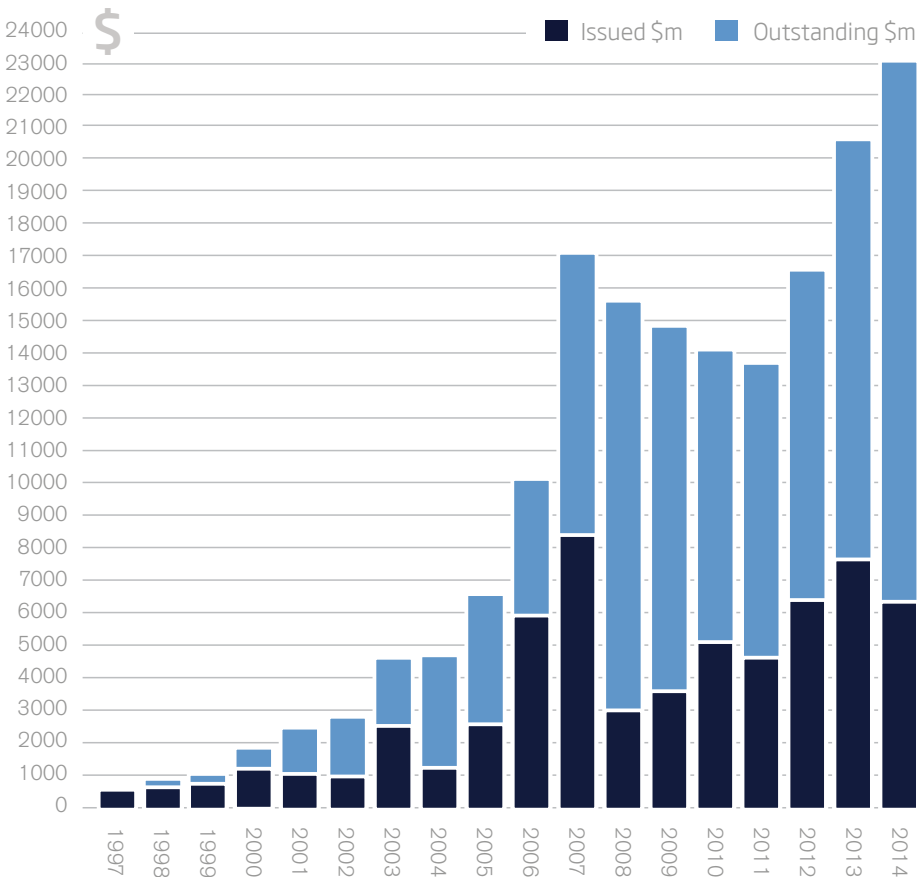
Price declines were high during the first few issues of April, but as we moved through the second-quarter the trend changed and prices often settled towards the upper end of initial guidance. This suggests that investors found a pricing floor was reached on many perils and prices stopped declining. Interest spreads declined by an average of -3.6% across the tranches which Artemis has pricing data for, a much lower average price decline than seen in Q1 when it was -15%.



Issued Outstanding

The second-quarter of 2014 has seen such a high level of catastrophe bond and ILS issuance that we are now on course for a record year in 2014. The fact that we saw a 12 month period of consecutive issuance above \$10 billion is a clear milestone for the market and aided by the largest transaction ever seen, Q2 2014 has set records which may stand for some time.

2014 issuance now stands at a stunning \$6.219 billion, already the third biggest year of issuance we've recorded. The outstanding ILS market has grown in size by \$2.5 billion since the beginning of 2014, to now stand at \$23.06 billion.



If you want to see full details of every catastrophe bond and ILS transaction included in the data in this report please visit www.artemis.bm/deal_directory/



All catastrophe bond and ILS issuance data sourced from the Artemis Deal Directory.

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