



Q4 2014 Catastrophe Bond & ILS Market Report

A busy finish to a record year for ILS

ARTEMIS

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INTRO

This report reviews the catastrophe bond and insurance-linked securities (ILS) market at the end of 2014, looking at new risk capital issued during the fourth-quarter, the composition of transactions completed and also a brief review of the full-year 2014.

The fourth-quarter of 2014 lived up to investors expectations, with a range of diverse transactions coming to market and total issuance reaching \$2.16 billion, according to the Artemis Deal Directory. The fourth-quarter is often a busy one and 2014 has been no different, as a number of large cat bonds came to market in advance of the January reinsurance renewal season. The \$2.16 billion plus of new risk capital issued has also helped the full-year issuance total for 2014 to reach a new record at \$8.8 billion.

Artemis recorded \$2.16 billion of new risk capital issued by just 9 transactions during Q4, showing the focus on large deals. The deals brought some welcome diversification to investors, as well as the return of a number of repeat and valued cat bond sponsors showing their commitment to the market.

The fourth-quarter itself has not broken any records, we make it the second busiest Q4 on record. However, 2014 is now the busiest year on record for the catastrophe bond and ILS market, setting us up for further issuance in 2015 as many vintage deals mature and reports from brokers suggest a strong deal pipeline for the first-half of 2015.

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 fourth-quarter of the year is typically characterised by more diversity in terms of perils, as a number of large sponsors tend to revisit the ILS market at this time and 2014 has been no different. A total of 9 deals came to market, featuring 13 tranches of notes from 8 issuers, totaling \$2.16 billion of risk capital issued. Three cat bond lites were issued during the quarter, for which we do not have detailed information.

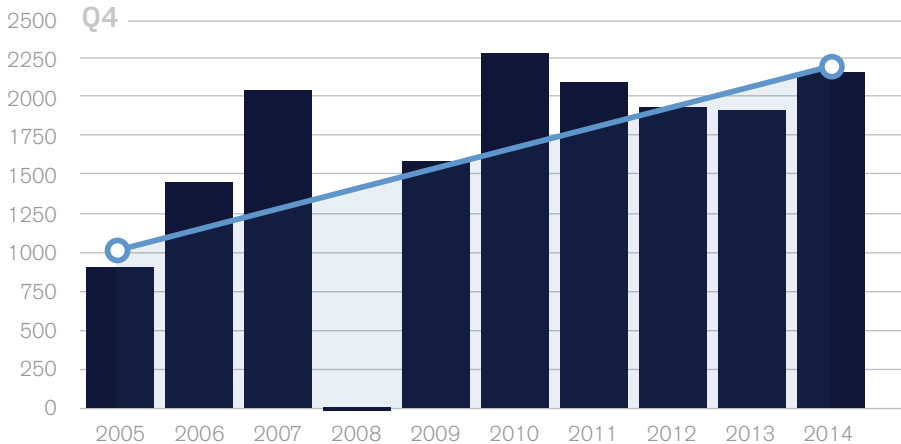
The six 144A cat bond transactions all came from regular sponsors, including the California Earthquake Authority with its new vehicle Ursa Re Ltd., Zenkyoren from Japan demonstrating its commitment to leveraging the capital markets in its huge reinsurance programme, Amlin returning with another cat bond, AIG bringing more diverse property risks from its portfolio to ILS investors, Everest Re growing its use of ILS and finally USAA with its 23rd cat bond issuance securing its spot as one of the most prolific cat bond sponsors in the market's history.

Between the Tradewynd cat bond from AIG and the new Residential Re from USAA, some more unusual risks entered the ILS market again. AIG's deal features Gulf of Mexico hurricane coverage as well as some interesting classes of personal and commercial property risk, while USAA's latest ResRe brought a little more meteorite impact and volcanic risk to cat bond investors.

| ISSUER / TRANCHE | SPONSOR | PERILS | SIZE (\$M) | DATE |
|--|---------------------------------|--|------------|------|
| Li Re (Series 2014-2) | ? | Property Catastrophe Risks | 5 | Dec |
| Leine Re | ? | Property Catastrophe Risks | 71 | Dec |
| Nakama Re Ltd. (Series 2014-2) | Zenkyoren | Japanese earthquake | 375 | Dec |
| Tramline Re II Ltd. (Series 2014-1) | Amlin AG | U.S. named storm, U.S. earthquake, European windstorm | 200 | Dec |
| Tradewynd Re Ltd. (Series 2014-1) | AIG | U.S., Canada, Mexico, Caribbean, Gulf of Mexico, D.C. named storms. | 500 | Dec |
| Residential Reinsurance 2014 Ltd. (Series 2014-2) | USAA | U.S. tropical storms, earthquakes, severe thunderstorms, winter | 100 | Dec |
| Ursa Re Ltd. (Series 2014-1) | California Earthquake Authority | California earthquake | 400 | Dec |
| Kilimanjaro Re Ltd. (Series 2014-2) | Everest Re | U.S. and Canada earthquake | 500 | Nov |
| Li Re (Series 2014-1) | ? | Property Catastrophe Risks | 10.37 | Oct |

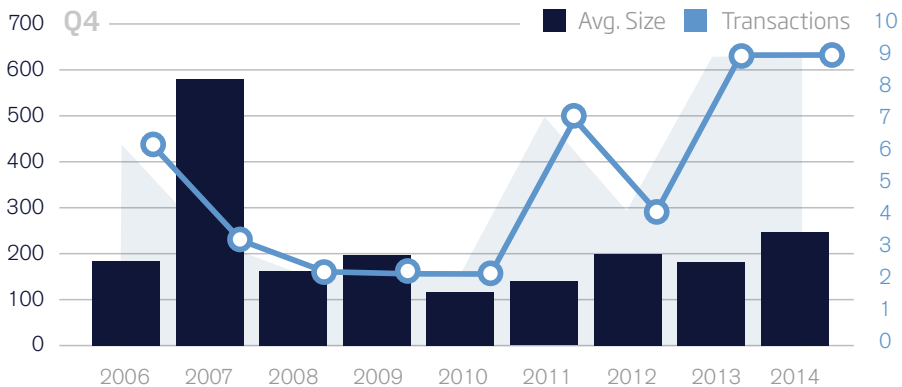
Q4 ILS issuance by year (\$M)

Q4 2014 saw above average catastrophe bond issuance activity with the \$2.16 billion of bonds easily surpassing the ten-year average of \$1.47 billion and becoming the second highest fourth-quarter volume of risk capital issued ever seen.



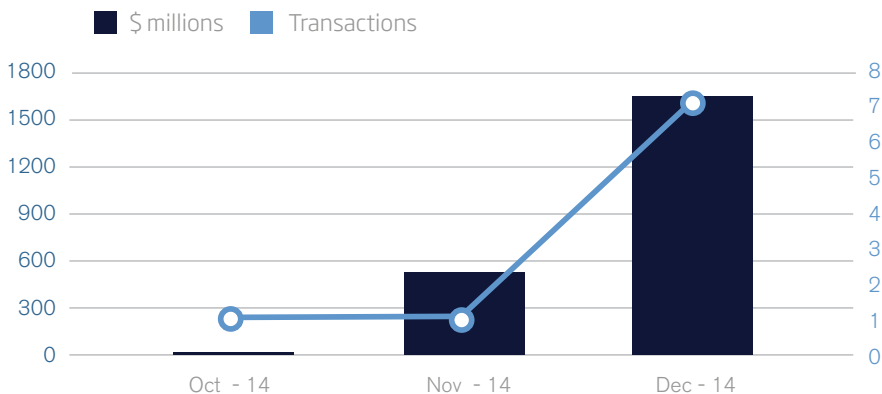
ILS average transaction size & number of transactions by year (\$M)

The average transaction size recorded in the Artemis Deal Directory in Q4 2014 was \$240m, which is above average. In fact, Q4 2014 saw the second highest average deal size in the last ten years. The last quarter also saw the equal highest number of new cat bond transactions brought to market in a fourth-quarter, reflecting how busy it has been.



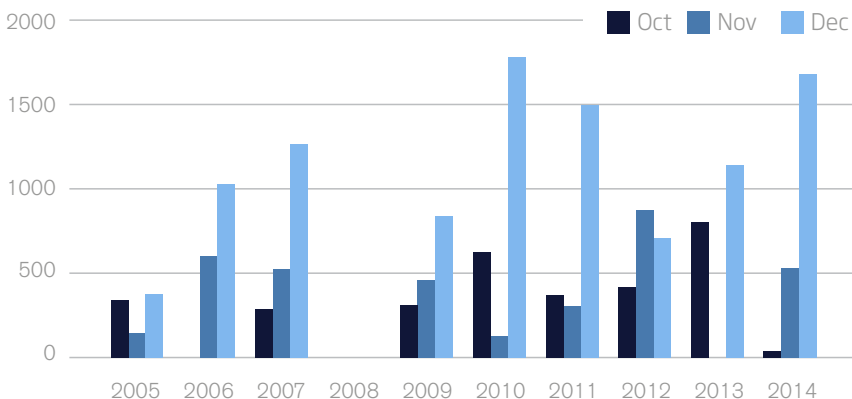
Number of transactions and volume issued by month (\$M)

The fourth-quarter began very slowly, with just one small private cat bond issue. November picked up with a large \$500m deal from Everest Re, its largest Kilimanjaro Re cat bond yet. December however was the star of the fourth-quarter, with three-quarters of the Q4 issuance completing during the last month of the year.



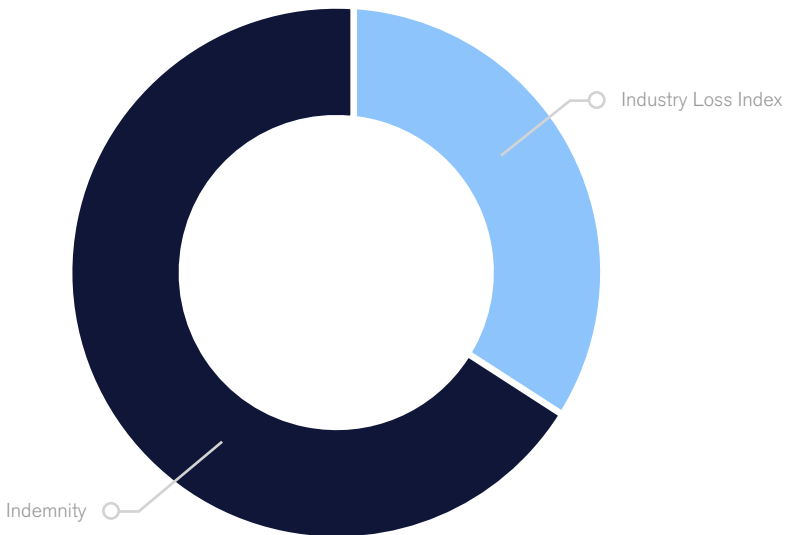
Q4 issuance by month & year

Q4 cat bond and ILS issuance viewed by month and year makes it clear that December is often one of the top months of the quarter and the year as a whole. 2014 has been no different, with \$1.651 billion of issuance in December alone making it the second highest December issuance on record. In fact, December's issuance was so strong that it will sit in the top five single months ever recorded.



Q4 2014 ILS issuance by trigger type

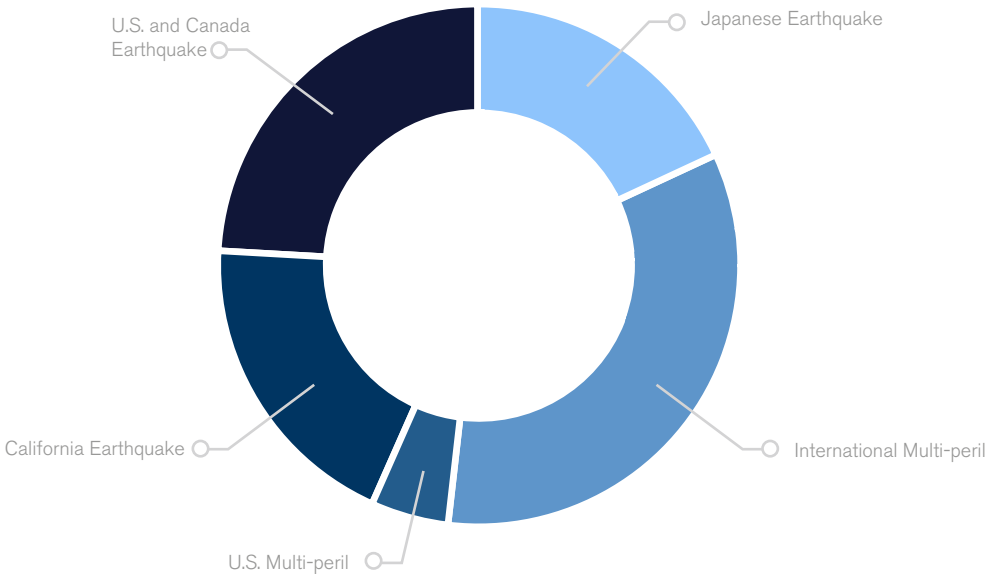
Q4 2014 saw just the two main cat bond or ILS trigger structures in use. As a result it is no surprise to see that indemnity transactions continued to dominate issuance in Q4 2014, with \$1.375 billion or 66% of risk capital issued structured on an indemnity basis.



Industry loss index triggers made up the remaining \$700m, or 34%, of Q4 issuance, with Property Claims Services (PCS) providing the U.S. focused index triggers and PERILS AG a trigger for the European windstorm peril included in Amlin's Tramline cat bond.

Q4 2014 ILS issuance by peril

Q4 2014 saw a diverse range of perils come to market, perhaps the most diverse quarter of the year. For once there were no pure U.S. wind or hurricane cat bonds, although a number of bonds issued contain U.S. wind risk alongside other perils, resulting in \$800m or 39% of the quarters issuance having some exposure to the hurricane season.

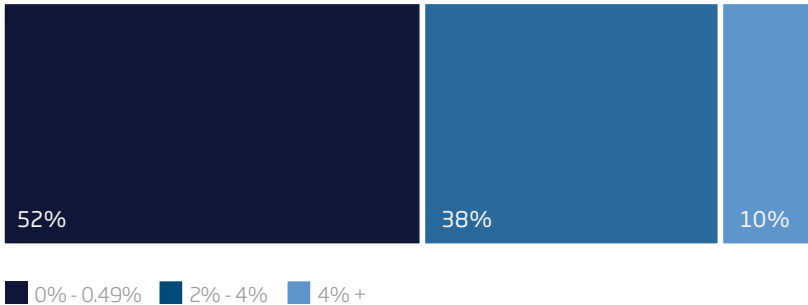


Earthquake was a popular peril in the fourth-quarter issuance, with 100% of the issuance seen in the quarter exposed to an earthquake somewhere in the world. That is very unusual, but reflects the continued liking for multi-peril deals among cat bond sponsors.

The true diversifying bond this quarter was Zenkyoren's Japanese earthquake bond, the only non-U.S. single peril issuance. Amlin's Tramline deal features European windstorm risks, but alongside U.S. wind and quake it doesn't really offer investors any diversification.

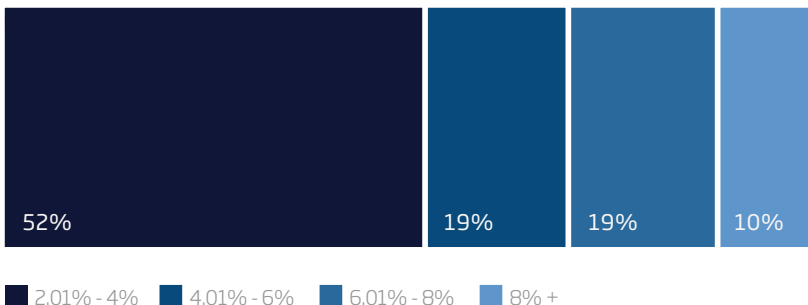
Q4 2014 ILS issuance by expected loss

Continuing the trend seen in recent quarters, the bulk of the Q4 ILS and catastrophe bond issuance is relatively remote risk, with the largest proportion falling into the 0.5% to 1.99% expected loss range. Tramline Re was the highest risk transaction of the quarter, with an expected loss of above 5%, while conversely one tranche of Nakama Re is so remote risk that the expected loss is 0.58%.



Q4 2014 ILS issuance by coupon pricing

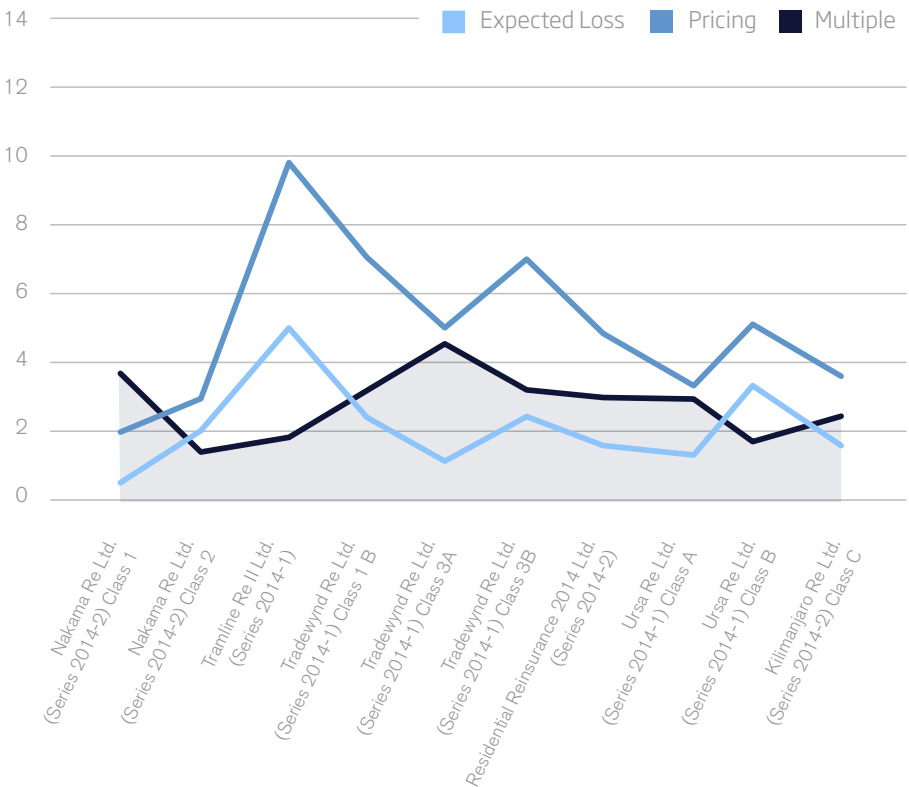
With expected losses of issued cat bonds in the quarter being low, it's no surprise to see that the yields on offer from Q4 cat bonds were also low. This again follows the trend of recent quarters for lower risk, lower return cat bonds. Just one, the Tramline Re cat bond, saw a coupon of over 8% paid to investors. The most prevalent price bracket was the lowest of 2.01% to 4%, which made up 52% of the Q4 risk capital issued.



Pricing Multiples

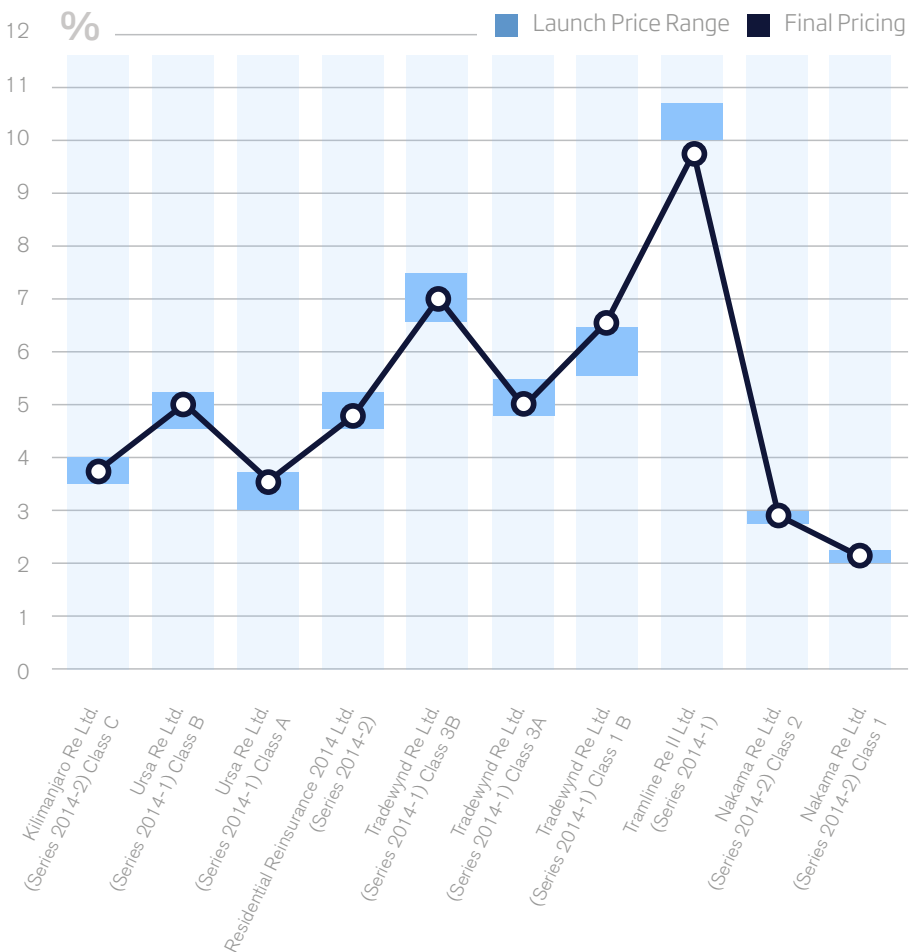
The average multiple (price coupon divided by expected loss) of Q4's catastrophe bond and ILS issuance was 2.8. This is aligned with the average for the year so far and beats some previous quarters. Transactions issued in Q4 upsized, but the pricing tended towards the mid-point of guidance, resulting in a higher multiple and a better risk-adjusted return for investors.

We continue to believe that investors are establishing a floor in terms of pricing, with only certain deals with specific features seeing multiples decline closer to 2 or below. Investors have learned to appreciate that there are specific tranches of notes where the multiple can be reduced, as evidenced by transactions like Amlin's Tramlane Re, where investors seemingly accepted a lower multiple in return for a higher yielding note.



Cat bond and ILS price changes during Q4 2014 issuance

More of the cat bond transactions issued this quarter priced right at the mid-point of guidance, or slightly above it, than saw price declines while marketing. This is the first quarter where there was evidence of significant stability in terms of pricing, with just four out of the ten tranches of notes pricing below the middle of initial coupon guidance. Once again this shows that the market is aware that a pricing floor is increasingly being reached.

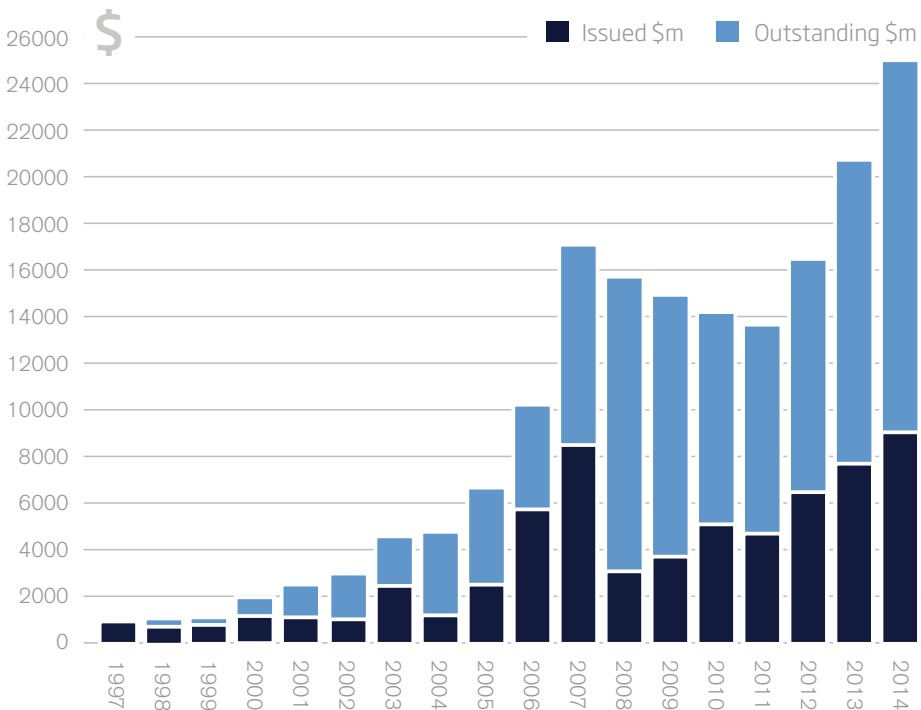


Issued Outstanding

Issuance far outstripped maturities in Q4 2014, helping the outstanding ILS and catastrophe bond market to grow to its highest level on record, at a very impressive \$25.004 billion. That represents outright growth of just shy of \$4.5 billion in one year, which is a higher level of growth than seen a year earlier.

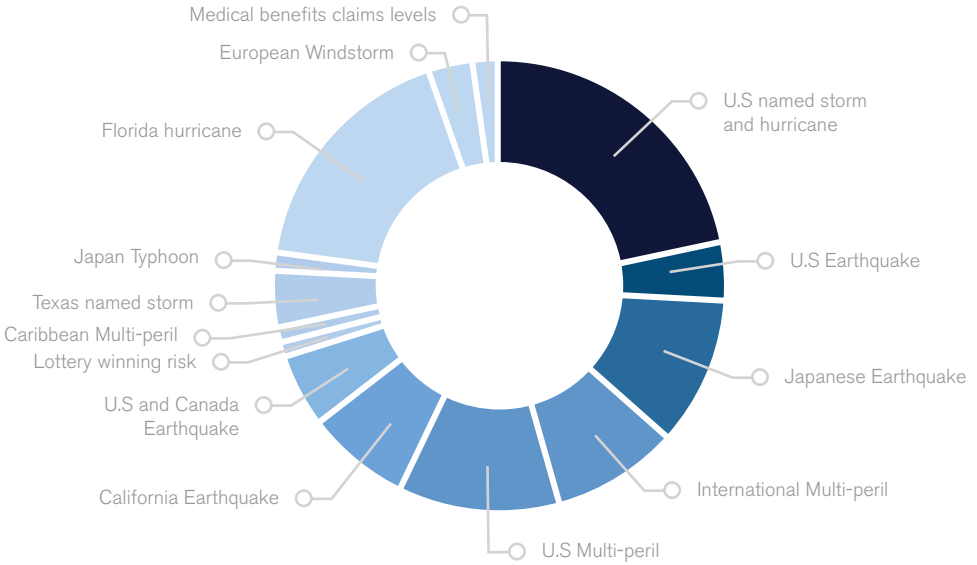
2014 full-year issuance reached a record \$8.794 billion, beating our previous record set in 2007 and passing the strong year of 2013 by over one billion dollars.

Having managed to reach the \$8 billion milestone that we had expected to see, our thoughts turn to 2015 and whether the ILS and catastrophe bond market can soak up the \$4 billion plus of maturities that are expected in the first-half of the year. With market participants expecting a strong deal pipeline in 2015, and investor interest remaining strong, we hope to see the ILS market surpass this years total in 2015.

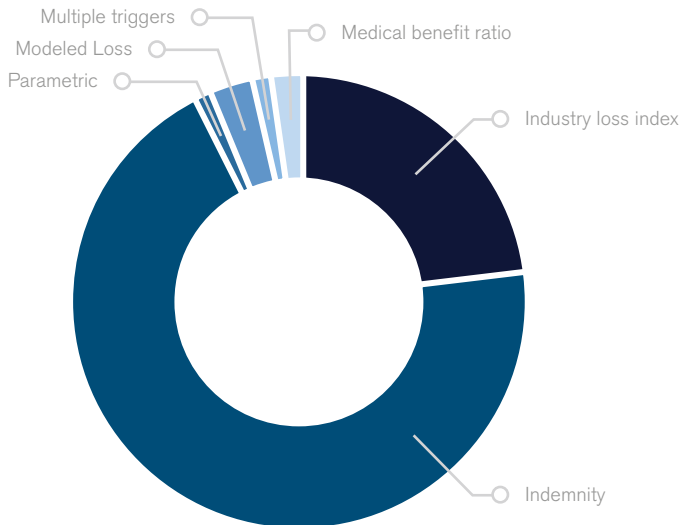


If you want to see full details of every catastrophe bond and ILS transaction included in the data in this report please visit www.artemis.bm/deal_directory/

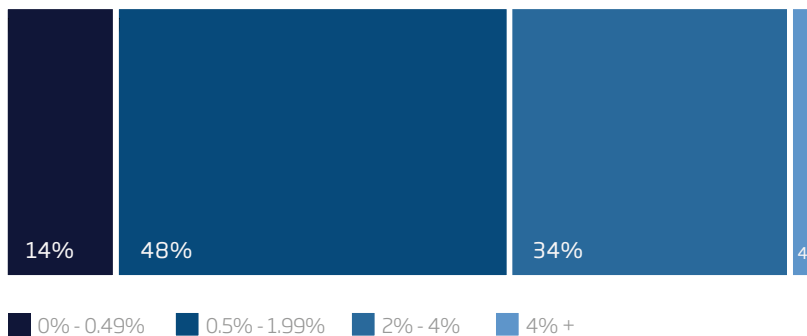
Full-year 2014 ILS issuance by peril



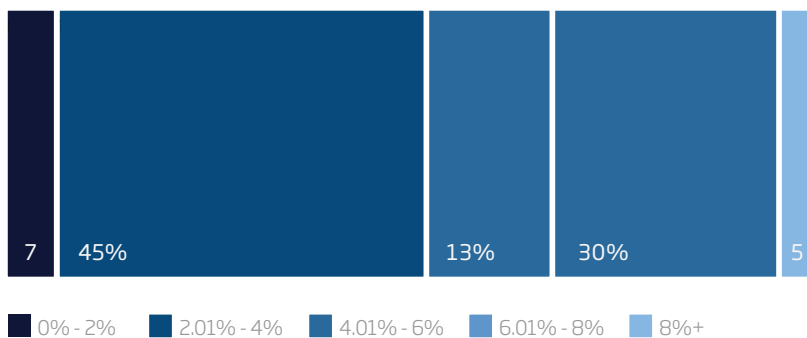
Full-year 2014 ILS issuance by trigger



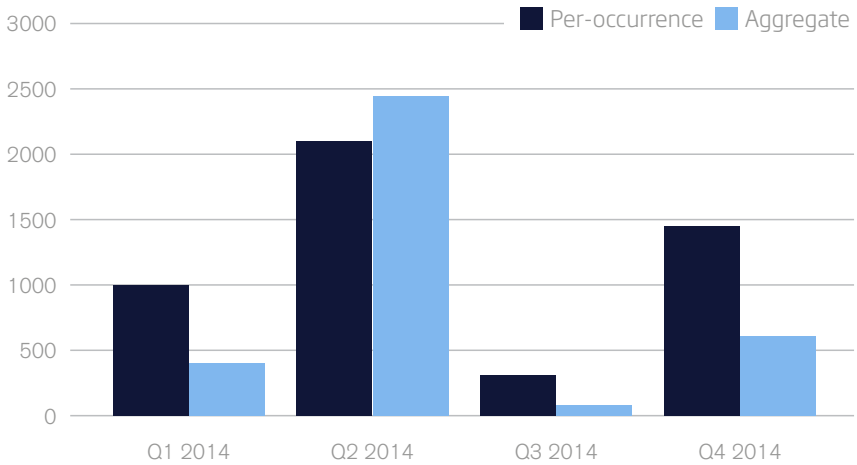
Full-year 2014 ILS issuance by expected loss



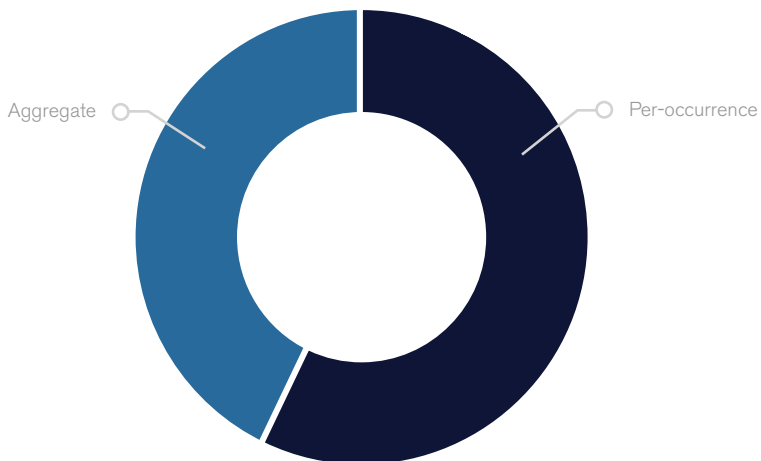
Full-year 2014 ILS issuance by coupon pricing



2014 ILS issuance per-occurrence vs aggregate split by quarter



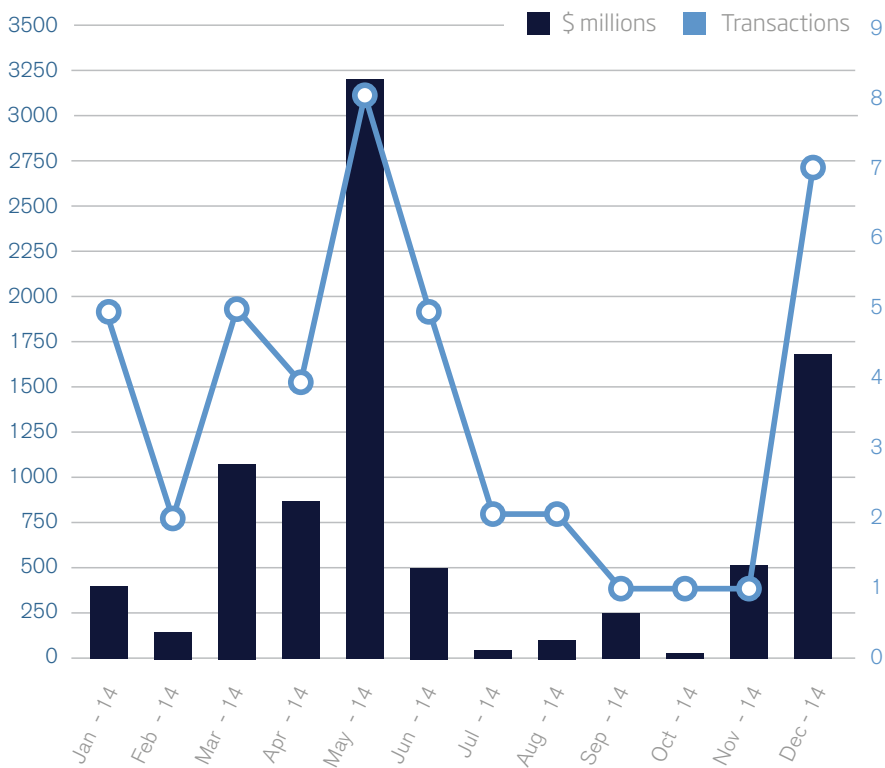
Full-year 2014 ILS issuance per-occurrence vs aggregate split



Full-year 2014 number of ILS transactions and volume issued by month (\$M)

2014 ILS and catastrophe bond issuance was dominated by the month of May, which far outstripped any other single month in the market's history. Three months during 2014 managed over \$1 billion of issuance, with December the second highest helping to take the year to its record level of issuance.

2014 was also notable for the lull through the U.S. wind season, which was more pronounced than normal resulting in one of the lowest third-quarters on record. As the reinsurance market continues to adapt to ILS we hope to see issuance grow, even in the slower months of the year as sponsors seek to leverage lower-cost ILS capital across the seasons.





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

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