

News Release

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Catastrophe Bond Issuance Surges in Second Quarter of 2010, According to Guy Carpenter Report

Eight Transactions Completed, Totaling USD2.05 Billion of Risk Capital;
Investor Appetite Remains Strong, Mostly Favorable Conditions Persist

New York, August 9, 2010

Eight catastrophe bond transactions totaling USD 2.05 billion in risk capital were completed in the second quarter of 2010 (2Q10), making it the second most active second quarter on record, according to a new report issued today by Guy Carpenter & Company, LLC, and GC Securities, a division of MMC Securities Corp.* The report, *Cat Bond Market Update: Second Quarter 2010*, available at www.GCCapitalIdeas.com, found continued strong investor demand for new issuance, with conditions for sponsors remaining favorable.

Despite substantial new issuance, total risk capital outstanding in the catastrophe bond market at the mid-point of 2010 declined by 0.80 percent (USD105 million) relative to the end of the first quarter of 2010 and by 5.5 percent (USD693 million) relative to year-end 2009. Although the majority of 2Q10 issuance included exposure to U.S. wind, leading into what is expected to be an active North Atlantic hurricane season, the current appetite for additional U.S. wind risk is limited. Significant investor appetite remains for other perils, including U.S. earthquake, European wind and Japanese wind and earthquake perils.

SECOND QUARTER 2010 ISSUANCE ACTIVITY

- State Farm's USD350 million Merna Re II Ltd. transaction kicked off 2Q10 issuance activity, though actual marketing activity did not begin until Assurant's IBIS Re Ltd. 2010-2011 transaction on April 14.
- The last three weeks of April through the end of May 2010 represented one of the most active periods for new issuance on record, with seven transactions totaling USD1.70 billion of risk capital.
- During each week of 2Q10, there were at least two transactions in the marketplace simultaneously and, at certain points, even four or five transactions.
- Investor demand for U.S. wind risk reached an inflection point in 2Q10, as an issuance surge caused some investors to run up against exposure limitations. Some investors also sought to trim U.S. wind exposures by selling U.S. wind exposed positions in the secondary market, while certain buyers, sensing an opportunity to put on risk at a discount, picked up modest amounts of additional U.S. wind paper at prices significantly below par.

ISSUANCE COMPOSITION

- USD350 million of total 2Q10 issuance had exposure solely to New Madrid earthquake, while USD1.70 billion had exposure to U.S. hurricane.

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- Only one new sponsor, Chartis, entered the market, with its Lodestone Re Ltd. transaction. The remaining seven transactions featured repeat catastrophe bond sponsors.

RISK CAPITAL OUTSTANDING

- Total risk capital outstanding fell by USD105 million to USD11.82 billion, as USD2.05 billion of new issuance was outstripped by USD2.16 billion of maturities. This represents the second consecutive quarter of declining risk capital outstanding.
- An additional USD1.92 billion of risk capital is scheduled to mature before the end of 2010. The current level of risk capital outstanding is consistent with that of year-end 2008.

INDUSTRY LOSS WARRANTIES

- Industry loss warranty (ILW) activity picked up significantly in 2Q10 as reinsurers looked to enhance their existing reinsurance protections.
- A sharp increase in traded volumes in late April and May saw rates harden for the first time since a sustained period of softening that began in early 2009.
- By mid-June, sustained demand from protection buyers began to outstrip available supply from protection sellers, leading to a two-week period during which it was difficult to find carriers to support even small limits at ever-increasing pricing. This seems to have been a temporary dislocation, however, as more recent “pre-season” deals have been bound successfully.

OUTLOOK FOR REMAINDER OF 2010

- Issuance in the third quarter of 2010 is expected to be light, in keeping with historical precedent, as sponsors and investors review their positions and digest market conditions.
- Despite the drop in appetite for U.S. wind, the appeal of non-U.S. wind exposed transactions remains robust, with active, ongoing discussions concerning U.S. earthquake, European windstorm, Japanese earthquake and windstorm and other perils.
- Assuming that the catastrophe bond market can remain competitive with other risk transfer alternatives, second half issuance of between USD1.70 billion and USD3.70 billion should be achievable.

QUOTES

Bill Kennedy, Global CEO of Analytics, Capital Markets, Specialty Practices and Advisory, Guy Carpenter & Company, LLC

“The number of catastrophe bond investors continues to increase, as does the size of assets under management. We saw this heightened interest, coupled with very favorable issuance conditions, bear fruit in the second quarter of 2010, as issuance activity remained robust week over week. Whether this momentum will continue through the fourth quarter and into 2011 depends on a number of factors, including the Atlantic hurricane season and broader market conditions, but it is fair to say that the catastrophe bond market continues to advance, innovate and welcome new participants – all healthy signs.”

Chi Hum, Global Head of Distribution, GC Securities**

“From the fourth quarter of 2009 to the beginning of the second quarter of 2010, transactions generally reached issuance targets or upsizing and pricing at or below the midpoint of their initial spread guidance range. This trend moderated and in some cases reversed itself during the second quarter of 2010 as investors were resistant to accepting additional U.S. wind risk. Because nearly all of the new issuance available in the second quarter included U.S. wind

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exposure, transactions coming to market in late April or May faced more challenging market conditions, which in some cases resulted in concessions being made by protection buyers with respect to deal size and spread levels.”

TAGS/KEYWORDS

Guy Carpenter, reinsurance, catastrophe bonds, cat bonds, property, catastrophe, capital, capacity, pricing

LINKS/URLs

Cat Bond Market Update: Second Quarter 2010:

<http://www.gccapitalideas.com/2010/08/10/catastrophe-bond-update-second-quarter-2010-%e2%80%93-activity-surges%e2%80%a6reflecting-favorable-issuance-conditions-and-strong-investor-demand-part-i>

Charts Available for Download: <http://www.gccapitalideas.com/category/chart-room>

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