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News Release

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GC Securities Completes First Listed P&C Cat Bond Issued by World Bank International Bank for Reconstruction & Development's Capital-at-Risk Program

New York, August 4, 2017 – GC Securities, a division of MMC Securities LLC, a U.S. registered broker-dealer and member FINRA/NFA/SIPC, today announced the placement of a catastrophe bond benefitting the government of Mexico's Fund for Natural Disasters (FONDEN). The $360,000,000, three-class catastrophe bond is issued by the International Bank for Reconstruction and Development ("World Bank" or "IBRD"), and represents the first listed property and catastrophe bond issued under its Capital-at-Risk notes program.

GC Securities served as joint structuring agent and joint manager along with Munich Re, and was the sole bookrunner and initial purchaser. GC Securities has now placed all six insurance-linked security (ILS) series for the IBRD's Capital-at-Risk notes program, reaffirming its commitment to the public sector.

"The World Bank Capital-at-Risk notes protecting FONDEN provide a very cost-efficient source of risk transfer and maximizes protection in one of the regions with the greatest exposure," said Aidan Pope, CEO of Latin America and the Caribbean at Guy Carpenter. "With this issuance, the government of Mexico has increased its resiliency in line with their overall macroprudential risk management strategy."

The World Bank Capital-at-Risk notes for FONDEN provide three years of earthquake protection and three seasons of Atlantic and Pacific named storm cover. Given robust support from 37 capital markets investors, the Class A and Class C Notes were each upsized, and all classes priced between 50 and 60 basis points below the initial price guidance. All three classes rank amongst the top 10 cat bonds issued thus far in 2017, based on the lowest margin between the annualized risk spread and the annual expected loss. Furthermore, using the same margin metric, the Class A and Class C Notes rank amongst the top 10 cat bonds issued ever.

Through the World Bank Capital-at-Risk notes program, Mexico is returning to the cat bond market for the first time since 2012 when it accessed capital markets-based protection via the MultiCat Mexico Ltd. catastrophe bonds. Notably, the Class C MultiCat Mexico bond was triggered by an event payment resulting from 2015's Hurricane Patricia. The World Bank Capital-at-Risk notes benefitting FONDEN feature lower annualized pricing and broader geographic protection, representing more efficient risk transfer. The more precise parametric trigger significantly increases the number of trigger boxes by peril and uses a step payment structure rather than a mostly binary payout structure. Depending on an earthquake's location, moment magnitude and depth, the earthquake event payouts that reduce principal are in four 25 percent increments, while the Named Storm bonds, which are based on storm track and the minimum calculated central pressure for each Named Storm Gate, have event payouts that reduce principal at 25, 50, and 100 percent.

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Oscar Vela, Head of the Insurance, Pensions and Social Security Unit at Mexico's Ministry of Finance, commented, "over the past 10 years, Mexico has built and expanded a long term strategy for catastrophic risk management. This policy has the key objective of creating financial mechanisms to mitigate and stabilize the impact of natural disasters on fiscal accounts. The issuance of the catastrophe bonds – the result of a partnership among key public and private sector institutions – renews the solid financial shield to FONDEN and helps to further strengthen the set of macroprudential policies used by our Ministry of Finance. The Mexican government remains committed to promoting policies that transfer risk to the capital markets so that we can jointly create deeper markets and better diversification opportunities, foster better fiscal policy management and support socially responsible initiatives."

"The refined 'Cat-in-a-Box' structure for earthquake and the use of Named Storm Boxes for named storms in the World Bank Capital-at-Risk notes benefitting FONDEN better aligns the earthquake or storm severity hazard parameters and the actual loss suffered by the government of Mexico, given the trigger improvements and broader geographic scope," said Cory Anger, Global Head of ILS Origination and Structuring for GC Securities. "Additionally, the transparent trigger better expedites payments to support Mexico's recovery efforts and needs."

"Munich Re is proud to play a major role in this transaction through our commitment to long-lasting client relationships and our expertise in risk mitigation and risk transfer. We truly hope that this program will serve the Mexican government strategy and further bolster its disaster resilience in a comprehensive and cost-effective manner," added Matthias Marwege, Senior Executive Manager for Spain, Portugal, Latin America and Caribbean at Munich Re.

TAGS/KEYWORDS

Guy Carpenter, GC Securities, catastrophe bond, cat bond, World Bank, IBRD, Mexico, FONDEN, MMC, Marsh & McLennan Companies, Aidan Pope, Cory Anger, Oscar Vela

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