Outlook after the Japan Earthquake
Market Update
Insured Losses in 2010 and 2011 have been largely international (non-US)

Monthly insured industry loss by region and cumulative (USD billion)

~$65bn cumulative losses in 15 months

Source: AIR Worldwide, Credit Suisse
All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information.
Loss impact on the P&L of the Reinsurance Market

- **Loss Budget 2011**: Annual loss budget has already been exceeded following the quakes in NZ and Japan. Top reinsurers have exhausted 177% to 260% of their annual catastrophes budget.

- **Earning Targets 2011**: Earnings targets for the year cannot be achieved.

- **Surplus**: Excess Surplus in reinsurance market has vanished.

- **Retro (Reinsurance)**: Reinsurance protections have been exhausted by NZ and Japan quakes.

- **As of 1 January 2011**:
  - **282 days to go in 2011.**
  - The first quarter historically only accounted for 1/6 of annual losses.

- **After Japan quake from 11 March 2011**:
  - Reduced risk appetite in the reinsurance industry
  - Less reinsurance capacity available

For indicative purpose only.
Source: Credit Suisse
Loss impact on the P&L of the Reinsurance Market (continued)

 Profit target not achievable for largest reinsurer
German reinsurer Munich Re has estimated that its claims payments for the earthquake and tsunami in Japan will total €1.5bn ($2.1bn) after retrocession and before tax. As a result, it said its profit target of around €2.4bn for the financial year 2011 can no longer be maintained. The first quarter of 2011 had already been marked by high losses from the earthquake in New Zealand, the floods in Brisbane and Cyclone Yasi in Australia. Munich Re says losses from first-quarter natural catastrophes amounts to more than €2.5bn after retrocession and before tax, exceeding the volume Munich Re expected for this period. “That means the profit target for 2011 of around €2.4bn is no longer achievable," said the firm.

 Source: Reactions

 Negative outlook
The review by Moody’s comes after a series of natural catastrophes in the first quarter that are “likely to result in a material loss for Flagstone”, said Moody’s. The rating agency will seek more information about these losses and assess the compatibility of the firm’s strategy and risk appetite with its present ratings. In the week following the earthquake, Flagstone Re’s market capitalization fell 23.7%. Flagstone has estimated its losses, net of reinsurance, for January’s Australian floods and February’s Cyclone Yasi to be $60m to $80m (5.3% to 7.0% as a percentage of Flagstone equity) and for February’s New Zealand earthquake to be $60m to $90m (5.3% to 7.9% as a percentage of Flagstone equity).

 Source: Reactions

 Moody’s Japan K.K. has affirmed its ratings on the subsidiaries of the three largest domestic property & casualty (P&C) insurance groups in Japan: Tokio Marine Group, NKSJ Group and MS&AD Group. At the same time, Moody’s has changed the outlooks on all the ratings to negative from stable. The announcement follows the earthquake of March 11, the largest in Japan’s history. The quake and ensuing tsunami have caused widespread economic damages, a portion of which will be covered by these companies, said Moody’s. “The negative outlook for these P&C insurers reflects the view that losses from the event will further pressure the profitability and, to a lesser degree, the capitalization benchmarks of these insurers at their current rating levels. In addition, given the large number of prefectures and sectors that have been impacted by the earthquake and tsunami, it will likely take many months to ascertain the true extent of insured losses. This situation magnifies the potential for upward revisions of initial loss estimates.” In light of this negative market outlook, Moody’s says it does not expect meaningful improvements to profitability over the near to medium term; a situation which could delay the replenishment of resources depleted by earthquake-related losses. In addition, added Moody’s, the P&C insurers could experience additional volatility in their economic capital due to investment exposures to the domestic stock market. Such exposures are relatively high when compared to other P&C insurers globally.

 Source: Reactions

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And still a long way to go until year end …

- Between 2000 and 2010, average catastrophe losses for the last three quarters of the year were > $25bn
  - High probability of further losses and erosion of capital

- US hurricane season starts in June

- “Running naked into the season” … little reinsurance (retro-protection) left and less profit available to “cushion” any further losses

- According to portfolio managers data, 35% of all retro layers (reinsurance on reinsurance) have been hit and eroded

- He believes that the largest premium increases will be in the US rather than in Japan because US risks absorb a larger amount of capital

- So far, the Credit Suisse ILS team has seen pricing increases on Japan quake risk of +55%

- Rating agencies have already put one reinsurer and three insurers on negative outlook, which will further reduce risk appetite and increase demand for reinsurance/retro
Model Changes Drive Demand for Reinsurance Cover/Capital

Model changes, regulatory capital requirements, and rating requirements have increased demand for cover/capital.

- **Florida hurricane**: Old model ($116bn) vs. New model ($158bn), +36%
- **Texas hurricane**: Old model ($26bn) vs. New model ($58bn), +123%
- **Mid-Atlantic hurricane**: Old model ($6.7bn) vs. New model ($19.7bn), +199%

For indicative purpose only.
Source: RMS, Credit Suisse
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Traded premiums observed by the Credit Suisse ILS team during the week of 21 March 2011

Source: Willis, Credit Suisse

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Premium Increases for US Quake Risk

- Hurricane Katrina
- Financial crisis
- Chile quake
- Japan & New Zealand quake

~60% increase
~50% increase

Traded premiums observed by the Credit Suisse ILS team during the week of 21 March 2011

Source: Willis, Credit Suisse

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Market Reactions and Timing

Opportunity
24 months

Traditional reinsurance

Catastrophe bonds

Retrocession (reinsurance on reinsurance)

ILWs (Industry Loss Warranty)

Japan Quake Loss

Optimal instrument allocation depends on timing and reaction time

Conclusion:
⇒ Different instruments have different timing and reaction time
⇒ the portfolio managers strategy is to allocate accordingly in order to optimize returns

For indicative purpose only.
Source: Credit Suisse

Please see “Important legal information” at the end of this material for important disclosures regarding the data and information contained and the views and opinions expressed in this material.
Portfolio Update
CSA Insurance Linked Strategies: Outlook*

Portfolio

- 23% in cash, which can be deployed
- 51% in cat bonds, which can be replaced and opportunistically deployed in new and higher yielding transactions
- 9% will mature until May and can be redeployed in higher yielding transactions

⇒ Total of 83% of the portfolio which can benefit from increasing yields within the next 3 months

Expected Recovery

- +1% for mark-to-market recoveries on cat bonds
- Expected time to recovery for Fund**: 4 months
- Current net running yield over Libor***: +4.75%
- Estimated net running yield over Libor*** on 1st June: +6.5% (risk profile unchanged)
- Outlook 2012: estimated net running yield*** over Libor of +6.5%

*Target return and recovery time is no projection, prediction or guarantee for future performance, and there is no certainty that the target return will be reached.
** Assumes no further major catastrophe
*** Net running yield is the expected return before expected losses
Source: Credit Suisse
Appendix: Important Legal Information
Important legal information

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