Q4 2015 Earnings Call

Company Participants

- Bertrand Bougon, Head-Investor Relations & Rating Agencies
- Denis Kessler, Chairman & Chief Executive Officer
- François de Varenne, Chief Executive Officer, SCOR Global Investments SE
- Frieder Knüpling, Chief Risk Officer
- Mark Kociancic, Chief Financial Officer
- Paolo de Martin, Chief Executive Officer, SCOR Global Life SE
- Victor Peignet, Chief Executive Officer of SCOR Global P&C SE

Other Participants

- Andrew J. Ritchie, Analyst
- Edward Morris, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Kamran Hossain, Analyst
- Olivia Brindle, Analyst
- Thomas Fossard, Analyst
- Thomas Jacquet, Analyst
- Vinit Malhotra, Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Bertrand Bougon {BIO 18934799 <GO>}

Good morning, everybody, and thank you for joining the SCOR Group's 2015 Results Call. As usual, please consider our disclaimer on page 2 which indicates that presented 2015 financial information is audited and that the group's solvency final results are to be filed to the supervisory authorities by July 2016 and may differ from the estimates expressed or implied in this report.

We can now start the presentation. And I would like to give the floor to Mr. Denis Kessler, CEO and Chairman of the SCOR Group, who is joined on this call by the entire (0:33).

Denis Kessler {BIO 1498477 <GO>}

Thank you, Bertrand, and good morning, everyone. You've probably seen that I repeat myself every quarter (0:46) is just a result of the group's consistency throughout 2015. But even longer period, if we look at the wider picture of more than a decade since I arrived at SCOR back in (01:00). 2015 has been an outstanding year for the SCOR Group. Despite a difficult economic, financial and geopolitical environment, the SCOR has pursued its development in line with the strategic plan, Optimal Dynamics and we have been able to combine the profitability and (01:20-01:23).

Last but not least, we confirm the status as a global and highly-diversified market leader through the upgrade of the ratings by the four rating agencies. These are major achievements for SCOR which reaffirms the relevance of our business model and our tier 1 positioning. This standing clearly illustrates the strengthened financial security and global franchise that SCOR brings to its clients, particularly in the current market environment.

SCOR leveraged its tier 1 positioning to continue growing sustainably in both Life reinsurance and P&C reinsurance with gross written premiums reaching €13.4 billion. That represent an increase of about 19% at current exchange rate and 6% at constant exchange rates. 2015 is an excellent year, with a net income of €642 million, representing a rise of more than 25%. Moreover, we generated significant operating cash flow of about €800 million in 2015.

I also wish to highlight the performance of the group's asset management engine, SCOR Global Investments. We've managed to generate a return on invested assets of 3.1% despite the difficult environment, whilst adhering to the principles of (2:47). Lastly, SCOR's balance sheet is very strong, standing at a record level of €41.6 billion in assets, with its shareholders' equity reaching €3.4 billion or €34 per share.

One of the major milestones achieved during 2015 was the approval of our internal model by the supervisory authorities. It's on this basis, that we calculate one of the two targets of our strategy plan, Optimal Dynamics. Both of these targets have been met or exceeded with a adjusted solvency ratio its optimal range standing at 211% at the end of 2015. It was 202% at the end of 2014. So, it's a part increase of the solvency ratio. And our return on equity, exceeding the target of 1000 basis points above the risk-free rates.

Excellent set of results enables us to propose a dividend of €1.5 per share at the Annual General Meeting of shareholders, representing an increase of 7%. This dividend increase is sustained by the group's capacity to generate excellent results and substantial cash flows in the long term. Continuous regular upward trends observed throughout the past five years and would bring the total dividends paid to shareholders since 2005 to more than €2 billion.

I'll now hand over Mark who will give you more details on our financial performance and over to you.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis. So, moving on to slide four, I will walk you through the financial highlights of the 2015 results. SCOR wrote more than €13.4 billion of gross written premiums in 2015, representing an 18.6% increase over 2014 at current exchange rates or 6.4% at constant exchange rates. This top-line growth was fueled by both business engines: SCOR Global P&C, with a 16% growth at current exchange rates; and SCOR Global Life, with a 20.6% rise at current exchange rates.

SCOR achieved high-quality results for 2015 with a record net income of €642 million, an increase of 25.4% year-on-year, generating a 10.6% return on equity, thereby, exceeding the group target set at 1,000 basis points above the risk-free rate. The P&C net combined ratio for 2015 stood at an excellent 91.1%, and the Life technical margin outperformed at 7.2%. Both metrics bested the Optimal Dynamics assumptions.

At the same time, in a highly uncertain and volatile financial environment, SCOR Global Investments delivered a solid return on invested assets of 3.1%, driven by active portfolio management and its prudent investment strategy.

Going to page six, shareholders' equity has increased by 11% since the beginning of the year to reach €6.4 billion corresponding to a book value of €34.03 per share and illustrating our ability to create value for our shareholders. The shareholders' equity was supported by the strong net income recorded in 2015. The exceptionally strong foreign exchange impact between the U.S. dollar and the euro, which increased the currency translation adjustment to €316 million, while accounting for the €260 million of dividends paid out in the second quarter of 2015.

During the year, we actively managed our liabilities by issuing two-dated subordinated debts of €250 million in June and another €600 million in December. We also called two of our existing debt due in 2029 and 2020, respectively, for €10 million in June and €93 million in July.

Consequently, the financial leverage stands at 27.5%, temporarily above the range indicated in Optimal Dynamics. Adjusted financial leverage would be approximately 20.6% assuming the repayment of the Swiss debt, a €650 million debt and the €257 million subordinated debt callable in the third quarter.

Let's move on to page seven, SCOR generated a significant operating cash flow of €795 million for 2015, which is well in line with the normalized operational cash flow of approximately €200 million per quarter. The cash flow used in the financing activities mainly reflects the dividend payment and the impact of the active liability management I just mentioned on the previous slide. The total liquidity of the group reached €2 billion at December 31, 2015 and increased significantly year-on-year, in line with the temporary pause of the rebalancing of the investment portfolio in which François will discuss later on. Approximately €6.6 billion of liquidity including cash and short-term investments is expected to be generated within the next 24 months from the maturity of fixed income securities and interest coupons.

And now I'll hand it over to Frieder to comment on the group's solvency evolution.

Frieder Knüpling

Thank you, Mark. Slide eight shows the development of the group's solvency position during 2015 based on the internal model which has been approved by the concerned supervisors in November and prepared on an accelerated closing basis using a number of estimates and simplifications.

Changes to the macroeconomic environments including movements in exchange rates, interest rates and equity market returns have led to an increase in the solvency ratio by 5 percentage points. Economic (9:03) of the reinsurance portfolio including the claims experience on existing business, the value of new business data and parameter update have led to a further growth by 11 percentage points.

The impact of the hybrid issuances during 2015 on the solvency ratio is an additional 20 percentage points. Allowing for the proposed dividend of €1.50 per share reduces the solvency ratio by 7 percentage points. In total, this would lead to a solvency ratio of 231% as at year-end, based on Solvency II requirements.

As mentioned by Mark, SCOR is intending to use the hybrid debt issued last year to finance the planned calls of other hybrid debts in Q3 this year. If one reflects the economic impact of these expected calls already at the end of 2015, this leads to an adjusted solvency ratio of 211% which is not anymore affected by the temporary and transitory increase in hybrid debt. This ratio is in the optimal solvency range of 185% to 220% and therefore meeting the solvency target of our current strategic plan, Optimal Dynamics.

Among the sensitivities to financial market parameters, the most significant one is related to interest rate movements as in the past. Overall, as the risk split on this slide demonstrates, SCOR's risk profile continues to be dominated by insurance underwriting risks, in line with our stated risk appetite.

With this, I'd like to hand over to Victor for his comments on the performance of the P&C portfolio.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Frieder and good morning. The P&C results for 2015 on which I'm going to briefly comment are of a quality that goes beyond the Optimal Dynamics' targets in terms of profitability. They're also consistent with the year-end projections corresponding to the indication given at the Q3 results.

After an unusually high number of large man-made losses in prior quarters, Q4 shows a man-made loss activity that is back to normal and a Nat Cat net ratio of 4% mostly due to the late December occurrence of floods in the UK and in India in the Chennai region, which altogether are reserved for about €50 million. This leads to an excellent 91.1% combined ratio for the full year.

Thanks to the good timing and the successful implementation of our business initiatives, we have managed to produce significant profitable growth while simultaneously maintaining our underwriting discipline and intensifying our portfolio management. This performance is the result of a coordinated effort by the entire P&C division to manage its business mix in order to, in particular, seize opportunities to further improve our position in the U.S. and in casualty lines of business, general and specialty, and doing that while keeping the total capital requirement within its allocation and the expected profitability on target overall in terms of underwriting ratio and return on risk-adjusted capital.

In a market that continues to be very competitive, we remain clearly committed to maintaining the expected profitability of business that is being booked and the prudence of the reserving in particular for the recent years. It is rewarding to see that this commitment is paying off and is reflected in the results.

It is worth mentioning that in spite of the unusually high number of large man-made losses, the results have by no means been achieved thanks to reserve release. As in any year, there are positive and negative developments in the segments. Amongst the negative ones, the most noticeable have been caused by collateral impacts of the economic slowdown and the oil price collapse, while the most significant positive ones come from certain casualty classes in Europe. Overall, these developments in 2015 have not affected the margin above best estimate.

On this basis, and with the 1/1 renewals behind us, we believe we can realistically expect a normal 2016 year to generate the total income of around €6 billion on the basis of the current FX rates with the net combined ratio of around 94%, inclusive of a commission ratio stabilizing around 25% and a Nat Cat ratio trending towards 6%.

I will now hand over to Paolo for the presentation of the Life division results.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. Moving on to page 10 of the presentation. I'm pleased to report that in 2015, SCOR Global Life continues to deliver strong and profitable growth with our key indicators positively above the Optimal Dynamics assumptions.

Gross written premiums reached €7.7 billion which represent a growth of 20.6% at current exchange rate and 7.5% at constant exchange rates. The solid growth has originated across all three product lines. In Protection, we've been growing across all markets. This line of business represents the core of our offering with 80% of our total gross premiums.

And I would like to mention in the Protection space three key highlights of the year. First, the growth of our Asian platform where we have continued to invest in our capabilities and our clients have rewarded us with a 29% premium growth.

Second is the award for Best Life Reinsurer of the Year 2015 in the U.S. which is a testament to the successful integration of our two acquisitions and to having established ourselves as a true leader in the U.S. market.

Third, globally, we have maintained our focus in providing our customers with innovative distribution solution to support their growth. ReMark, our direct marketing platform, has been awarded Service Provider of the Year in Asia. While in the Americas, our automated underwriting platform, Velogica, had reached 2.3 million applications.

Moving on to the longevity line. Here, we're starting from a relatively small basis and we continue to grow exceeding our Optimal Dynamics assumptions. New transactions underwritten during 2015 in the UK and Canadian markets demonstrates SCOR Global Life's ability to leverage its success in the UK longevity market.

In financial solution, we spent slightly above the assumption presented at the most recent IR Day in terms of premiums. We've seen an increase in new business opportunities in a still fluctuating regulatory environment.

Overall, our technical performance over the full year of 2015 stands at 7.2%, ahead of the 7% expected in Optimal Dynamics. We've been able to deliver this robust technical margin, thanks to both the profitability of new business and the performance of the in-force portfolio in line with the succession.

I will now hand over to François for a presentation on the investment side.

François de Varenne

Thank you, Paolo. Moving on to slide 11. SCOR's total investment portfolio reached €27.6 billion at the end of December 2015 with an invested asset portfolio of €18 billion compared to €16.2 billion at the end of December 2014. To face the increased level of economic and financial uncertainties, SCOR Global Investments has reinforced in June 2015, temporarily and tactically its prudent investment strategy in order to preserve our investment portfolio and SCOR's shareholder wealth.

As a consequence, liquidity position has been increased at 11% of the invested asset portfolio, while maintaining the fixed income portfolio duration, excluding cash, broadly stable at 3.9 year at the end of December. The quality of the fixed income portfolio has been maintained with a stable average rating of AA-. Moreover, SCOR Global Investment have maintained a very strict policy of avoiding any sovereign exposure to eurozone (17:13) countries. Our exposure to emerging market is relatively small, 1.5% of our invested assets, of which 1.2% mostly invested in government bonds due to a strict policy of congruence between asset-backing or reinsurance technical liability.

In addition, only 3.8% of the invested asset portfolio is exposed to energy, metals, and mining sector, essentially in high-quality corporate bond with an average rating of A+. At the end of December 2015, expected cash flows under fixed income portfolio over the next 24 months stand at €6.6 billion including cash and short-term investment, which represents more than one-third of the invested assets facilitating the dynamic management of our investment policy as soon as market conditions determine.

In spite of the adverse economic environment and the prolonged low-yield context in all major currencies, SCOR Global Investments managed to deliver a strong and recurring return on invested assets which stands at 3.1% for both the full-year 2015, compared to 2.9% in 2014. This performance has been notably driven by significant capital gain realized on our equity portfolio during the first half of the year which is a very good example of proactive management style and our capacity to detect very quickly relative value in the market.

For 2016, we have entered again a new world of volatility and uncertainty characterized by a lot of central bankers about monetary policies, FX war between central banks, the increased volatility on the equity market, credit spread widening, bank industry again under the scrutiny of the markets and increased geopolitical threats with a potential breakthrough (19:03).

The good news, however, is that our reinvestment (19:08) and consequently our return on invested assets has been constantly increasing since 2013 and reached 2.5% at the end of December 2015. Despite the high level of uncertainty and volatility, we commit to a target of a return on invested asset of 3% in 2016. And I strongly believe we can and we will achieve it.

And now, I will hand over to Denis Kessler for the conclusion of the presentation.

Denis Kessler {BIO 1498477 <GO>}

Thank you, François. 2015, as you can see, was an excellent year for SCOR. However, the context has not evolved in the way we anticipated it when we drew up our Optimal Dynamics plan almost two years ago. Macro-economic and finance environment have notably quickly deteriorated since the beginning of 2016 and we have to be prepared to face a challenging year. Indeed, we believe that SCOR is well positioned to face the headwinds caused by the economic, financial, industrial and social evolution that will mark the 2016 year.

Don't be surprised if I mentioned that the reinsurance market, primarily in the P&C business has been going through a difficult period for a number of years marred by significant downward pressure on prices and increasingly fierce competition. SCOR's made to optimally diversify the group with the Life and Non-Life engines is the best answer to this situation. Thanks to the seasoned P&C teams and their active and efficient portfolio management, we are able to weather the effects of sovereign markets. This is supported by a strong focus on longstanding and close partnership with the clients across all markets.

The development of insurance-linked securities represents an important headwind weighing on the reinsurance market. SCOR has seized opportunities in the competition from ILS such as improved retrocession efficiency and decreasing costs, protection from Atlas series and a mortality risk transfer and also the development of ILS funds proposed to third parties.

Industry is also exposed to macroeconomic uncertainties and financial instability, for instance, the depressed economic environment in Europe, the slowdown in emerging countries like China and Brazil and this will certainly weigh on reinsurance domain. Sluggish financial environment with low interest rates in the context of diverging central bank policies, notably between the Fed on one side and the ECB on the other side. I could also mention, of course, the risk of (21:46) which is today playing an important role on the financial market.

Geopolitical risks, which can, unfortunately, escalate. It's worth reminding everyone that we have been remarkably prudent protecting our balance sheet by securing and efficiently allocating the capital in advanced economies with stable legal regulatory and economic environments. To illustrate my point, I would like to add that SCOR is only close to 2% of its invested assets exposed to emerging markets and we have 97% of the capital located in advanced economies.

Last but not least, new regulatory developments create new constraints, notably in terms of solvency. SCOR has set a benchmark in developing and its good internal model clearly benefiting from its diversification. Extremely pleased that the model we are using to manage the business and operations on the daily basis has been recognized by the supervisor to calculate solvency number.

Wrap up, SCOR has proven its resilience and will continue to prove its ability to anticipate and absorb shocks affecting the value of the balance sheet. We are realistic. We know the challenging environment we operate in. We will not take on any bets and we'll continue to find solutions to preserve both the technical and financial profitability in an optimal level of solvency.

As I said in my introduction, SCOR has become a recognized tier 1 reinsurer and continues to evolve constantly. Since the DNA of the group, we are and we must be constantly on the move. I believe this will be a key element of the next strategic plan to be announced on the 7th of September 2016 in Paris.

To end this presentation on a more positive note, as you know with Optimal Dynamics, SCOR has set two simple targets, profitability and solvency. I'm very pleased that the group has been successful in meeting those targets until now and confirm stability to continue deliver on both of them. Over the last decade, SCOR has consistently paid attractive dividends to its shareholders, and we will continue this practice even in challenging times. We are proposing a dividend of €1.5 per share to the upcoming general assembly to be held on the 27th of April.

Thank you for your attention. And, Bertrand, we can now start the Q&A session.

Bertrand Bougon {BIO 18934799 <GO>}

Thank you, Denis. Before moving on to the Q&A session, please note on page 14 the next scheduled events which are the Q1 2016 results and AGM, both occurring on April 27 as well as all the conferences which we're planning to attend in 2016.

With this, we can start the Q&A session. Thank you.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now move on to the Q&A session. In order to give all participants a chance to ask questions, we kindly ask you to limit the number of your questions to two. Please rejoin at the end of the Q&A session if you have additional questions.

We'll take our first question from Thomas Jacquet from Exane.

Q - Thomas Jacquet {BIO 4110153 <GO>}

(25:07-25:15) one. So, the small question is on the annualized gains on real estate. In Q4, there was a significant jump in annualized gains around €60 million. Is it related to any particular transaction or anything special there?

And my second question is somewhat different. As you highlighted, the past decade was very successful for SCOR. Management stability was a key part of this. I know that in the insurance sector, we have a lot of management changes these days and experienced a lot of uncertainty for the shareholders. Can you remind us if there is any institutional constraint to the pursuit of the same setup, especially I think that some mandates will end up next year? And when we would know about that – when we should we expect the news on that front? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Thomas Jacquet. I propose to hand over to François on the...

A - François de Varenne

On the real estate portfolio and the increased amount of unrealized gain at the end of December. As you know, our entire real estate portfolio is valued by external experts at the end of each quarter in our account. So, that's the reevaluation of the entire portfolio at the end of the year. If you remember, I presented in the last Investor Day presentation, we like to work our assets within the real estate portfolio, which means to rebuild our assets, to rent them again and when they are rented, to sell them.

The fact that you have a significant increase in Q4 of the unrealized capital gains is just reflecting the fact that we rented an empty building that was fully furnished over the last two years. And that's the impact on the market value of this asset that is embedded in the account.

A - Denis Kessler {BIO 1498477 <GO>}

As far as your second question is concerned, Thomas, the team is in place. I mean the team, the Executive Committee and the people that do the business are the same for years now, you know them. It's true for all the functions. And I believe that the team is fully committed to prepare the new plan. The new plan will cover the next three years, so mid-2016. And I'm pleased that we will all do our best in order to deliver as we have done in the past with credible targets and asset management.

So, the only mandate which depends on 2016 is a three-year mandate. The six-year mandate is now gone. We have a process in place. We have a nomination committee which is chaired by Claude Tendil, and we apply strict (28:23) is in charge of (28:32) and second, to be sure that the continuity will be respected because as you do, we do pay a lot of price to (28:46) management.

So, you asked me when that would be done. It will be done when the nomination (28:42-28:47). So, I think it should be done by (28:50-28:56) but you will get the answer (28:57-29:07)

A - Bertrand Bougon {BIO 18934799 <GO>}

Next question, please. No more questions?

Operator

We'll take our next question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi there. Morning. Thank you very much. I just had – so, first thing on the Life growth which at 2.5% for the quarter, fourth quarter, FX adjusted was rather strong. I wonder if, Paolo, could comment a bit on you did say financial solutions was stronger than you had expected in Asia, can we expect some of this growth to continue? Is that a fair assumption or should it normalize a bit in the future?

The second question is just on the reinvestment rate that I just noticed François mentioned 2.5% for the full year. At the nine month phase, this was quoted at around 2% and I appreciate that some bond yields have gone up in between October and December, but that would imply a fourth quarter reinvestment rate is very much stronger than what the bond yield suggested. Is there anything that we should note in that context? That's it to my two questions for now. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo?

A - Paolo de Martin {BIO 15930577 <GO>}

Yeah. I will not spend too much time on the quarter-to-quarter. Some of the deals we do are bulky in nature. And therefore, when they show up in one quarter they tend to pump up the premiums in that quarter. Looking forward for 2016, we overall expect the growth at around 5% on a constant exchange rate which will take the total growth from 2013 to the end of 2016 pretty much in line with the – what were the OD assumptions of around 6%, so that's forward.

In terms of specifically on financial solution, we're still seeing a very – a lot of uncertainty in our clients in terms of how the regulatory environment settle and how the capital position settle. The two key areas of growth in 2015, were definitely Asia in terms of protection, and then longevity overall. I think we're seeing some of that continuing into (31:38) like somewhere around 5% into (31:43-31:51).

A - François de Varenne

So, on the reinvest phase, it was indeed at the December at 2.5%, compared to 2% at the beginning of the year. I'll just reminding you the definition of our investment rate, that at the end of each quarter, given the asset allocation of the quarter, the margin would return on investment generated by €1 or $1 of investment, with the same asset allocation at current market conditions.

So the fact that you have an increase from 2.0% at the beginning of the year, up to 2.5% at the end of the year reflects three points. The first one is the fact that we rebalanced the portfolio so, with no exposure to risky assets that is during the year.

Second, you have an effect of the pickup of interest rates, especially in USD at the end of the year. That's roughly 20 basis points over the 50 basis points. And you have a credit spread impact with the widening of credit spread at the end of the year, which accounts for roughly 30 basis points over the 50 basis points. In USD, our reinvestment rate is at 3% at the end of 2015, and 2.3% in euro, which is really a very good level.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks. François, a second follow up. The same analysis also presumably holds true for the 2% end of 3Q versus 2.5% end of 4Q. Is that fair assumption?

A - François de Varenne

Yes. Exactly. So, basically, I mean the effect, especially the effect on the increase of interest rate was at the end of the year in December especially in the U.S. and it is the spread widening also at the end of the year and beginning of this year so that's mostly a Q3 or Q4.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

Operator

We'll take our next question from Edward Morris from JPMorgan. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Hi. Good morning. Two questions if I may. First is on the ROE target that you have as part of Optimal Dynamics. And I appreciate this is a thru-the-cycle target but I just wondered on your thoughts on it for 2016. So if we sort of normalize for a normal Nat Cat year and assume that they come in budget this year. Where would you expect to be relative to your targets?

And the second question is on deals. Just given the sort of moods that we've had since the start of the year or kind of coming into the year-end, I was wondering whether there's been any change in the sort of availability, or if you've been presented with more opportunities on this sort of thing. And maybe if you could just give a comment on the outlook there, that would be much appreciated.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks. Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

So on the first question with the ROE target for 2016, obviously, we're still in the Optimal Dynamics plan until June 30. So the target for ROE is 1,000 basis points above risk-free, and I think we've given a consistent messaging, at least, since the IR Day in September that we are well on track to achieve the 1,000 bps over this period. And I think we've done a nice job over this over the last 10 years. I was looking at a slide earlier from the IR Day and some other presentations we've had last year. And a group that's consistently demonstrated a strong ROE over the last 10 years of 10.8%, not to mention a dividend yield of 5.2%. So, we're on track with that. Clearly, there are some investment headwinds, but we do have, I think, very strong technical metrics ahead of us, and the group continues to mature and demonstrate its ability to reach its target.

On the M&A side, there hasn't been as much activity obviously this year. Banks obviously come to us from time to time to explore opportunities. But, clearly, I would say, the market is somewhat cooler in general. I'm not going to comment on our appetite at all other than to say we're very comfortable with our organic plan and it clearly doesn't depend on any kind of M&A activity.

And maybe the last point overall with respect to the ROE target and targets in general is the IR Day that we have planned for early September when we unveil the new plan. I will speak a little bit more about that in the fall.

Q - Edward Morris {BIO 16274236 <GO>}

Okay, great. Thank you.

Operator

We'll take our next question from Xin Mei Wang from Morgan Stanley. Please go ahead, sir.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Hi. It's Xin Mei Wang from Morgan Stanley. My first question is on casualty lines and sort of the growth there in the U.S. Just wondering how you see the core system developing and how you're taking into account the sort of reserving with respect to writing more casualty and how you think about the reserve margin.

My second question is on the investments. Given continued macro uncertainty, has your view on that kind of scenario that you'd have to see before you start deploying some of that cash allocation, so where yours need to be, has that changed now versus 2Q 2015 when we first saw the increased allocation to cash? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks a lot. Casualty lines in the U.S. Victor.

A - Victor Peignet {BIO 6287211 <GO>}

I think we're adopting a very cautious approach which means that we do appreciate that the trend has been favorable for the last few years. But we do not really take that into our pricing, and we can consider that there is not enough of certainty about the maintenance of those trends in the years to come. So, we are much more relying on the longer history of casualty lines.

Well, what does it mean? It means that our reserving is certainly very prudent in that. It means that well we have to balance between the development of our casualty lines and the development of businesses that are at much lower underwriting ratio. So, there is a constraint, and this is why I was talking in my speech about a joint effort throughout the division. We need to be able to maintain our overall ratio in order to keep our combined ratio around the 94% which put constraints currently on the development of our casualty lines. But overall, we have had a pretty satisfactory development.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you. And François, on the way you're going to allocate the cash?

A - François de Varenne

So, the way we are going to allocate the cash, unfortunately I don't have a crystal ball to predict what central banker are going to do this year or in a short-term basis. What I see is that they are lost, and their credibility is really affected today, especially regarding their management of expectation vis-à-vis inflation.

Having said this, and as mentioned in my speech, what we see today is really mounting headwinds and increased level of uncertainty and volatility on the market. And as we demonstrated since 2007, I think we have an excellent track record to detect potential shocks on the financial market. And in those situation we prefer really to protect the value of the investment portfolio, and as a consequence, to protect the value of the net asset value of the group, of the shareholder well.

So, the increase of cash is just a tactical move and a temporary move for a given period. As soon as market condition will permit, so as soon as the level of uncertainty and the level of volatility will decrease a little bit, we will redeploy this cash. But, again, we have an excellent track record to detect shocks in advance. Look at what we did in 2007, 2008. Look at what we did for the prediction or the expectation of the sovereign debt crisis in Europe, that we detected end of 2008.

So, we think, today, there is a high-level of uncertainty and volatility in the market. And again, it's a tactical and momentarily pull in your balancing of the portfolio. And we prefer for a while to increase cash. And we will redeploy very quickly this amount of cash as soon as market condition will be there.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Okay. Great. Thank you very much.

Operator

We take our next question from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

So, hi there. Just a point of clarification from François. The 2.8% to 3.1% expected ROI, I think that's before impairments is the normal guidance, so just perhaps check that. And on impairments, I think given your policy, we're probably still quite a long way away from when we maybe start to see equity impairments, but maybe just remind us as to what conditions would drive that.

And I think from your comments, the assumption would be that the liquidity, the 11% liquidity is likely to go higher in the near term given maturities and given your bearishness, so maybe just clarify those points.

And a very quick question, on the Solvency II model update, I wonder if you had a bit more color as to what exactly it was that drove the 11-point model - positive model change. Is there any sort of meaningful calibration basis? Was it Life? Was it non-Life? A bit more color would be helpful. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Why don't we start by Frieder on the Solvency II model?

A - Frieder Knüpling

Okay. There were model changes included in the 11 points, but they are very minor. So, we do regular maintenance changes, but there hasn't been any major model change, anything which had a significant impact on the increase in solvency ratio. And in total, they are insignificant as a contribution to this increase. This is more really a consequence of the very good performance of the business, the favorable claims experience in 2015. The strong value of the new business written and expected and then general data and parameter updates. But nothing which was in anyway unusual or by itself had a very strong singular effect on this number. So, it's really the aggregation of the good performance of the business across the entire range.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay.

A - François de Varenne

On the investment side, so the – or return on invested assets is including everything. So, that's the total returns, so it's including realized gain on the portfolio, the income also on the portfolio, but also the impairment and the amortization of the real estate portfolio. So, the expectation and the fact that I think we will stick and deliver the 3% target in 2016 includes potential impairment on our portfolio which, from what I see today, are very low and I've got really no concern on impairment policy in 2016.

On the fixed income portfolio, you know the impairment rule. We impair any security as soon as we have a strong evidence of a closed default or restructuring of an issuer. We check line by line the entire portfolio, especially everything that is linked to emerging market, energy, metals and mining. And we have really no concern and the quality of our portfolio is very high.

And on the equity portfolio, the exposure to equity now is very low and that's €300 million if we exclude convertible bonds which have a different impairment policy. And the impairment rules on the equity portfolio, we impair as soon as the market value is below 50% the acquisition value, which is not yet the case by far, and we impair after two years also when there is a decrease of market value which is also by far not the case.

So really, I've got no concern on the impairment side, both on the fixed income portfolio and the equity portfolio and real estate, we have a huge amount of unrealized gain in the portfolio so I'm very confident. So, again, I confirm that our target is 3% and my strong conviction I believe that we will deliver it.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

And, sorry, liquidity will go higher near-term again, will it?

A - François de Varenne

And the liquidity. So the liquidity, we're at 11% at the end of December. In January and February, we slightly increased this liquidity buffer to cope with the mounting level of uncertainty and volatility on the market. That's something we detected in June last year. So, we prepared the portfolio to face this amount of volatility and uncertainty at the end of December. I think we were right and when you look at what happened on the equity market, the interest rate market and the credit market since the beginning of this year. And there is, again, a strong value today to protect the investment portfolio to face those mounting headwind.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay. Thank you.

Operator

We'll take our next question from In-Yong Hwang from Goldman Sachs. Please go ahead.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Good morning, everyone. Three questions from me. Firstly, on the solvency target range. I think at the Investor Day, you commented that you might be open to revisiting your 185% to 220% target range. Just wondering if there's any specific obstacles to this and what kind of process you might have to go through with the regulator if you were to decide to amend this.

And secondly on your dividends, we've seen a very consistent nominal growth in dividends over the last five years. Just wondering how strongly committed are you to this growth and maybe whether you'd be willing to increase your payout ratio if your earnings growth doesn't continue as strongly as it has been for the last five years. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Maybe let's start by the second question, Mark.

A - Mark Kociancic {BIO 17852409 <GO>}

So, on the dividend, let me start with the philosophy a little bit and then deal with your payout ratio question towards the end. So, on the philosophy for the dividend, obviously, when we have this discussion internally, we start by what is the level of solvency we require. So, we want to secure our solvency position as it's important to many stakeholders.

And then we look at our opportunities to grow accretively given our profitability target of 1,000 basis points above risk-free. And we also take into account the – obviously the dividend expectations of the market and our ability to deliver that.

In the past, one of the key principles that we put forward is sustainability and that continues for the group. I think the only guarantee that we supply is that there is a 35% minimum payout ratio if we have net income. So, that is unchanged. Historically, what you've seen, and I think it's in slide 13 of the investor pack that will be distributed, is a stable or increasing dividend. So, the payout ratio is really almost a mechanical output of this decision process. And the last time we had a significant payout ratio was back in 2011 when we had the four Asian Nat Cats. But you could see at that point in time that the group certainly had the resources to continue its dividend.

So, what I see today, we had an exceptionally good year I think in 2015. The payout ratio of 43% certainly in line with historical amounts. Mechanically, it's a little bit lower. But we've been very comfortable in the payout ratio of around 50%, plus or minus. And I don't see that changing going forward. The group is built to absorb shocks, volatility, and whatever the macroeconomic environment provides us. So, I think we're well positioned to maintain this type of historical record into the future.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you. Frieder?

A - Frieder Knüpling

Okay. On our solvency target, maybe to avoid a potential misunderstanding, the regulatory requirement is to hold 100% of the SCR and not more. So, the solvency target which we are working against, that's entirely a management decision, and changing this would not be subject to any regulatory approval whatsoever.

The target we are using currently is one we set out for Optimal Dynamics, and we'll obviously continue using this for the remainder of the plan. Now, as we are working on preparing the new plan which we will publish later this year, the solvency target is one of the targets and the many parameters which we are reviewing as we would review anything else which is really of strategic importance for the new plan. So, we're working through this, and we will consider keeping or changing this in line with other strategic objectives and the outline of the new plan, and we'll update you when we unveil the plan in September.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Thank you.

Operator

We take our next question from Frank Kopfinger from Deutsche Bank. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have two questions. And my first question is for Victor. In your comment on the combined ratio 2016, you mentioned that your expectation for the Nat Cat exposure is 6%. This looks slightly lower than what you previously guided. And the question is, is this a function of a reduced exposure now or is it a function of higher volumes while you keep the exposure on the Nat Cat side flat?

And my second question is on the sensitivity on credit spreads. Those came slightly down from your last reporting. What were the drivers behind this?

A - Denis Kessler {BIO 1498477 <GO>}

Thanks a lot. Maybe Victor on the combined ratio of 6% cat load?

A - Victor Peignet {BIO 6287211 <GO>}

Well, it's not resultant of a reduced exposure. We are on track with the plan in terms of exposure. It's basically the conjunction of a better diversification of the portfolio and as well as an improvement of the structure of the reposition plan. So well, we already – we've been working on that for the last, I would say, four, five months. We already talked in the Q3 results that we were seeing the ratio trending more towards 6.5%. While we have redone our modeling, that's part of our preparation for the new strategy plan. And we think that, well, it's getting close to 6%.

And in addition of all the work we've done with the models, we have also tested this, back-tested that over the history. And I think that if we look at historical cat ratios, I think the 6% is also pretty relevant. So, we are going to confirm that, but we are pretty convinced that the trend is towards 6%.

A - Frieder Knüpling

On the sensitivity of solvency ratio to credit spread widening, as François had mentioned, in 2015 we have tactically reinforced the prudence in our investment approach a little bit. So, this has also an impact on sensitivities obviously, so slightly reduced duration and higher cash proportion and mechanically leads to a lower sensitivity of our solvency position to things which happen on the financial markets. There's also a bit of rounding involved, but there's no other special effect. It's just a mechanical decrease.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thanks.

Operator

We take our next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Hi. Yes. Good morning. I have got two question, just a follow-up. One on the – from Frank on the corporate bond sensitivities. Looking across the board and comparing your sensitivity to corporate bonds to some of your peers in Europe, it seems to be that you're still presenting a pretty low sensitivity on your – from that in your Solvency II model. Why you're not taking into consideration any traditional measures of volatility just on the maturity (55:27) equivalents. So, I'm still wondering, with the type of exposure you have, how you can be in so low in terms of sensitivity? So, just was wondering if you perform some consistency check across the industry and where your thought process are currently on that front.

And the second question would be for Paolo on the IFRS Life operating earnings, significant growth year-on-year, plus 29%. So, I guess the significant part of the increase is FX driven, but if you could quantify these. And now I will say on the FX-adjusted basis, what is the contribution from the performance of the back book and the new business in IFRS term? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Frieder (56:34).

A - Frieder Knüpling

So, we don't comment in any way on what our competitors are disclosing as in the past. So, it's a bit hard to answer your question. As I said, the sensitivity of corporate bond spreads is a fairly mechanical calculation but it is obviously dependent on the composition of your corporate bond portfolio. So, duration plays a role and other factors. So, other companies may have different corporate bond portfolios, and therefore, the impact of the sensitivity is different. We explain in the appendix and the glossary in a bit more detail how the sensitivities is derived and what is included. So, may be that helps you to make comparison to what peers are publishing. But it's a pretty straightforward calculation.

A - François de Varenne

Just maybe to add, Thomas, on Frieder's comment. If I look the composition of our corporate bond portfolio today compared to let's say not to peers but at least to the average market and to the – for instance the Barclays Global Aggregate benchmark, first the average quality of portfolio is much higher than the market.

The average rating of the corporate bond portfolio so excluding government bonds, covered bonds and agency MBS, only the corporate bond portfolio, it's A plus, so that's above the average quality of the global corporate bond market. And we are really underexposed to two source of, let's say, large movement in credit spread today.

We are underexposed to financial issuers in our portfolio, relative exposure is 19% to financials compared to 39% in the Barclays Global Aggregate benchmark and the same thing for energy, metal, and mining, we are underexposed compared to the market. And especially within the high yield segment, where we have really a very low exposure compared again to the markets. So I think you have also to understand the nature of our corporate bond portfolio to explain also may be part of the lower sensitivity of us compared to peers.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay, sure. And, Frieder, are the sensitivities taking some routine migration risk already or that will be excluding this potential trend? Thank you?

A - Frieder Knüpling

I mean we apply a widening of credit spreads that is – that's what the description says and that's what we are doing. This can, obviously, be correlated to rating changes of the underlying bonds. But the effect which we model is really the widening of credit spreads. And I think that is – as I've said, that's a very clear description and that that's exactly what you would expect in this calculation.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo?

Operator

We take our next question...

A - Denis Kessler {BIO 1498477 <GO>}

Wait. Wait. Wait. Paolo?

A - Paolo de Martin {BIO 15930577 <GO>}

Yeah. On the...

A - Denis Kessler {BIO 1498477 <GO>}

The IFRS item.

A - Paolo de Martin {BIO 15930577 <GO>}

Thomas, on your question on the IFRS, our net technical result which drives the calculation of the net technical margin that you can find on page 33 of the presentation, appendix, page 33, it has shown a big increase. It went up from €405 million to €506 million. Overall, that's about a 24.2 percentage increase. Net of FX, that is roughly a 10% - 10.5% increase. So, of the 24.2% about 14 percentage points are FX, particularly strengthening of the U.S. dollar. So, of the remaining 10%, 10.5% of growth, premiums were up around 7.5%. The mix of business has somewhat seen higher increase of longevity, but we got good margin out of the Protection business. So you can take this 10.6%, you can probably say roughly 7.5% of that growth comes from new business and the rest comes from good performance of the in-force book.

Operator

We take our next question from Olivia Brindle from BOA. Please go ahead.

Q - Olivia Brindle {BIO 17273762 <GO>}

(62:03) questions, please. The first one on the P&C combined ratio guidance. I have to say I still struggle a bit to understand how you keep the 94% flat. And I was wondering if you could sort of explain a bit how we think about that, also in light of what you said in response to the cat loading question. So it starts reducing by 1 percentage point, is effectively the 94% is 95% on a like-for-like basis? Is that how we should think about it and how do we square that with what we know is happening in the market? I mean, I know there are specificities with your portfolio and whatnot, but still it's very hard to see how you can shield yourself from all those effects completely.

And then secondly, just a point of clarification. I may have just missed this. My line is not that good today. But on the investment return guidance, how do I understand the comment on slide 11 saying that you could be in the 2.8% to 3.1% range. I think you said the target is still 3% and you believe still deliver that. So just how do I understand these two comments, please. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, you can walk through. I mean, today, in the presentation, it is said that – well you can calculate it easily yourself. I mean, we normalize it 95.9%. This is normalized at 7%. We are convinced that the 7% – and we've already said that again in Q3, the 7% is more trending towards 6%. If you would normalize at 6%, you would be at 94.9%, say, 95%. And you know that well, we are well above 1% above the normal large manmade losses sort of average. So, for me, the underlying portfolio today is at 94%, and not an issue. Then, you look at the renewals. On the renewals, we managed to keep our underwriting ratio stable, expected-wise.

So, we have not – well, I mean, we have no signs of deterioration in our expected profitability. Of course, we manage the book. And as I said previously, I mean, we intensified the portfolio management. I'm not saying we can maintain that forever. But for the moment, there is no indication that we are not having an underlying book that performs in normal year around 94% combined ratio or so. I think what we are saying is our conviction.

A - Denis Kessler {BIO 1498477 <GO>}

François?

A - François de Varenne

So we give on the – at beginning of each year and if you look at the communication over the last few years, I always give at the beginning of the year a range for the return on invested assets. And our assumption for the forthcoming year, and this range is always 30 basis points. So, that's why, I mean, we communicated on the slide, 2.8%, 3.1%. And if you look at my track record in terms of expectation beginning of the year and what we deliver at the end of the year, I'm always relatively prudent at the beginning of the year. My objective in Optimal Dynamics is to be above 3% by 2016. We deliver it, so we are on the target already in 2015 with a return on invested asset of 3.1%. My target for 2016 is 3%. I commit to it. And I strongly believe today that we can deliver it.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay. Good. Thank you.

Operator

We take our next question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Morning, all. I've got two-and-a-half question. So, the first question is, just follow up on Olivia's question on the P&C combined ratio. Could you maybe just talk us through what the normal manmade load you'd expect and the combined ratio is on an going basis? And you've said that you see catastrophe losses trending downwards. Overall, can you just talk about the trends in manmade? That's question one.

Question two. On capital, really helpful to have all the disclosure on Solvency II. Is it possible to get an idea of what the surplus capital you have above a AA rating by S&P? And I guess the half question at the end, can I just clarify? Is the 211% adjusted solvency ratio, does that compare to the 208% that you reported at Q3? Or should that comparison be 208% versus the 231%? Just trying to understand, I guess, the quarterly volatility in that number. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Let's start by Victor on the trend of manmade losses.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I think the fact is that this year is exceptional and we've looked at it and we did a report to the Risk Committee of the board the day before yesterday, and there is no pattern in there. There is a coincidence of occurrences in this year. But this year, historically, if you go back in the last 10 years, this year is absolutely exceptional.

So, I mean, if you take out that sort of exceptional feature and you go back to, well, the sort of portfolio we have has been extremely stable since 2007-2008 when we completed the consolidation of Converium into SCOR. So, we have a portfolio especially on our business solution operation and has been extremely stable. We have a manmade loss history which is consistent over the years except this year. So, I think that's where we are saying that while there is no pattern in there, so there is no reason why it should not go back to normal. And already Q4 is back to a normal quarter. So, I think we are not seeing in there any threat for the near future.

A - Denis Kessler {BIO 1498477 <GO>}

Just one question that the board has looked at extremely precisely because it's a question that you have, we have also the questions. And we came to a conclusion that it's a random year last year but it's not a sign of a trend that would put us on a new direction. So, it has been very carefully reviewed. I think we looked at the last 10 years of SCOR's portfolio of course specific.

And now, your other question was on the situation vis-à-vis the rating, notably the rating of S&P and the surplus capital, above AA, you said?

Q - Kamran Hossain {BIO 17666412 <GO>}

Yes. That's right.

A - Mark Kociancic {BIO 17852409 <GO>}

Well, specific to the rating capital for S&P, our estimate would be broadly in line with what we've disclosed last IR Day which you might recall is roughly the €500 million to €600 million above available capital for the S&P model. But this is SCOR's estimate. This is not S&P's estimate. It might be a little bit higher now because we have had strong profitability for Q3 and Q4 but certainly in line.

A - Denis Kessler {BIO 1498477 <GO>}

But Mark, I mean the question, is it above AA or above AAA?

A - Mark Kociancic {BIO 17852409 <GO>}

I'm sorry. This would be – we had this discussion in the IR Day. This is above the AAA threshold level of capital in the S&P model that I'm speaking to. I would refer you to the slide that we disclosed in the IR Day the last two years where we have a specific graph that indicates the excess above the AAA level which is required for the AA rating.

A - Denis Kessler {BIO 1498477 <GO>}

Still above AAA.

A - Mark Kociancic {BIO 17852409 <GO>}

Safely and comfortably above AAA.

A - Frieder Knüpling

Yeah. On your second half question, the Q3 number which we published which was an estimate and not based on a (70:46) included the effect of the issuance of some hybrid debt, namely the one which we issued, I believe, in June, but obviously is not the one which we issued in December. So, if you want, you can compare the 208% to the 231%. Or if you want, you can normalize both numbers and deduct the impact of the – the half of the pre-financing which we did last summer from the 208%. I believe the impact would have been about 7 points of solvency ratio. So, you can deduct this from the 208%, and then you have a number which you can compare to the 211%.

Q - Kamran Hossain {BIO 17666412 <GO>}

Actually that's great. Thanks very much.

A - Denis Kessler {BIO 1498477 <GO>}

So, thank you very much for attending this session. And if you have any further questions, please don't hesitate to call the team here. And so, the next rendezvous will be after the General Meeting at the end of April. Thank you very much. Have a nice day.