Q3 2014 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
- 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
- Frank Kopfinger, Analyst
- Janet C. van den Berg, Analyst
- Kamran Hossain, Analyst
- Michael I. Huttner, Analyst
- Thomas Fossard, Analyst
- Thomas Jacquet, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William S. Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group Q3 2014 Results Conference Call. This conference is being recorded.

At this time, I would like to turn the conference over to Bertrand Bougon, Head of Investor Relations and Rating Agency. Please go ahead.

Bertrand Bougon {BIO 18934799 <GO>}

Good morning, everyone, and thank you for joining the SCOR Q3 2014 result call. My name is Bertrand Bougon and I have the pleasure of opening this call for the first time. As you know, I have the challenge of succeeding to Antonio Moretti, and I would like to thank him for the great job he has done during all those years in IR.

Before starting the presentation, please consider our disclaimer on page two, which indicates that the presented Q3 2014 results are unaudited. Also, note on page three that in this presentation two sets of financial data are used. The first set is presented on an unaudited published basis and includes Generali U.S. figures from the acquisition date of October 1, 2013. Obviously, prior-year comparatives do not include Generali U.S. The second set of data is presented on an unaudited pro-forma basis and includes Generali U.S. as if the acquisition had taken place on January 1, 2013.

With this, I would like to give the floor to Mr. Denis Kessler, CEO and Chairman of the SCOR Group, who is joined in this call by the whole Executive Committee team.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Bertrand, and good luck for your new mission. Good morning, everyone. With a net income of €377 million SCOR has delivered a strong set of results for the first nine months of 2014, with a very good quality of earnings from both P&C and life, confirming the validity of the Group's strategy and the position of SCOR as a Tier 1 reinsurer, nimble enough to face the current challenging environment.

Without going into all the details, let me give you a few highlights of what has happened over the last few months. First of all, at the recent IR Day, SCOR confirmed its targets and assumptions as well as a very strong solvency level, enabling a consistent dividend policy.

The quality of the Group's franchise has once again been demonstrated with gross written premiums up by 13.6% compared to last year at constant exchange rates. At the same time, the Group's cost ratio is now below 5% and is trending towards the Optimal Dynamics assumptions of 4.8%.

We recently celebrated the first year of the ex-Generali U.S. business. We have integrated the teams within the core Group, and we're very happy to confirm that the business is fully developed, with a maintained leading position in the U.S. market and no loss of existing clients.

This summer, Fitch confirmed it's A+ rating for SCOR and changed its outlook to positive, while S&P confirmed its positive view last week. At the end of September, SCOR was very active on the debt market and successfully issued two perpetual debts, one in euros and one in Swiss francs and both with very competitive prices.

And finally, the shareholder equity stands at a record level at the end of September, reaching €5.5 billion or €29.36 per share. So on our side, we are ready to carry the burden together with our clients as the new advertising campaign show.

I give the floor now to Mark for the financials. Mark?

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis. Going to page five, I'll walk you through the financial highlights of our first nine months results. SCOR wrote approximately €8.4 billion of gross written premiums on a year-to-date basis for 2014, which represents a 13.6% increase at constant exchange rates and an 11.2% increase at current exchange rates compared to last year.

This growth is fueled primarily by SCOR Global Life with its expanding footprint in Asian and Latin American countries, by the Generali U.S. Life Re acquisition contribution and by the resilient P&C top line premium, despite an unfavorable exchange rate environment for most of the year.

The net income for the first nine months stands at €377 million, which generated a 9.8% return on equity. Both SCOR Global P&C and SCOR Global Life delivered an operational performance, which outperformed our Optimal Dynamics assumptions.

The P&C net combined ratio stands at 91.6%, while the life technical margin reaches a solid 7.2%. SCOR global investments, delivers a return on investment assets of 2.9%, while pursuing a rebalancing of the portfolio in line with Optimal Dynamics.

Moving to page seven, the shareholders' equity reaches a record €5.5 billion after the payment of €243 million of cash dividends during the second quarter, boosted by the strong net income and exceptionally strong foreign exchange impact during September, which increased the currency translation adjustment to €277 million on a year-to-date basis.

The book value per share is now at a record €29.36 per share, and the financial leverage stands at 20%, which is below the 25% ceiling indicated in Optimal Dynamics. Please note that the two successful debt issuances from September, notably the €250 million and CHF 125 million perpetual subordinated debt, will be settled and accounted for during Q4.

On page eight, the operational cash flow is now at €470 million for the first nine months, up from €2 million in the first six. As a reminder, the cash flow at the beginning of the year reflected several non-recurring items, most of which occurred in Q1, including an anticipated tax payment relating to the restructuring of the acquired Generali block of business, the Mediterráneo Vida financing commission and timing differences on P&C cap payments and their corresponding retrocession recoveries.

On a normalized basis, the net cash flows from operations would be approximately €770 million. Overall, the total liquidity position remains strong and normalizes to approximately €1.6 billion compared to €2.4 billion last year, in line with previous indications.

Now, I'll turn it over to Victor for the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Good morning. In the competitive environment where we operate, KPI's from Q3 standalone as well as on a year-to-date basis demonstrate the ability of the P&C division to confirm the quality and technical profitability of its portfolio, with no reserve release and in full maintenance of its prudent reserving policy.

Our forecast continues to be that our net combined ratio will land around the 94% mark for the full year on a normalized basis as per the indication given since the beginning of this year. Additionally, all the components of the net combined ratio are in line with the Optimal Dynamics assumptions.

In particular, I'm very pleased with the net attritional ratio at around 57%. This is in the low end of the planned range and it confirms the maintenance of the underwriting discipline and how the global approach of the clients' relationship enables SCOR global P&C to keep the overall profitability expectancy at target.

Regarding the latter point, I also would like to remind you that more than 95% of the business we write is individually priced in a standalone way by our teams. In addition to this, the single fully integrated information system that backs all our worldwide operations enable the SCOR P&C management team to have, readily available and in real-time, all the parameters that it needs to form a view of the overall client relationship for each client. This is a reality with any client globally, locally and for every line of business.

The combined effects of this underwriting discipline and the continued positive response from many clients are translating into a steady growth, which based upon the published Q3 position confirms the 2014 full year expectation of approximately €5 billion of gross written premium as it has been indicated since the 1/1/2014 renewals this quarter.

The fact that we are showing a meaningful growth while improving the attritional loss ratio can be attributed to two main factors. First factor is that SCOR Global P&C teams are generally capable to overcome the headwinds that we face when the overall relationship with certain clients do not meet our minimum required expected performance, leading to the negotiation of changes in the distribution of our participation across the mix of their contracts.

Secondly, it also means that the strengths and the depths of the relationship that we have built overtime with many clients and their brokers, throughout their networks of operation at the scale of their geographic breadth, pays off in allowing constructive dialogues to take place. This culture represents a unique trait of the SCOR global P&C division, and I firmly believe that this approach maximizes the mutual interest of all parties for the long run.

To be complete, a slight increase of the commission ratio corresponds to an evolution of the business mix towards slightly more insurance together with slightly increased acquisition cost of the proportional business. Regarding the latter point, it has to be mentioned that the increases in commission that we agree upon are not systematically translating in deterioration of the expected profitability, because most do correspond to a sharing between the (10:28) and ourselves of the results of our joint effort to improve the loss ratios.

Looking forward and being realistic about the market conditions, we do acknowledge the disconnect that exist between the buyers' expectation and the underwriting margin trends of the suppliers. We also do witness the aggressive stance of some of the lesser-established reinsurers. We however believe that we have the technical and commercial ways and means to continue to manage the business and our relationships in order to protect the division's profitability, which together with our franchise is our key priority.

This concludes my comments and Paolo will now give you his on the Life division performance.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. Moving on to page 10 of the presentation, SCOR Global Life delivers a strong set of results in the first nine months of 2014, continuing the execution of the Optimal Dynamics plan. Gross written premium reached $4.7 billion, which translates into pro-forma growth of 5.6% at constant exchange rates. The third quarter is a very strong quarter for us, with gross written premium up 11.6%, driven amongst other, by financial solution products supporting our clients' growth in both Asia and Latin America.

Overall, we are experiencing a robust business flow across all markets, with increased resource deployment to support our franchise expansion. New business profitability continues to meet the Group ROE target, with new business profitability at or above 1,000 basis points above risk-free rate. This strong commercial activity coupled with an overall good performance of our in-force book, translates into strong technical performance, with a technical margin of 7.2%, confirming the ongoing evolution in the underlying mix and in line with Optimal Dynamics assumption of 7%.

With this I will hand over to François for the investment results.

François de Varenne

Thank you, Paolo. Moving on to slide 11, SCOR's total investment portfolio reached €23.8 billion at the end of September 2014, with an invested asset portfolio of €15.5 billion compared to €14.7 billion at the end of June 2014 and €14 billion one year earlier. In a slightly improved global macroeconomic environment, especially in the U.S. and in the UK, where SCOR holds 55% of its invested assets, SCOR Global Investments continued its policy of progressively reducing its liquidity, while selectively increasing the duration of the fixed-income portfolio in line with Optimal Dynamics.

Thus, cash and short-term investments represent 10% of the invested assets at the end of September 2014, down four points since the beginning of the year. Cash has been mainly reinvested in corporate bonds and loans through the quarter. Since the publication of Optimal Dynamics in September 2013, liquidity has been decreased by seven points. The duration of the fixed-income portfolio stand at 3.9 years excluding cash compared to 3.8 years at the end of June 2014.

This slight increase in duration is mainly on GBP and USD denominated portfolios, where we managed to lock interest in (13:53) entry level in the course of the quarter. However, given the fall in global rates since mid-September and increased market volatility, the increase in the duration of the bond portfolio has been temporarily put on hold.

The quality of the fixed-income portfolio has been maintained, with a stable average rating of AA minus and at the end of September 2014, expected cash flows on the fixed-income portfolio over the next 24 months stand at €5.3 billion, including cash and short-term investments, facilitating dynamic management of our investment policy.

Since the beginning of 2014, the invested assets portfolio generates a financial contribution of €317 million. The active management policy employed by SCOR Global investments has enabled the Group to record capital gains of €92 million. The return on invested assets is well in line with Optimal Dynamics expectations and stands at 2.9% year-to-date.

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

Denis Kessler {BIO 1498477 <GO>}

Thank you very much for those comments. Moving on page 12, the rapidly changing reinsurance industry is today facing, we said it at the IR Day, several headwinds. But we demonstrated at this September's Investors Day that SCOR business model is fit to face all of these headwinds. The macroeconomic environment remains highly uncertain and since our Investors Day two months ago, equity markets have remained highly volatile with a stronger rebound in the U.S. This is in line with a de-synchronization view we expressed back then and is largely driven by central bankers stance which remains accommodative towards monetary policies.

In this context, I would like to remind you that two-thirds of our invested assets are non-euro denominated and as such benefit from rising yields in the U.S. and in the UK. "Let's face the unexpected together" is one of the tag lines of our new advertisement campaign and we are very confident with this value proposition to our clients and shareholders, because SCOR business model fits well with today's environment.

As far as SCOR Global P&C is concerned, thanks to its limited exposure to long-term business, there has been a limited impact on SCOR Global P&C from the low-yield environment and SCOR Global P&C has a solid positioning in the market, thanks to its Tier 1 ranking, its deep franchise based on client-driven strategy, its positive differentiation from alternative capital, its unique worldwide integrated information system, Victor just referred to, and of course its global network.

So life engine continues to provide stability as it is not impacted by the P&C pricing environment. The focus on biometric risk provides a very low sensitivity to interest rate movements. And in this context, the life engine can focus on deepening the franchise, developing its business and optimizing the in-force with excellent themes and tools.

Finally, SCOR Global Investments, thanks to a multi-scenario approach, is ready to face the macroeconomic headwinds by maximizing its degrees of freedom for future choices, thanks to the current investment portfolio positioning and progressive rebalancing in line with the Optimal Dynamics roadmap.

To conclude, moving on to page 14, I would like to stress that the headwinds we are facing today are not the first to appear and will probably not be the last. Over the past decade, SCOR has demonstrated its capacity to absorb shocks, be they of natural, financial or macro-driven origin.

At the same time, the Group has consistently rewarded its shareholders with a clear and consistent dividend policy, which has provided its shareholders with €1.5 billion of cash dividends since 2005.

And now, I will hand over to Bertrand for the closing remarks.

Bertrand Bougon {BIO 18934799 <GO>}

Thank you, Denis. Before moving on to the Q&A session, please note on page 15, the next scheduled events, which are the January renewals on February 11 and the Q4 2014 results on March 5. With that, we can start the Q&A and I remind you to please keep it at two questions maximum per person. Thank you.

Q&A

Operator

Thank you. The first question comes from Michael Huttner from JPMorgan.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Good morning. Thanks a lot. My first question is – these two debt issues. And I'm just wondering what they are for? I mean, your solvency is very strong, and I don't quite understand why you're raising debt. And just a question and maybe you could give the leverage ratio.

And then on the combined ratio, so the reported number is fantastic, but then if we normalize it for the expected run of nat cats, I get to a figure of 94.7%. So that's above the target range of 93% to 94%, and so inevitably then the question comes, well, 2014, the year is kind of done, but should I then, for 2015, puts in what are these (20:01) effectively slightly higher normalized numbers? Thank you

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Michael. Mark, on the two debt issues?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. So, Michael, good morning. The two debt issuances, we did our road show a few weeks ago and we split them into two parts. One was in the euro market, the €250 million, the CHF 125 million in the Swiss. The €250 million was really a pre-financing for maturing €257 million issuance that we have coming up in July of 2016.

So it's really a pre-financing that we're going to carry for a couple of years, given that market rates were very, very attractive. So, for that, it's basically a neutral or transitory to the leverage ratio. CHF 125 million was more opportunistic. Again, excellent rates in the Swiss market, clearly a demand from Swiss retail investors for SCOR debt, and that'll be used for internal purposes.

In terms of the debt issuances themselves, the euro issuance settled on October 1 and the Swiss one in the middle of October. So those will be accounted for in Q4. Maybe a couple of other points, the debt leverage ratio would be approximately just below 24% had this occurred in Q3. And I'd also want to remind you that these are perpetual issuances and therefore qualify as Tier 1 capital in the Solvency II regime.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

On the combined ratio, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

First of all, I would say that we still have one quarter to go for the year, and I continue to believe that we will end the year at a normalized very close to 94%. But we have variations quarter-to-quarter, but overall, knowing the book and where we are, I think we should be confident in that.

And the renewals are being driven by a clear target to maintain it at 94%. And, well, I don't see myself today, any reason to say that it is not achievable. Of course, it's more difficult than it would have been last year, probably, but I think we still have quite a few ways and means to continue to manage the portfolio.

There will be continued changes in the segments of the portfolio between global, regional, local and monoliners. But I think there is flexibility in there, and, well, we will do whatever we can to maintain it around 94%.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay, perfect. Thank you.

Operator

We'll now take the next question from Kamran Hossain from RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Great. Good morning. One top line question, really. Looking at what is a good set of numbers, you've had benign cash flow losses for the year so far, good combined ratio, below your target. But still your ROE is below where you want it to be. Is there something – I know, we discussed this at the Investor Day, but is there something you can do or should we just accept that below 10% ROE is what we're going to hit for the next couple of years at least. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. So on the ROE, I think we'd be well in line with our 1,000 basis points target, but we had a bit of an anomaly in the third quarter, which was the dramatic increase of the U.S. dollar against the euro, which increased the currency translation adjustment that's reported in our shareholders' equity. This was over €200 million in the third quarter, but its €277 million on a year-to-date basis. So shareholders' equity increased dramatically, almost 10%, to €5.5 billion.

So, the net income for the Group, the operating plan, it's pretty much in line with what we had hoped for. It's just that you're seeing a disproportionate increase because of the FX on the shareholders' equity. So, I'd also like to point out that that's real shareholder value, because you're dealing with the net asset value of the Group. So, these are two good things for us, the net income coming in where we want it and an out-performance in the shareholders' equity. So the ROE metric needs to be looked at in that light.

Q - Kamran Hossain {BIO 17666412 <GO>}

And then nothing should be done on – are you happy with the current capital base or size of the Group? Is there anything that can be done there?

A - Mark Kociancic {BIO 17852409 <GO>}

With respect to the shareholders' equity or...

Q - Kamran Hossain {BIO 17666412 <GO>}

Yeah. I mean I guess you got a very strong solvency position and an ROE that, despite the increase in equity, maybe slightly disappointing, well, to me anyway.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. We mentioned at the IR Day that the solvency position of the Group is quite strong. It's a little bit more than our optimal range, but we're in a transitory period right now with the Solvency II regime in terms of getting model approval in 2015. So, what we're doing is pausing until that model validation occurs and we're able to confirm our capital position.

So, this level of prudence will continue for the next 12 months or so. And then this issue with the foreign exchange, we've seen this before. So obviously, we're benefiting - we're a global group with multiple capital allocations in major currencies on a global basis. So, we'll see if this is transitory as well or whether it's more permanent in nature, but when the time comes, we'll be able to deal with our capital position accordingly.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay, thanks, very clear.

Operator

The next question comes from William Hawkins from KBW.

Q - William S. Hawkins {BIO 1822411 <GO>}

Hi, guys. Thanks very much. First question, just following up, Mark, to expand on the answer you just gave. If your capital were appropriately matched with your risk, then surely the earnings would move with foreign exchange, just as the capital moves with foreign exchange. So, I don't see how FX movements can depress the ROE. That's just a response to the previous question.

My main question, just to clarify, please, to the extent that other life reinsurers are seeing IFRS numbers getting hurt by YRT recaptures for U.S. mortality business, can you just confirm with us that, because of the way you've done your purchase GAAP accounting, should never be an issue for SCOR or are there any circumstances under which YRT recaptures may start to affect your results? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah, on the capital question, they don't move quite in sync in terms of P&L impact and shareholder equity impact. So, on the P&L, yes, it has strengthened somewhat in the third quarter because of the U.S. dollar. So we have more of our P&L in U.S. dollar - in U.S. dollars relative to the euro, more profitability in U.S. dollar relative to the euro.

But the shareholder equity, we saw a significant increase in the USD beginning in mid-September. So, the balance sheet effect of that was just much more dramatic than the P&L. So, it's really - I think you'll see this converge in the fourth quarter, assuming the rates are relatively constant. But on the balance sheet side, it's just much faster impact.

Q - William S. Hawkins {BIO 1822411 <GO>}

Okay.

A - Denis Kessler {BIO 1498477 <GO>}

And, Paolo, on...

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

Yeah, on the YRT recaptures, a few things as a preamble to my answer. First of all, it's very difficult for us to comment on our competitor results as we don't know the detail that leads them to certain actions.

I think one could assume safely though that some of the issues are the vintages of 1999 and 2004. And when we say hurting by YRT recaptures, what is really hurting is mortality issues. The trigger rate increases and the rate increases then translate into forcing effectively the customers to recapture.

So, you have to go back. I think the question is, could we be hurt by mortality trends? I think it is very safe to say on our side that the – we knew about those issues when we bought the blocks. So when we made the two acquisitions in 2011 and 2013, we were very careful in the way we analyzed those vintages. And we think we're very safely and conservatively reserved at this point for any issues to come. Now, saying that that would never, never hurt us, I don't have a crystal ball to say that. I can only say that at this point we're in very safe grounds, I have to say.

Q - William S. Hawkins {BIO 1822411 <GO>}

And if I may just be cute to come back on that, are you on a safe ground as you were when you first did the deal?

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

Yes.

A - Denis Kessler {BIO 1498477 <GO>}

Yeah.

Q - William S. Hawkins {BIO 1822411 <GO>}

Okay. Thank you.

Operator

The next question comes from Andrew Ritchie from Autonomous.

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

Hi, there. Just a follow-up, again, on the normalized combined ratio, for Victor. Just to clarify you are basically saying that Q4 will have a meaningfully lower normalized combined ratio than year-to-date in order to hit the 94% given you're at 94.7%. Is that just to do with some of the expense issues normalizing or is it just to do with a particular – the nature of the business that earns through in Q4? I am just puzzled as to why, just maybe clarify again that's how we should read it, that Q4 is going to be meaningfully lower than year-to-date, it must be mechanically, and just why is that?

And secondly just on the Life business, obviously the growth rate in premiums was a lot stronger in Q3 than it has been year-to-date. I am guessing this is the earn-through of some of the pipeline that you established earlier in the year. Can you just give us a sort of update on how much of a pipeline is yet to be kind of reflected through in terms of some of the recent large deals or maybe the best way of illustrating that is, do you have a figure for the new business volumes year-on-year rather than premiums in the Life business? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Victor, on the combined ratio again.

A - Victor Peignet {BIO 6287211 <GO>}

Well, part of the answer to the question is, yes, related to the expense ratio where we are higher and we are expecting it to trend down in the full year basis. Not in the fourth quarter, but on a full year basis. And regarding the way the year is being built we know where we are today. We know what's going to be the earning in fourth quarter. We know also what sort of uncertainties we have in certain elements of the reserving and the prudence that have been applied. So all of this combined, leads me to believe that yes, the normalized should trend down to 94%.

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

Okay. Okay. That's helpful. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo?

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

Yeah, on the Life side the way I would classify Q3 is the - when we work with financial solutions the deals tend to be lumpy in nature. So few of those deal closed in Q3, we've been working on it for several months on it. When we look at the full year projection, we would expect, at constant exchange rate, to probably be at around 4% growth at year-end which is in line with what we had planned at Optimal Dynamics with volumes picking up in the outer years. So that's more or less where we would expect to be at year-end.

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

Okay. So it's just a particularly lumpy Q3 then right, okay,

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

Yes. It was.

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

Okay.

Operator

The next question comes from Thomas Fossard from HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good morning, just one question from my side on the investment income for François. François, can you tell us a bit more about your expectation regarding the dynamic in terms of running yield, because in fact if we are looking on the quarterly basis, obviously it's been stable around 1.1%, 1.4% (32:57) in Q2 but obviously adjusted for dividends to make that probably back to 2.2%, 2.1% and then another 2.1% in Q3 here.

So it means that all the re-risking effort and lengthening of duration has been lost if we see a further drop in interest rates, so, going forward and maybe previewing a bit 2015, if rates were to remain as they are today, I mean, would you expect to see some pick-up in the running yield in 2015 or we should be, I would say, more around stable, any granularity you could put around that would be helpful?

And also on the capital gains, obviously you're mentioning €92 million gains year-to-date. So you've got an active strategy in managing your assets. But when you relate the €92 million compared to the unrealized gains you've got at the end of September 2014, it looks like a pretty heavy rate in terms of extracting gains from the unrealized portfolio. So any granularity on that would be also helpful? Thank you.

A - François de Varenne

Thank you, Thomas, for your questions. As (34:18) as you know, we don't focus exclusively on the income and the recurring yield since the management of the portfolio is active and done also through non-yielding asset cashing. So, on our side we focus on the total return of the portfolio, the return on invested assets with all the components embedded into this yield. So, as you know at the beginning of the year I commentated a range of 2.4%, 2.9% for the full-year of 2014. That was reiterated each quarter.

For the first nine months, we are really at the top of the assumption given early this year 2.9%. For the full year of 2014 I would say there is a very high probability to be on the second half of the communicated range and I'm very confident on this. Now, if we look at the current reinvestment yield, at the Investor Day in September in London I communicated a reinvestment yield of 2.1% on the fixed income portfolio and 2.5% for the full portfolio.

Today, given the current market level if I have to reinvest I would say that our current for the end of 2014 reinvestment yield stands at 2.2% compared to recurring yield of 2.1%. So it's a little bit below what we said in September. But again, we momentarily put on hold the reduction of the duration gap and we will start again the program as soon as we detect nice entry levels on the yield curves.

But, again, the good news, and that's the one I mentioned since the beginning of the year. The reinvestment yield is still above the current recurring yield, so 2.2% versus 2.1%. So for the expectation of 2015, as you know, I think it's too early given the duration of our portfolio and the current volatility on the market, and the – on the various yield curves it's too early and I prefer to wait the Q4 disclosure to give my initial preliminary assumption for 2015 like I do each year.

In terms of capital gain, I will not fully agree with your comment. If you look at what we did in Q4, it's – part of capital gain is coming from real estate. Again, we have a dynamic management of the fixed income portfolio. It's not a pure buy and hold strategy. So we buy and we sell and when we sell we have gains. And on securities that are not part of the fixed income portfolio, such as real estate, equities and all the other investments in the portfolio, again under IFRS the only way to extract the performance of an investment is to sell and to recognize the performance through gains.

That's exactly what we did, we sold the mature building in Q3 and we realized a capital gain in real estate. So, again, that portion or component of the return on invested asset should be embedded again into your projection for 2015.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thanks, François and any indication you could provide on the total return of the invested assets year-to-date?

A - François de Varenne

On a year-to-date basis, the total return is 2.9%, so that's the one we communicate, and again for the full-year 2014, so my initial assumption up to, let's say, September was 2.4%, 2.9%. And what I'm saying is that we will probably land and have a full year between 2.7%, 2.9%.

Q - Thomas Fossard {BIO 1941215 <GO>}

I was more thinking regarding – taking into account evolution in rates and spreads and seeing the mark-to-market movement as well.

A - François de Varenne

I include everything in my assumption.

Operator

Next question comes from Frank Kopfinger from Commerzbank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, good morning, everybody, thank you. I have also two questions for François on the investment income and I have a follow-up question on the real estate realized gains. Could you give some color on how we should look at the realized gains on the real estate going forward? There had been a major contribution last year in Q3 from realized gains in real estate. And this time in Q3 there was another €15 million. Is there some sort of guidance or some sort of level in terms of realized gains we should look at what is coming from – or what should come from real estates going forward?

And the other question is on income on funds withheld. Could you give some flavor of what determines the sequential structure of the income from funds withheld? Because in Q3 they were, I would say, only €40 million on a sequential basis. In Q2 they were €48 million. So I was surprised about the drop given that you are still growing in the latter three segments?

A - François de Varenne

So, on the real estate portfolio on slide – in the appendix on slide 48 you've got the detail of real estate portfolio. Keep in mind that under IFRS, real estate is fully mark-to-market. But unrealized gains or losses are off balance sheet compared to all other securities in our portfolio. It's mark-to-market every quarter in shareholders' equity.

So, basically our strategy on real estate is to invest on prime locations mainly or exclusively on OTCs and to secure tenants on a medium or long-term basis. And what we like usually is to work the assets, which means to invest. So we like to buy, to invest in the assets then to rent the building and when this is rent on the medium or long-term basis we consider the asset is mature and we sell it. And that's where we extract value and that's where we consider we add value within our real estate portfolio.

So, basically we have a stream of assets where we invested a few years ago. So when this job is done, we sell it. We have excellent asset conditions in Europe to sell. So you could expect in the next quarters or years continuation of this strategy where we will still sell mature assets within our portfolio.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. And then on the funds, income from funds (42:47)

A - Mark Kociancic {BIO 17852409 <GO>}

Yes, Frank, on the funds withheld, this is just a normal type of movement where you've got contracts ending, new business entering the book. And it's all a function of a combined picture in terms of pricing between the technical margin and the return on funds sold, so nothing extraordinary, really just the composition of the book, the portfolio that's changing.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay, thanks.

Operator

We'll take the next question from Vikram Gandhi from Societe Generale.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, thanks for taking my question. Can you comment on what kind of changes are you seeing in the Aussie disability market? And if you can bifurcate your answer in terms of retail versus Group, and have you stepped up the efforts to take the advantage of the increasing rates, if any? Thank you.

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

Yes, this is Paolo here on the Life side. Historically we had not been present in Australia. So we enter Australia in 2010. We are very cautious on the market until the crisis on the disability (44:06) happened. We believe now rates are getting to a point where they are attractive and we are actively on the market, particularly on the Group market.

Individual visibility is still tough. We have a couple of clients now on our books. It takes longer to make inroads, and again the market there is still tougher than we'd like the market to be. But we are making inroads on the Group side, which we believe rates are attractive at this point.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, thanks, and if I can just follow-up with another question on the income on funds withheld in response to your answer to Frank. I mean, (44:52), it seems you have built it quite in lot, 55% in Q3 2013 versus 40% in Q3 2014. So, I mean, if you can just give a bit more color on what exactly is driving this. I know you mentioned the changes in the composition of your portfolio. But, I mean, anything else to add to it would be helpful?

A - Mark Kociancic {BIO 17852409 <GO>}

I think Q2 was a bit of an outlier, you're looking at something that was 20 basis points to 30 basis point higher than the most recent historical trend that we've had versus Q3 being maybe around 20 basis points lower. So, I think you're looking likely at some, sort of, realized capital gain issue in the recording in the U.S. here. But it's a blip on the radar. I still think you're looking at something closer to 2.3% trend and trending a little bit lower.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay.

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

And I think the dip related to the life division, there is also late reporting and timely reporting of clients included in there. So, when you look historically over the last several quarters, we are in a band of 2.8% to 3% on the fund we sell relative to the Life division and that's what you would expect.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

Operator

We'll now take the next question from Thomas Jacquet from Exane.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Hi, good morning, everyone. My first question regards to the line affiliates. There is a minor €6 million. I suspect it's related to ASEFA, can you confirm that, and please tell us whether it's the final charge regarding this story?

And my second question is a bit more forward-looking. We had in France the introduction of class actions. Did you start to make an assessment of potential risk in the lines that are mostly affected by this phenomenon in other countries? And in particular do you see a mid-term risk on the PPI product, and what could be your exposure there? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

So on ASEFA, the €6 million (47:12) that you saw in the Q3 results is the normal equity pick-up that we would have from any kind of investment in affiliates on the third quarter. Some are larger than we had expected but it's our share. So, we have a 40% shareholding stake and it is traditional accounting policy to just pick that up into our P&L. We had negligible results in the first two quarters from ASEFA, so Q3 stands out a little bit here.

A - Denis Kessler {BIO 1498477 <GO>}

And on the class action, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

On the class action, this is something we monitor very closely. We don't see at the moment a real risk for us as the constituent of the class action stands. But, I mean, we are very careful about that. And our people, especially on the French market, are very mobilized around the subject. But no particular risk at this point.

Q - Thomas Jacquet {BIO 4110153 <GO>}

Okay. Thank you very much.

Operator

Next question comes from Janet van den Berg from Morgan Stanley.

Q - Janet C. van den Berg

Hi, most of my questions have been answered. But I have just a very quick question on the acquisition-related expenses. I noticed in the quarter those were positive. Just curious what that's related to?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. On the acquisition-related expenses a minor figure. Sometimes we have accruals that just get reversed. But it's really a function of clean-up of the P gap related to Generali, so just some minor noises as we clean-up the final purchase gap accounting related to it.

Q - Janet C. van den Berg

Okay, thank you.

Operator

Next question comes from Vinit Malhotra from Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi, yes my questions have been answered as well. I was just wondering, if I could still get a comment from Victor on aviation market. Is it my correct understanding it's not really a growth area for you? But it is fairly – there's a lot of movement in the market probably. If you could just comment a little bit to understand just how you're looking at a portfolio as an example. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I would say that what you can read everyday in the press is reflecting well, pretty accurately the situation, which is basically that the market has certainly not been reacting the way we and other players were hoping it would, which is probably the reason why our growth has slowed down. We have significantly reduced our premium income in this area and that's why you see a growth – that's one of the reasons why you see a growth that is slower than what we anticipated.

Well, as you know, our two main streams in aviation are GAUM and La Réunion Aérienne and I think both entities are monitoring the portfolio and taking measures to really take as much advantage of the few increases that are going around. And then for the rest, monitor the quality of the book, but it's certainly not a situation that makes it encouraging.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So yeah, Just if I can follow-up please on the growth point, is it still any of your reasonable target to have the 5% underlying over the Optimal Dynamics – for the P&C reinsurance growth, sorry.

A - Victor Peignet {BIO 6287211 <GO>}

We are entering the renewal season. Well, we are in negotiations with clients. As you can see this year, we are a bit below what we expected. All of this for us is assumption, so as we communicated in January this year, after the renewal, we indicated that probably our growth would be a bit slower than what we had anticipated.

Well, we'll tell you where we are end of January, beginning of February, where we'll have the outcome of the renewals. But as I said before, for us what is essential is that we want the pricing to match our targets and that's where we are working on at the moment.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, all right. Thank you, Victor.

Operator

As there are no further questions in the queue, I would like to hand the call back over to Denis Kessler for any additional or closing remarks.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you. There will be no other closing remarks, to say that we reiterate what we said in September that the team is confident about the positioning of the SCOR Group. And that we're in a good position to face the headwinds and to be able to pursue the Optimal Dynamics plan as we stated.

Thank you very much for attending this very important call and of course, don't hesitate to call Bertrand and his team if you have further questions on the result. So, thank you very much and have a nice day.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.