FINAL

Bloomberg Transcript

Q4 2017 Earnings Call

Company Participants

- Denis Kessler, Chairman & Chief Executive Officer
- François de Varenne, Chief Executive Officer-SCOR Global Investments
- Frieder Knüpling, Chief Risk Officer
- Ian Kelly, Head-Investor Relations
- Mark Kociancic, Chief Financial Officer
- Paolo De Martin, Chief Executive Officer-SCOR Global Life
- Victor Peignet, Chief Executive Officer-SCOR Global P&C

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- James R. Oram, Analyst
- Jonny Urwin, Analyst
- Michael Huttner, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group Q4 2017 Results Conference Call. Today's conference is being recorded. There will be an opportunity to ask questions after the presentation. In order to give all participants a chance to ask questions, we kindly ask you to limit the number of your questions to two.

At this time, I would now like to hand the call over to Mr. Ian Kelly, Head of Investor Relations. Please go ahead, sir.

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody, and welcome to the SCOR group 2017 full-year results call. Before we start, can I please ask you to consider the disclaimer on page 2 of the presentation which indicates that the financial results for the full-year 2017 included in this presentation have been audited and that the group's solvency final results are to be filed with the supervisory authorities by June 2018, and these may differ from the estimates, expressed or implied, within this report.

With that, we can commence the call. I give the floor to Mr. Denis Kessler, CEO and Chairman of the SCOR Group, who is joined on this call by the entire COMEX.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Ian, and good morning, everyone. Our mission as a reinsurer is, of course, to help fellow citizens to alleviate the negative impact of risks once they occur and to safeguard the resilience of societies around the world facing risks of all kinds. We are proud at SCOR to have accomplished our mission in 2017, which was marked by an exceptional series of major natural catastrophes, notably with Hurricanes Harvey, Irma and Maria, but also with the forest fires in California.

The total insured costs of natural catastrophes in 2017, is along the lines of $130 billion. This record level loss experience was exceptional. So, it falls within the range of possibilities of the probabilistic universe in which we operate. And the strengths of our reinsurer is measured by its ability to deliver during such atmospheres.

SCOR successfully passed its full-scale stress test, once again demonstrating the strong resilience of its business model and its shock-absorbing capacity. We did it before in 2011 when Japan was hit by a terrible tsunami. SCOR was able to run all of its commitments to its clients, and contributed to the protection of hundreds of thousands of people who were severely affected by these natural catastrophes, while managing to deliver a good set of results. In addition, the relevance of the business model was recognized once again by the rating agencies with an upgrade by A.M. Best on September 1, cementing the position as a Tier 1 global reinsurer.

This is the Group's 19th rating upgrade since 2003 and is a powerful testimony to the strengths of SCOR's fundamentals. Performance confirms the relevance of our strategy, which is based as you know first on a controlled risk appetite with strict underwriting discipline and prudent asset management. Second, well-optimized (00:03:39) risk position notably with the balance business model between Life and P&C reinsurance, enabling superior diversification benefits by both geographies and lines of business. And third and finally, a robust capital shield policy.

In 2017, we have clearly seen the strengths and effectiveness of retrocession program comes into play. Therefore, SCOR's core principles are instrumental in the Group's shock-absorbing capacity and in the protection of the Group's solvency. So, it is no surprise to us that the Group successfully absorbs a series of major shocks.

Going forward, the group will actually – will actually and actively pursue Vision in Action, with the same risk appetite following the same underwriting policy, other things with same capital shield policy and pursuing the same capital management policy.

Let's move to the next slide. Major catastrophes have punctuated history. Here on this graph, we see the history of shocks to our balance sheet over the last 12 years, including financial and sovereign debt crisis, political uncertainties, and of course natural catastrophes.

As human beings, we can only deplore these shocks, of course. But as reinsurers, our duty is to anticipate and to absorb such events. And as this graph demonstrates, the group has not only successfully absorbed these shocks, but it has also grown through them by more than tripling its shareholders' equity and successfully and successively taking its credit ratings to best-in-class around – across this period.

2017 was another strong testimony to SCOR's ability to weather shocks, as we can see on this slide. SCOR continued its profitable growth story in 2017, which is extremely important to us by strongly expanding its franchise. Gross written premiums reached €14.8 billion, up 8.6% at constant exchange rates compared to 2016. This growth was balanced between both of the Group's business engines; Life, across all product lines particularly in the Americas and Asia-Pacific; and P&C leveraging on successful renewals particularly in the U.S., the largest P&C market in the world. Overall, SCOR confirms its Tier 1 status being the world's fourth largest reinsurer.

I'm proud to say that in a year marked by exceptional events, SCOR delivered a solid set of results with net income of €286 million for this year. First of all, the SCOR's underlying profitability is excellent, normalized from the exceptional events of 2017. The return on equity would stand at 10.1% and hence exceeds the Vision in Action profitability target of 800 basis points above the past year risk-free rate. In addition, the Group's estimated solvency ratio at the end of 2017, which trended in 13% is the upper part of the optimal range of 185%, 220% defined in the Vision in Action plan.

Moving on to the next slide. If we look at the total shareholders return which is the sum of the share price appreciation and dividend pay to shareholders, SCOR stands out within its peer group. Despite by these shocks, SCOR's total shareholders return reached 40% in the launch of the Vision in Action plan in September 2016 and 14% since January 2017.

Today, I'm proud to announce that SCOR is pursuing its strong shareholder remuneration policy, a regular cash dividend of €1.65 per share will be proposed at the next Annual General Meeting, which will be held on April 26. Thanks to the relevance of our business model and the strength of our fundamentals, all the components of our capital management we see remain unchanged.

We continue to optimize our capital management, thanks to a proven process. First, managing the solvency of the group, (00:08:14) optimal range. Then allocating capital to support future accretive growth, defining the amount of the regular dividend accordingly, and finally, and if necessary, assessing any excess capital leftover for repatriation.

Our dividend policy remains unchanged. We favor cash dividend aimed for low volatility and have a minimum payout ratio of 25%. The €200 million share buyback program, which has already started, will run as planned. And finally, the merger of the three SE legal entities is on track, and we expect it to be completed by early 2019 with a potential solvency benefit of up to €200 million.

Let we now hand over to Mark for details of the financials. Mark, the floor is yours.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis, and good morning, everyone. So, let's begin on slide 9. I'll walk you through the financial highlights of the fiscal 2017 results. SCOR wrote more than €14.8 billion of gross written premiums in 2017, representing an 8.6% increase over 2016 at constant exchange rates or 7% at current exchange rates. This top-line growth was fueled by the strong contribution of both business engines, SCOR Global P&C with an 8.8% growth rate at constant exchange rates, SCOR Global Life with an 8.5% rise at constant exchange rates.

P&C net combined ratio for 2017 stands at 103.7% with a 14.9% nat cat ratio, driven by the Q3 events. Normalized net combined ratio, however, stands at 94.3% below the assumption made for the Vision in Action plan as a result of the strong underlying performance of the P&C book of business. Life technical margin is strong and reached 7.1%, slightly above the Vision in Action assumption.

And finally, SCOR Global Investments delivered a good return on invested assets of 3.5%, benefiting from €192 million capital gain on the sale of a building realized during Q4. Overall, SCOR's net income for 2017 stands at €286 million. SCOR's solvency position remains very strong at 213% at the end of 2017. And it's in the upper half of the optimal range. Frieder will detail the components of this solvency ratio shortly.

Going to page 10. I'd like to walk you through the normalization of our net income and return on equity. As you know, our results have been impacted by an exceptional series of large losses from natural catastrophes both in Q3 and in Q4, but also by the change in the Ogden rate in the United Kingdom and the U.S. and French income tax rate changes.

At the end of 2017, you will have noticed that the group had reported an ROE of 4.5% excluding exceptional items such as the Ogden rate change, the severe nat cat losses reflecting a 6% CAT ratio and the tax one-offs. The annualized return on equity would stand at 10.1% in 2017, or 945 basis points of risk free.

On the impact of U.S. tax reform, this falls into three areas. First, the reduction in tax rates from 35% to 21% reduces the value of the deferred tax assets in the balance sheet. And in Q4, we've fully reflected this with a charge of €39 million.

Secondly, there is the Base Erosion Anti-Abuse Tax or the BEAT, which is a 2018 impact, and we are exploring business restructuring options, which would also serve to mitigate the impact of the BEAT. This will likely be clarified later on in 2018. This restructuring may have a potential onetime tax charge of up to $350 million that affects the 2018 financial accounts.

And, thirdly, the ongoing long-term effective tax rate, we would expect a positive impact for SCOR Global P&C and a broadly neutral impact for SCOR Global Life. Perhaps a slight uptick in SCOR's effective tax rate in 2018, given the frictional transition costs of managing the new tax laws while we restructure our company somewhat.

Going to page 12, shareholders equity decreased to €6.2 billion compared to 2016, and this reduction comes from a €521 million reduction in currency translation adjustment primarily due to the weakening of the U.S. dollar in 2017 and from the $308 million dividend payment during the second quarter. This translates into a book value per share of €33.01 at the end of December.

As a consequence of the reduced equity, our financial leverage stands at 25.7%, temporarily above our Vision in Action assumption of up to 25%. And we would expect this to come back within the assumption range in the future quarters.

On page 13, we are in line with our expectations and SCOR generated strong operating cash flows of €1.1 billion slightly above the €200 million per quarter run rate that we had indicated. The SCOR Global P&C provides strong cash flows in line with our expectations, having commenced payments on the Q3 cat events and SCOR Global Life benefits from elevated technical business cash flow in Q4 due to two large transactions. The total liquidity of the group stood at €1 billion at December 31st with the rebalancing of the invested assets under way in line with Vision in Action.

Let me now hand over to Frieder, who will give you more details on the solvency evolution.

Frieder Knüpling

Thank you, Mark. Slide 14 shows the development of the group's solvency position during 2017. Main drivers of decrease were the Q3 nat cat losses and the fact that we have strengthened our solvency to best estimate assumptions, the parts of our U.S. mortality book, reflecting in particular higher expected mortality at older ages. This has been partially offset by very positive economic variances which include both investment gains in excess of risk-free returns and favorable financial market movements.

The underlying operating performance of the reinsurance business was strong and increased the solvency position by about 10 percentage points. It is driven by the capital generated by new business, renewals, and the development of the inflows business, and takes into account the capital required to support business growth. The year-end 2017 solvency ratio of 213% truly reflects the proposed dividend is well in the upper part of the optimal range and fully in line with our Vision in Action objective.

Moving on to page 15. SCOR's solvency is resilient to financial market movements with none of the sensitivities shown on page 15 moving it out of the optimal range. It will continue to benefit from increases in interest rates, in particular, from the recent increase in U.S. dollar yield. As a reminder, SCOR does not use any long-term guarantee or transitional measures and its solvency position is not sensitive to the ultimate forward rate level.

Shown on page 16, SCOR's risk profile continues to be dominated by insurance underwriting risks in line with our stated risk appetite. In comparison, the contribution of market and credit risk to the total capital requirements is significantly smaller. The Life and P&C underwriting risks continued to be well balanced. The level of diversification at this level of aggregation continues to be very high at 47%, which is a clear indicator of the strength of the SCOR's business model. It's built on the continuous maximization of diversification which in turn is the basis for optimizing the group's capital efficiency and profitability.

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

Victor Peignet {BIO 6287211 <GO>}

Thank you, Frieder, and good morning. Despite the Northern and Southern wildfires in California that account for €91 million net of retrocession pre-tax, we have a very strong Q4 standalone with a gross of 5.1% at constant exchange rates and a net combined ratio of 91.6%. These Q4 net combined ratios include a net technical ratio of 75.8% that is the sum of an attritional loss ratio of 49.5% and a commission ratio of 26.3%.

This technical ratio of 75.8% is excellent even considering that it benefits from a downward revision of the reserve strengthening following the Ogden discount rate change considering a zero discount rate from September 2018 that correspond to 3.6 percentage points. This combined ratio also includes an 8.8% nat cat ratio that benefits from a slight reduction of the total loss amount of HIMM net of retrocession. HIMM net of retrocession now totals €591 million. It used to a total of €598 million at the end of Q3.

The full year 2017 sees a strong growth of 8.8% at constant exchange rate. This growth is fueled by U.S. in P&C Treaty business at plus 17% at constant exchange rates and by agriculture and credit and surety in the specialty lines at plus 12.7% and plus 12.1% respectively.

The net combined ratio stands at 103.7% with no other benefit or reserve releases than the Q1 reserve release of €45 million that is equivalent to 0.9 percentage point of combined ratio. It includes a net nat cat ratio of 14.9% and an excellent net technical ratio of 82.1%. This net technical ratio compares favorably with the ratio of last year once netted down of the Ogden rate change impact. It stands at 80.6% versus 80.9% last year.

The fact that the net combined ratio was contained at this level, which is comparable to where it was in 2011, shows that we stick to our target and we meet our objective that is to have a low volatility of the net technical profitability. After the reduction of €45 million booked in Q4 following the year end actuarial review, the Ogden rate change impact stands at €71 million or 1.4 percentage points for the full year 2017. As Mark mentioned earlier, the net combined ratio normalize of the nat cat and the Ogden rate change impact comes out at 94.3% which is below the Vision in Action assumed range.

On this positive note, I hand over to Paolo for his comments on Life.

Paolo De Martin {BIO 15930577 <GO>}

Thank you, Victor. In the Life division, we had a very good year in 2017 where SCOR Global Life has continued to deliver robust performance both in terms of growth and profitability. For the total year, our gross written premiums have reached €8.8 billion with an increase at constant exchange rate of 8.5% or 7% at current exchange, well ahead of the Vision in Action growth assumptions.

The strong growth is driven in particular by the continued development of our Life & Health franchise in Asia Pacific where we have grown premiums by 35% with Protection and Financial Solutions showing a strong pipeline of opportunities. This is combined with a continued healthy pipeline of new business coming from EMEA and the Americas, and spread pretty much across all product lines. The technical performance for 2017 remains stronger with a technical margin of 7.1% slightly above the Vision in Action assumption. The profitability of new business is continuing to meet the group's ROE target.

As we have already mentioned in Q3, U.S. mortality claims experience has been higher than expected. The overall technical result of the division is not impacted as it continues to benefit from both the strong reserve position set up at the acquisition of the Transamerica Re and Generali U.S. portfolios and from the active in-force management conducting since then. Overall, we confirmed the Vision in Action assumptions of 6.8% to 7% over the Vision in Action plan.

Just to note that we also completed the acquisition of MutRé which strengthened our Life & Health offering in the French mutual industry with the integration expected to be finalized during the first half of 2018.

I will now hand over to François for more details on our investment strategy.

François de Varenne

Thank you, Paolo. SCOR's total investment portfolio reached €27.1 billion at the end of December 2017, with an invested assets portfolio of €18.6 billion compared €18.4 billion at the end of September. In the fourth quarter of 2017, SCOR Global Investments pursued a rebalancing of the investment portfolio towards Vision in Action asset allocation. Liquidity was decreased to the target level of 5% defined for (00:22:30) Vision in Action compared to 8% at the end of the previous quarter and 14% at the launch of the plan. Their share of corporate bonds in the invested asset portfolio was increased by 3 points compared to the previous quarter and stand now at 46%.

The duration of the fixed income portfolio remained stable at 4.6 years. Our fixed income portfolio remains of very high quality with an average rating of A+. At the end of December expected financial cash flows from the fixed income portfolio over the next 24 months stand at €5.4 billion.

SCOR Global Investments delivered a 3.5% return on invested assets for the full year 2017. This performance has notably been driven by a significant real estate capital gain of €192 million in the first quarter of the year. We benefit from a good investment rate of 2.6% at the end of December, and under the current market condition, we expect the annualized return on invested assets to be in the upper part of the Vision in Action range 2.5%-3.2%, both for 2018 and over the entire strategic plan.

Moving on to slide 20. I'm happy to say that the current rising interest rate cycle, if confirmed, is excellent news for SCOR. We continue to benefit from our unique currency mix with 48% of our portfolio denominated in dollar given our strict currency policy between our assets and liabilities.

As mentioned on the previous slide, our investment's flexibility remains high which will allow us to save more rapidly higher reinvestment rates and therefore will improve the recurring yield of the portfolio. Our duration gap is not yet closed which commits us to continue reinvesting at longer maturities.

And finally, one-third of our portfolio is made of assets which will immediately or in the very near future benefit from a rise in interest rates. This makes me confident for the future and confirms the relevance of the strategy defined for Vision in Action.

With this I will hand it over to Denis Kessler for the conclusion of this presentation.

Denis Kessler {BIO 1498477 <GO>}

Thank you, François. As I said in my introductory remarks, as SCOR accomplished its mission in 2017, the resilience of our business model and the shock-absorbing capacity that we rely on the four cornerstones that have been set more than 12 years ago. These building blocks consisting of a strong franchise, high diversification benefits, a robust capital shield and a controlled risk appetite. It serves the group well in this real life stress test and we have come through the year in good shape. Building on these foundations, SCOR is fully mobilized to successfully complete Vision in Action plan and reach the strategic targets we have set.

Looking ahead, we see a lot of positive prospects for group. First, SCOR has a strong position for the upcoming 2018 P&C renewals, resulting from the group's Tier 1 rating and its long-term client by client approach. SCOR is perfectly positioned to capture profitable growth opportunities in a more favorable market environment. As we have seen already by our January 2018 renewals in which we achieved a material improvement and expected profitability. Second, the expected interest rate increases will be positive for SCOR as we continue to execute on the investment strategy through the redeployment of assets.

Third, we are confident in the future of reinsurance. Overall, the reinsurance profession is not just one of the greatest and most fascinating in the world, it is also one of the most promising. The risk universe is expanding as new risks are developing and emerging alongside scientific progress and technological innovation, while the frontiers of insurability (00:26:42) are constantly being pushed further back.

Therefore, the raw material for industry is growing. What is more demand for cover is being boosted by the global economic recovery, protection gap that remains extremely high on a global scale and an aversion to risk that is increasing with wealth and development in emerging countries.

I repeat, SCOR is in good shape to leverage all these positive prospects and to continue to grow its franchise profitably. The group's ambition is intact. And I have every confidence in SCOR's business model. We firmly believe that in 2018, we'll continue to demonstrate the ability to successfully deliver on our strategic plan, Vision in Action.

Thank you very much, and I'll hand now the floor to Ian for the Q&A session.

Ian Kelly {BIO 19976646 <GO>}

Thank you, Denis. On page 23, you will find the next scheduled event starting on April 26th with the Q1 2018 results and Annual General Meeting as well as the conferences which we are planning to attend across the first half of 2018.

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

Q&A

Operator

We will now take our first question from Guilhem Horvath from Exane. Please go ahead. Your line is open.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Hello. Good morning, everyone. So, two questions. The first one is on U.S. mortality. I'd like to better understand, Paolo. Are you as confident as you were in Q3 regarding your leeway for coping for potential further deterioration in terms of claims environment in this business line? And also, should we expect further deterioration, further negative impact on solvency going forward due to U.S. mortality trends or do you think we are getting to an end of this negative impact?

And the second question would be for Victor is on Ogden. I think you are one of the first companies really to reconsider the Ogden rate level in your reserving. How confident are you that it's not too early and that the zero percent level is actually the final one and you don't have to factor and that's get you going forward? And also, were you obliged actually to put the zero percent Ogden rate in your reserving, because you renewed your - you came out of business at a zero percent assumption? Thank you.

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

This is Paolo. Good morning. The first question, I guess the answer is, yes, I am. And then in terms of future development, the issue we had is related to older age mortality, so age bracket, 80 and above. And it's really contained to a limited amount of clients in our book and a limited part of the book. So, I feel that even if we had further deterioration, that would be relatively insane (00:30:13) given some of the actions we can take to offset.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo, Victor, Ogden?

A - Victor Peignet {BIO 6287211 <GO>}

Well, we think that the hypothesis you have taken is realistic. I mean, we have taken, as an hypothesis, a return to zero from September 2018, but, of course, we have no certainty about that. Well, we just look at the waste claims are being settled, and we believe that this approach is a very realistic one.

I mean – and you've seen the – anyway, the consequences in terms of P&L of the movements as we fully took it in Q1, and now we woke a bit back up. So, I think you understand also that the impact of moving up and down is not a major impact on our P&L. And certainly, we were not obliged to do it. We did it because we feel that it's a realistic approach.

Q - Guilhem Horvath {BIO 18460437 <GO>}

And the business you underwritten at January 1 was made with a 0% assumption (00:31:24)?

A - Victor Peignet {BIO 6287211 <GO>}

Well, it's a mixed bag on the pricing, as everyone would tell you. I mean, every client is bringing a different prospect. It's a different book of business. It's a different negotiation. So, overall, I think the negotiation were done well on marginally positive to zero as you are saying, yes.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thanks.

Operator

Our next question comes from Jonny Urwin from UBS. Please go ahead. Your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Just one question. How should we think about the speed of the buyback execution from here? It's been slow so far. And after the U.S. tax charge, potentially U.S. tax charge in 2018, you could be back down towards the middle of the optimal range. My question is do you need higher interest rates to finish the SE structure collapsed just to execute the current buyback? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. Nothing has changed with respect to the buyback execution. When we made the announcement last year, we gave ourselves a significant amount of time and we made a core principle of enhancing shareholder value when we execute the buyback. So, conditions are still there for the buyback. That could be done at any point in time. We have plenty of time to do it. We have a favorable January and February in terms of interest rates. The solvency rate for the group is not a constraint. We're certainly well within the upper part of the optimal range, but we're always looking to enhance value when we're looking at the share buyback question.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

Our next question comes from Michael Huttner from JPMorgan. Please go ahead. Your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you very much. Going back to the U.S. mortality given that it's actually the second year, I think, and I don't know what your answer would have been last year, can you give us a feel for what potential other surprise that will come? So, I'm really old. I'm not quite 80, but I'm getting there. But I imagine if mortality in the U.S. is affecting a certain age group, there's no particular reason this shouldn't affect other age groups. Maybe you can explain why you're more confident than the other cohorts. And maybe give us hints of the variance you've seen and how much it's been offset from reserve releases from the back book?

And the other one is on tax, and I must have missed it. I'm really sorry, I wasn't paying full attention during your presentation, and I apologize for that. C&P gave us a nice number. They said pro forma for French tax going forward, the earnings would be up 15%. They gave a figure when forced them to (00:34:07). I just wonder if you can give us a simile (00:34:11) figure, maybe you've already given that, of what you would see your tax rate and your earnings on a kind of 2022 basis? Thank you. Both for French and U.S. tax.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Michael. Paolo?

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

Yeah. When we – first of all, when we talk about older age mortalities, we are referring to people, at this point, are 80 and above. So, from a non-actuarial perspective, I don't know – I mean, non-actuary. You're right in thinking, well, that's the age that you would imagine people dying.

The challenge here is not the general population trend. The challenge is that if you take somewhere between 1997 and 2007, changes happened in the underwriting processes and companies generally felt more comfortable in underwriting people at older ages, pushing policies out at older ages, and assumptions were made about that medical underwriting was actually going to play into those older ages.

Now, what we – what the entire industry is grappling with is now data are becoming available, experience is becoming more credible at those older ages. As we get experience, we're realizing than the grading of that medical underwriting which gives you a positive mortality outcome. The way that medical underwriting and that upfront selection grades into the general population trends is actually different than what we expected that grading to be. And that is the challenge that pretty much the entire industry is grappling with.

It is limited in terms of how much it affects the overall portfolio and it is usually limited to – for us clients that the particular focus on writing older-age mortality, writing certain (00:36:13) amounts at certain point in time with certain medical underwriting processes. That's why it doesn't taint (00:36:21) the rest of the portfolio. And actually we're seeing positive mortality trends at younger ages. I don't know if that answer your question, Mike.

Q - Michael Huttner {BIO 1556863 <GO>}

Yeah. That's – and there's no – you would maybe give us some kind of number? I don't know (00:36:38).

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

Yeah. If you look at claims compared to last year, we experienced roughly 240 million (00:36:47) claims higher than last year. And that was offset – on the IFRS account was mainly offset by actions that we took in the portfolio, so management actions that we took on the portfolio in terms of pure claims trend.

Q - Michael Huttner {BIO 1556863 <GO>}

Brilliant. Thank you very much.

Operator

Our next question comes from Andrew Ritchie from Autonomous.

A - Denis Kessler {BIO 1498477 <GO>}

No. Wait, wait, wait. Wait. Wait, wait. We have a second question from Michael was on the tax rate for Mark.

A - Mark Kociancic {BIO 17852409 <GO>}

Michael, I mentioned in my opening remarks that we expect it to be certainly a positive set of events for SCOR in the long-term. I think probably more benefit for our P&C division and broadly neutral for Life as well in the longer term given the way we're structured.

In 2018, you'll see maybe some frictional expense come through the effective tax rate of the group plus whatever the impact, if any, of a potential one-time charge following any kind of business restructuring that we do during 2018. But it's a little early to give precise amounts of figures because there's still a certain amount of ambiguity from the way the U.S. Treasury is trying to define the various aspects of the tax law, in general, is a positive event and I shouldn't understate the positive impact of the French tax rate reductions as well.

So, there is a significant downward trend as well even in the – albeit, in the future, but certainly a positive thing for SCOR as well as, as they approach a 25% income tax rate over the coming years.

Q - Michael Huttner {BIO 1556863 <GO>}

And is there any way of maybe giving a kind of number or a kind of estimates to give you a feel Zurich gave us a 3-point decline. C&P said, it's a 15% improvements from pro forma profit. Allianz gave us actually a figure that was €300 million a year.

A - Mark Kociancic {BIO 17852409 <GO>}

I think the best I can do today is say that the effective tax rate of SCOR will be excluding the one-off charge if we have one, would be in the range of 22% to 24% that we've given during the IR days. And for the future, I would expect something better than that. But it's too early to quantify.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

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

Some of the elements – wait a minute. Some elements of the U.S. doesn't seem fully consistent with the International Convention and by the rules of the World Trade Organization and the rules of (00:39:39) forbidding double taxation. So, this issue which would be certainly put on the table by some European governments and certainly by the EU (00:39:52) just because it (00:39:56) internal share rules (00:39:58).

So, there are lot of uncertainties today, not only on the way the U.S. tax (00:40:04) consequences, international consequences that are extremely (00:40:11) as I mentioned here. So, it's an ongoing debate, and I believe (00:40:19) 2018. And so it's (00:40:23) and we have to navigate in those strange (00:40:32).

Q - Michael Huttner {BIO 1556863 <GO>}

Good.

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

Next question please.

Q - Michael Huttner {BIO 1556863 <GO>}

Good. Good luck.

Operator

Our next question comes from William Hawkins from KBW. Please go ahead. Your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Great. 00:40:51

A - Ian Kelly {BIO 19976646 <GO>}

Andrew, do you want to go ahead if you're still there?

Q - Operator

(00:40:56).

A - Ian Kelly {BIO 19976646 <GO>}

No, you go ahead.

Q - Operator

Am I still live? Hello?

A - Ian Kelly {BIO 19976646 <GO>}

Yes.

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

Hi. Yeah. Okay. I'll go first. William next. I had a question on Solvency II evolution, particularly the normal operating experience. In euro million terms, so the generation of owned funds less the move in SCR is the same as last year, roughly €700 million. Given – you obviously backed out the hurricanes from that. So, given the underlying business is growing, both non-Life and you told us that Life new business was up and the profitability hasn't really changed. Why is your Solvency II normalized capital generation not growing? Why was it stable? Is there something else going on or are there some other weakness in the expected level of normalized SII generation? So, that was my first question.

The second question, the €350 million tax charge, up to €350 million, for 2018, I guess that's a non-cash item. I guess there may be some elements of cash involved. I mean, would that affect your dividend thinking for 2018? Clearly, when the earnings have been depressed in the past, like, for example, this year, you've kept dividend flat. So, would you ex that out for 2018?

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Yeah. On your first question, yeah, obviously, if you put a normal cap loads into the other operating experience, it would reduce by about 3 percentage points. But then there are a couple of other one-offs which are also in the mortality experience, as we said in Q3, maybe about 2 points. There's still an effect of the Ogden rate change of a bit more than 1 percentage points. And then the portfolio composition from last year to this year has changed slightly, which has led to a little bit higher SCR growth, both by new business and renewals than last year, which maybe explained another point or two of difference. But if you allow for all of these, the operating variances is really very similar to last year. So that is no...

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

You mean the operating generations, right?

A - Victor Peignet {BIO 6287211 <GO>}

Exactly.

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

Yeah.

A - Victor Peignet {BIO 6287211 <GO>}

So, yeah, there's no fundamental change. And the variance you see between the years, that's volatility which you should expect to see between normal years.

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

I guess my point was that it should be growing surely. The business is growing. You wrote more Life new business.

A - Victor Peignet {BIO 6287211 <GO>}

Yeah. But the SCR is also growing. So, we express everything in percentage point. So, our capital requirement is also growing. So, the currency we are using is bigger...

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

Sure. (00:44:08) assume, given that you've classified some of the mortality as operating. That is an ongoing drag to operating generation, distinct from the assumption changes which you've separated.

A - Victor Peignet {BIO 6287211 <GO>}

Well, in print, I mean, the assumptions – the purpose of changing your assumptions is to make sure you've got realistic best estimate assumptions going forward. So, if you get it perfectly right, you should see – experience being equal to your expectations going forward. Nobody is saying that that's possible, so you may see further volatility going forward. But the purpose of strengthening your assumption is to make your best estimate and assumptions realistic and make them such that they are an unbiased estimate of what you should expect going forward.

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

Okay. On the (00:45:08)?

A - Mark Kociancic {BIO 17852409 <GO>}

On the tax charge, as you pointed out, I think this is going to be more of a mechanical IFRS deferred tax liability type of tax charge, if it's incurred. And it really depends on the kind of scenario that we ultimately end up implementing. And so you look at different options with respect to recaptures innovations making U.S. taxpayers, et cetera.

But to get to the crux of the matter, I think regardless of which option we change, we could have a – potentially an immaterial DTL charge day one, DTL charge, it could be in the middle of the range, it could be towards the upper part of the range because many factors that go into this decision beyond P&L figure that was highlighted in the presentation. Things like capital solvency, regulatory factors, collateral, et cetera.

Having said that, we do think it's very digestible. It is a one-off charge that would be taken, but we think it's manageable with the rating agencies. We think the solvency ratio impact is probably mid-single digit. So, regardless of the scenario, you're probably looking at 6 points or 7 points. That's something we would have to refine, but it's not anything that would really I think be a fundamental driver of longer-term capital decisions, which is what the dividend decision is ultimately. So, when we're here a year from now, I'm sure the board will have taken the (00:46:47) account the nature of a one-off charge, the earnings generation capability of the group, and the capital position of the group and the dividend decision made.

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

Okay. Great. Thank you very much. And thanks William.

Q - William Hawkins {BIO 1822411 <GO>}

Still on the line. Can you hear me?

Operator

Please go ahead. Your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, thank you very much. Sorry to come back to the U.S. mortality, but just to clarify. On slide 14, of the €300 million life assumption change, how much have you already taken at the end of September? And so, how much has actually come in at the end of the year?

And then I'm probably comparing apples with pears, this is the danger of throwing numbers out all over. When you answered Michael that you'd had €240 million actual above expected just last year, I would imply the need for a bigger assumption changes than just broadly the equivalent of one year's number, so briefly if you could explain that.

And then secondly, the benefits of market movements year-to-date from looking at your sensitivities on slide 15, I would guess given the interest rates and dollar movements, it's certainly high-single-digit benefit of percentage points. And so you're possibly already through to 20% as things stand right now, thanks to market movements. Is that a fair way of understanding the sensitivity or have I exaggerated it? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Well, let's just recap. On page 14, under operating experience, as Frieder mentioned, we confirmed the number we gave in Q3. We set 2% to 3% was driven by U.S. mortality, to confirm that number is 2%. So that number includes claims experienced as of the end of the year, plus any impact on short-term reserves, call it incurred-but-not-paid type of claims as there is a lag of reporting minus any management actions that we took that had an impact on cash flow. That number is 2%, and that's the experience we had in 2017.

And the Life assumption is what do we believe – so that's the cash flows as of 2017. The life assumption changes, that is what we think will be the impact on the discounted cash flows looking forward. Now, in that number, €300 million, we do have older age mortalities. It is offset also by other items. So, that is the net of all Life changes. The key driver in there is the older age and mortality.

In terms of the numbers I said before, I did not say over expected. I said over last year experience. Because Michael was asking me a question, I felt related to the IFRS numbers. I gave you that IFRS numbers. We present them against last year. I said compared to 2016, the pure claims experience, so claims – cash claims that we paid was €238 million higher than last year. I don't know if that helps clarifying really.

Q - William Hawkins {BIO 1822411 <GO>}

Yeah. Thank you. And sorry if I misunderstood. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Frieder?

A - Frieder Knüpling

On your second question, I think your math is correct. We've benefited particularly from the increase in U.S. dollar interest rates which is a significant driver of our euro mortality movements. So, if you just look at financial market movements from 1st of January to today, we'd be close to 220%, maybe just below but very close.

Q - William Hawkins {BIO 1822411 <GO>}

Lovely. Thank you.

Operator

Our next question comes from Vinit Malhotra from Mediobanca. Please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. Thank you. So, just - I just wanted to follow up on the very, very strong 4Q attritional loss ratio from Victor. And I mean, I know that in just two weeks ago we talked about some benefit from the renewals. And I just wanted to understand, I mean, where should we benchmark that benefit to, because now there's been two years of, say, 94%-ish, 94.5% range of normalized combined issues. That's the first question.

And second question is for François. The reinvestment yield is sort of a bit stable-ish last nine months now, I think, so end of period and last three quarters, I mean, 2.6%. And the re-listing is quite massively on target. So, is there any expectation of pick-up as well on that? And just one clarification on the asset side again, if you don't mind. The real estate under life gains and losses, that line has moved down between September and December by not more than €120-odd million. But as you've clearly realized a gain of €192 million, does that suggest there is a markup of valuation in some other properties, which we should expect? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Malhotra. Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, as you know, a quarter is a quarter. So, the Q4 is a very good quarter, and I think it's more relevant to look on a one-year basis. It's true that we're continuing to be below 95%. That's what I commented at the renewal, and the renewal are comforting us in the fact that we believe in our ability to continue to perform at that level.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. All right. Thank you.

A - François de Varenne

(00:53:02) first question on the reinvestment rate, again, the definition of the reinvestment rates at the market yield of yielding asset classes, the last day of the quarter. That's not an average for the quarter. So, if we deploy €1 or $1 of asset, we'll give you the marginal yield on this portfolio. So, that's true, it's quite stable compared to Q3, but a significant improvement compared to Q1. It was at 2.3% in Q1. It has increased a little bit in euro more flattish - it does increase in dollar, flattish in euro. You should expect - given what we see on the market since the beginning of the year, we should expect a strong (00:53:53) really in Q1.

On your second point, on the real estate gains. So, as you know, real estate annualized gain are off-balance sheet, and you've got the split on slide 51 of the presentation. That's true. What we said is true, which means that we sold this building in December at a much higher price than the one that was in our account at the end of December 2016 last year.

So, in the movement of the annualized gain on the real estate portfolio, if you look end of 2016 and 2017 we've got slight appreciation of other assets, we've got in the portfolio on top of it. And the appraisal value in the account at the end of December was well below the real price of the transaction that we obtain in December 2017. That was a very good news for us.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. And are there any more that we're suggesting from this statement that could come up or...

A - François de Varenne

What we did is not, it's not - if you remember well, we did at 2017, early 2016. So, that's an illustration of what we do on the escalated portfolio. So we focus on value add assets, so which mean we buy those assets. We wait (00:55:36) then we fully restructure and rebuild the asset. We find a new tenant and then we sell it. That's where we think we create value. So we had a nice one that we sold in Q1 2016. We have this one. Don't expect a new one in 2018. We need some time to still create value, but we have some assets today that are really in the same process and that should deliver over the last - the next two year.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you very much.

Operator

We'll now take our next question from Vikram Gandhi from Société Générale. Please go ahead. Your line is open.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Well, hi. Good morning, everybody. Thanks for taking my questions. First of all, I see that the Solvency II ratio sensitivity for a change in interest rates has reduced somewhat compared to the last disclosed at the Investor's Day last year. So, can you provide some color on what has driven this?

Secondly, I'm sorry to come back on the U.S. mortality experience. I see that hasn't had any impact on the technical results so far which is great, but on slide 14, the waterfall shows the impact of assumption change at 8 percentage points.

So, would it be fair to say that we could see some pressure on the IFRS results going forward? And the last, just a small clarification on the Ogden rate change. Just wanted to make sure I understood that correctly. The reversal in 4Q is the result of considering the Ogden rate change to 0%. So, that kind of preempts the pending review. And unless the final rate is above zero percentage, we shouldn't see any additional reserve releases. Is that right? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Maybe we should start by the last question, Victor.

A - Victor Peignet {BIO 6287211 <GO>}

Well, the situation is the following. We've done a year-end actuarial review. And as you know, we have taken the full Ogden impact, so we were at my minus 0.75%. We have considered that by September 2018, the rate would come back to zero and we have re-projected our reserves accordingly. So that's where we are today. So until September 2018, minus 0.75%, from September 2018, 0%. That's the hypothesis we have taken in our actuarial review.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

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

The final decision of the Ogden Commission or the UK government would be to have a rate of 0.5% (00:58:18), it would be beneficial for the group. We don't believe that the commission or the UK government is going to decrease some rates (00:58:26) 0, 0.5, 1. (00:58:31) interest rates are increasing today. So (00:58:35) for a more positive outlook and (00:58:39) which is safe (00:58:43).

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

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

Maybe I'll turn to Frieder on the interest rate sensitivity of the solvency ratio.

A - Frieder Knüpling

Yeah. It's a little bit lower than last year. That's true. Main driver of this is that our average liability duration, is a bit shorter than last year (00:59:07) changes in the portfolio mix during the year. And then there are some secondary impacts resulting from financial market movements, exchange rate movements, and so on which – then also have an impact on the sensitivity of the solvency ratio itself.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. And on the U.S. mortality?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. On the U.S. mortality, we're moving between two measurement frameworks that have very different bases. So what we see on page 14 as – and both myself and Frieder already alluded to, listen, the 8% is an impact for Life assumption changes. So, this reflects an update of assumption for future claims experience. And just to remind everybody, Frieder already did this. Liabilities under Solvency II are shown at best estimate with the separate risk margin.

And this effect is now directly seen in IFRS. IFRS reserves are significantly above best estimates, and (01:00:19) reserves set up at the time of the acquisition of Transamerica and Generali gives us a (01:00:25) that are for the beginning. That is not reflected in our Solvency II numbers. So, we are moving between two measurement frameworks of the profitability of the business that are dramatically different.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thanks for the clarification. Thank you.

Operator

Our next question comes from Thomas Fossard from HSBC. Please go ahead. Your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning, everyone. Just two questions on my side. One for Frieder and one for Paolo. The question for Frieder will be, Frieder, on the 13% Solvency II ratio at the end of the year, can you confirm that the €200 million share buyback and the €200 million upcoming capital restructuring from (01:01:26) has been taken out of the number already? And the question for Paolo would be, Paolo could you give a bit of an outlook in terms of premium development for 2018 on back of very strong growth reported in 2017? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Frieder?

A - Frieder Knüpling

On your first question, both effects, we will only reflect in our solvency results if and when they occur. So, to the extent, we've already repurchased shares, we reflect them in in our solvency numbers. But only at the time at which we execute share buybacks. And the restructuring of DACs (01:02:20), the merger is scheduled to take place as the first of 1st of January next year. I think we said this is in the past. And we will only reflect it at that point in time, but it's not in the numbers yet.

A - Denis Kessler {BIO 1498477 <GO>}

Then the dividend.

A - Frieder Knüpling

Yes. The dividend, the planned dividend, the proposed dividend is fully allowed for, this is the minus 7%, but this is an item which obviously we haven't paid yet, but we - for the provision for it and it's already deducted in the closing solvency ratio.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo?

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

Yes. We are confirming, overall, a growth assumption of 5% to 6% for the Vision in Action period. I think what we're going to see is on a constant FX, we had more growth effectively than we would have expected this year, and few things that we thought were going to happen in 2016, happening in 2017 (01:03:19). So, we would expect that 2018 could be probably somewhere in the range of 4% to 5% in terms of growth.

A - Denis Kessler {BIO 1498477 <GO>}

The hypothesis for the Vision in Action plan should be ...

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

Yeah, this is over the plan.

A - Denis Kessler {BIO 1498477 <GO>}

Should be...

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

So even with that 4% to 5%, we'll finish 2018 well ahead of where we would have expected to see our Vision in Action

A - Denis Kessler {BIO 1498477 <GO>}

Yes, yes, yes.

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

I don't know if that answers your question, Thomas.

Q - Thomas Fossard {BIO 1941215 <GO>}

(01:03:56).

Operator

We will now take our next question from Frank Kopfinger from Deutsche Bank. Please go ahead. Your line is open.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have two questions. First, I would like to come back on the buyback. Given that interest rates are rising, the starting point is not too bad. What really keeps you from really implementing the buyback as of now again to restart it? And, secondly, for Paolo, can you comment on the expected impact from the integration of MutRé but also on the Aegon book, which you just recently bought?

A - Denis Kessler {BIO 1498477 <GO>}

Mark, on the share buyback again?

A - Mark Kociancic {BIO 17852409 <GO>}

Well, on the share buyback, I think it's really just a value proposition. €200 million is certainly well within our capacity, and we want to make sure the intrinsic value of the company is such that when we do the buybacks we are truly enhancing shareholder values. Really quite simple, you're looking at share prices, intrinsic value of the company and it's something we monitor frequently. We have the capacity to execute at a moment's notice and we do have the luxury of sometime as well.

Q - Frank Kopfinger {BIO 16342277 <GO>}

But what would be – just to follow up – what would be the trigger point really to do it?

A - Mark Kociancic {BIO 17852409 <GO>}

Coming back, it's a value proposition, right? So, there's always volatility in the market. Right now, we have – we traded at 10% premium in the book as an example. Really a question of, as I come back to it, the intrinsic value of the company relative to the market price and what is expected over the next, I think it expires in July of 2019. What's expected over that timeframe? So, we'll make those repurchases when the value proposition is very favorable.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. And on MutRé and Aegon book?

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

Yeah. What type of impact you were looking for in your question Frank?

Q - Frank Kopfinger {BIO 16342277 <GO>}

Well, it's actually – actually it will be first of all on, I would expect something on the volume but also on operating profits?

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

Yeah. On MutRé, we're talking about roughly €120 million in premiums or roughly 1.3% growth that's already included in my 4% to 5% that I answered before to Matt (01:06:45). And you would expect the technical margin in line with the technical margin that we have on the regular business. On the Aegon deal, we don't comment that separately. That's really part of our ongoing financial solution development. We understand AEGON made some public statements on that because they had a specific situation they needed to communicate on. But that would be regular business that we do, so we don't really break that out in any disclosures.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Fair enough. Thanks.

Operator

Our next question comes from James Oram from Citi. Please go ahead. Your line is open.

Q - James R. Oram {BIO 19736003 <GO>}

Hi. Morning, everyone. This is James from Citi. Most of my questions were already answered, so I've just got one last. I wonder if I could follow up on the disclosures you made during your renewals presentation about how European wind exposure has now overtaken the U.S. as your peak exposure. Obviously, FX could have closed some of that gap compared to last year, but I wondered if you could provide a little bit more detail on what else has happened there because U.S. hurricane exposure was nearly 50% higher at the Investor Day when you last disclosed I believe. Is this reflective of a general increase in nat cat appetite, any comments around that would be really interesting. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, you're right to say that a lot of it is due to FX on the U.S. exporters. The rest of it is due to – well, very successful renewal with most of the global insurers based in Europe. Not just on the cat business, but overall.

Q - James R. Oram {BIO 19736003 <GO>}

Okay. Thank you.

Operator

There are no further questions from the phone. I'll now turn the call back to your host for any additional or closing remarks.

(01:08:43)

A - Ian Kelly {BIO 19976646 <GO>}

I was just going to say, thank you very much for joining the call. And we'll be on hand for any questions if you wish to get in touch with us with further inquiries.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you very much, Ian. Bye-bye everyone and thank you for attending this call. Thanks.

Operator

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