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Bloomberg Transcript

Q1 2017 Earnings Call

Company Participants

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

Other Participants

- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the SCOR Group 2017 Q1 Results Conference Call. Today's call 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 numbers of your questions to two.

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

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody, and welcome to the SCOR Group 2017 first quarter results call. I please ask you as usual to consider the disclaimer on page 2 of the presentation, which indicates that the financial results for the first quarter of 2017 included in the presentation are unaudited.

Before we start, Denis Kessler would like to pass on his apologies for not being able to attend today due to the SCOR Group Board Meeting taking place at present in advance of this morning's Annual General Meeting. He is joined by Romain Launay. The remainder of the Comex are here on this call.

And with this, I would like to give the floor to Mark Kociancic, Chief Financial Officer of the SCOR Group. Mark?

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Ian, and good morning everyone. I have a very simple message for you all today. At SCOR, we see blue skies, and the group is in excellent shape. SCOR delivers a strong start to the year and continues to pave the way through combining three key elements: growth; profitability; and solvency.

Firstly, regarding the expansion of the franchise, we've been able to record excellent profitable growth, with gross written premiums of €3.7 billion in the first quarter of 2017. And that's up 12.1% at constant foreign exchange rates compared to Q1 2016. It's fuelled by both of our business engines, SCOR Global P&C and SCOR Global Life.

On the P&C side, we continue to expand the franchise in the U.S. market as per the strategy laid out in our Vision in Action plan, and in keeping with the strong January renewals already announced. The April renewals are consistent with selective growth and stable pricing. In Life, we continue to deliver a strong track record of expanding Longevity reinsurance. In line with Vision in Action, we are further enhancing the franchise in Asia-Pacific with the recent opening of a branch in Japan.

Secondly, regarding profitability, SCOR records a net income of €140 million for the first quarter, which produced an 8.6% return on equity in line with the Vision in Action profitability target. You are aware that of the change in the Ogden discount rate, which is used to calculate lump sum payments in bodily injury cases, this has affected UK long-tail business lines. As a result SCOR has taken a charge in the first quarter of €116 million on a pre-tax basis. And this is been mitigated by the favorable natural catastrophe loss ratio in the first quarter and by a reserve release of €45 million. As you know we use reserve releases in extreme cases, be it natural catastrophe or regulatory, take the combined ratio to a normal level of performance in the 94% to 95% range.

The Ogden rate change has been a small cloud in our blue sky that has dissipated. We've dealt with it all in the first quarter. Had the Ogden rate change not occurred, the net income would have reached a €197 million, and the return on equity would have stood 12.2%, well above the 800 basis points over the five-year risk free rate profitability target. Even so, for 2017, the group remains very much on track to reach its Vision in Action profitability target.

Third, the solvency position of the group remains strong at 224% this quarter, above the optimal range and stable compared to the year-end position of 225%. Excluding the negative impact of the change in the Ogden rate amounting to approximately 2 points, our solvency position would be at the 226% level. SCOR continues to provide an attractive remuneration policy to its shareholders with a dividend of €1.65 per share. And that's an increase of 10% year-on-year, which will be proposed at the Annual General Meeting later on this morning.

Furthermore, I reaffirm the capital return message with regards to share buybacks that we announced with the fiscal 2016 year-end results. That remains unchanged. Our operating fundamentals are solid and our solvency and rating capital positions are strong.

Moving on to slide 4. I have mentioned the excellent growth from both divisions already. Further, both deliver strong technical profitability in Q1 as well, and this is driving the strong core earnings of the group. The P&C combined ratio stands at 94.5%, and the Life technical margin is at 7.2%. SCOR Global Investments is delivering a solid return on invested assets at 2.6% this quarter with continued rebalancing of the portfolio.

Going to page 6. Shareholders' equity increased by 2% over the first quarter at €6.8 billion, supported by the net income of €140 million recorded in the quarter. This corresponds to a book value of €36.35 per share, our record since 2002. Financial leverage stands at 24%, decreasing by 40 basis points compared to the position as at the December 31.

Let's move onto page 7. SCOR generated operating cash flows of €22 million. Normalized for non-recurring items, this stands at approximately €200 million for the quarter and in line with our plan. SCOR Global Life operating cash flow reflects a delay in the settlement of retrocession recoverables and claims payment timing differences. Cash flows are expected to start normalizing during the second quarter of 2017.

On the SCOR Global P&C side cash flows show some seasonality with the first quarter, usually lower due to retrocession premium settlements. And Q1 2017 also reflects certain larger loss settlements. The Q1 2016 cash flows were unseasonably high last year. Timing differences in P&C will normalize by the first half of 2017. Total liquidity of the group reached €2.1 billion as at March 31 and reduced as planned from the year-end level of €2.3 billion through the rebalancing of the invested assets, despite holding cash in preparation for the dividend payment in early May.

Let me now hand over the baton to Victor, who will give you more details on the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Good morning. We are pleased with the results of the quarter which are more than in line with the targets and the assumptions of Vision in Action. Picture that comes out of the two P&C slides that you have in the presentation is very much one of continuity and stability of excellent performances. It is also a picture of continuity and consistency in terms of handling exceptional events and absorbing shocks.

Starting with the exceptional event of this quarter, the change in the Ogden discount rate has essentially affected two of our UK portfolios: Non-Proportional Motor; and the Medical Defense Union Medical Malpractice run-off. It has caused the total impact of €116 million: €83 million for the Motor Non-Proportional; and €33 million for the Medical Malpractice run-off.

As we have always done in the past when facing such large events, which are generally more linked to natural catastrophe, we have used part of the margin above best estimate in our reserves, and we've done a quantum of reserve releases to absorb part of the shock. This quantum combined with low natural catastrophe ratio for the quarter brings us to a net combined ratio of 94.5%, which remains below the 95% to 96% range indicated for Vision in Action.

It's worth noting that the normalized net combined ratio after neutralization of the Ogden impact, and the related reserve release, and considering a net cat budget of 6% comes out at 94%, which is below the level of the past quarters and demonstrate that the quality of the book of business has been very well-maintained.

We continue to deliver excellent technical profitability, which has been unaffected by market conditions that remain very competitive. And we have managed to grow premiums at a steady base as shown by the progression of the 1/1 and 1/4 renewals. The fact that these renewals have been negotiated at almost stable pricing and with almost no deterioration of the expected technical profitability confirms that we are reaching a point of market stabilization, if not yet, the point of market upturn.

The 13.2% growth reported for the first quarter benefits from the written premium influx of the large Proportional contracts that were underwritten in the second part of 2016. You will recall that these contracts were mentioned when we commented our Q3 2016 results. As in the past, for example, in 2009, this growth rate will adjust itself over the quarters, and pending the results of the June, July renewals, we believe that the growth range indicated in Vision in Action remains valid.

On that, I'd pass on to Paolo for the Life results.

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. I'm pleased to report that SCOR Global Life had a very good start of the year with strong results, both with regard to premium growth and profitability of the business. The first quarter of 2017, we've recorded gross written premium of €2.2 billion, representing an increase of 12% at constant exchange rate or 14.4% at current exchange rates. The strong quarterly growth follows an already strong fourth quarter in 2016, where we wrote some new longevity business in the UK, with premium contributing into 2017.

The growth has been well-diversified, both in terms of geographical spread and product lines. Besides a new premium from in-force longevity business, we have also recorded new business flows, particularly, in the Americas and Asia Pacific from protection and financial solutions, affirming our strong franchise in those regions. With the opening of a branch in Tokyo, demonstrating the importance of Asia-Pacific through our strategic plan, we will continue to expand our franchise in this region and bring new and innovative solutions to our Japanese customers.

For the full-year 2017, we expect premium growth to normalize at around the 5% to 6%, in line with the Vision in Action annual premium growth assumption. Technical results remain strong with a technical margin of 7.2%. We've been able to deliver this, thanks to both the profitability of our new business underwritten in line with the group profitability target, as well as the very healthy performance of the in-force portfolio.

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

François de Varenne

Thank you, Paolo. SCOR's total investment portfolio reached €27.9 billion at the end of March, with an invested asset portfolio of €19.4 billion compared to €19.2 billion at the end of December 2016. After our close at the end of 2016, due to the political uncertainty, SCOR Global Investments resumed rebalancing of its invested assets portfolio toward Vision in Action asset allocation during the first quarter of 2017. Liquidity stands at 10%, one point lower compared to the end of 2016 level. But temporarily including the upcoming dividend payment of the group, scheduling to (13:07) 2017.

The most significant change of the quarter is the significant reallocation from government bonds toward high-quality corporate bonds, such as a good market condition. Indeed, we were able to invest €1.1 billion in all our main currencies in high-quality corporate bonds with an average rating of A and allowing to lock a high book yield of 2.85% at an average duration of 6.8 years. As a consequence, our corporate bonds exposure stands at 44%, up 6 points compared to the last quarter and in line with Vision in Action asset allocation.

Meanwhile, the duration of the fixed income portfolio was slightly increased from 4.5 years to 4.8 years. Our fixed income portfolio remains of very high quality, with an average rating of A+. At the end of March, expected financial cash flows for the fixed income portfolio over the next 24 months stand at €6.1 billion, which will facilitate the dynamic management of our investment policy.

SCOR Global Investments delivered a solid 2.6% return on invested assets in the first three months of 2017. It should be noted that in comparison with last year, the Q1 2016 financial contribution was positively impacted by realized gain in real estate of €52 million. We confirm our 2.7% to 3.2% estimated range for the full year of 2017 according to current market conditions. This return should benefit indeed from realized gains linked to the sale of a mature real estate building that should be done before the end of the year.

SCOR Global Investments continues to reinforce its ESG policy, and we announced today our full divestment from tobacco company, undertaking to make no new financial investments in such companies in the future. With this action, as a responsible life and health reinsurer, we demonstrate the crucial positive role the investment community can play in the society.

With this, I will hand it over to Ian Kelly for the conclusion of this presentation.

Ian Kelly {BIO 19976646 <GO>}

Thank you, François. On page 12, you will find the next scheduled events, starting on July 27 with the Q2 2017 results; and of course our Investor Day on September 6, here in Paris, as well as the conferences that we are planning to attend for the remainder of 2017.

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

Q&A

Operator

Thank you. We'll take our first question from . Your line is open. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Good morning, everyone. I have actually three questions. So, I'll ask them all, and if you want to answer later. I'm sorry about that. The first one is on the Life technical margin. So, it improved, and I thought that increasing longevity business would deteriorate that, actually. So, you highlighted the in-force management, and I wanted to understand how much it contributed to the technical margin there? And excluding that, would that've been deteriorating? First question.

The second is in terms of run-off in P&C. And the run-off was made on long-tail lines, and I wanted to understand what's your view on potentially inflationary pressure on claims in these lines? And do you feel very comfortable in releasing these results on long-tail lines?

And the third one is on solvency capital generation and the fact that you – excluding of them you generated 1 point of solvency in Q1 compared to full year 2016. And I wanted to understand if this is somehow run rate for the coming quarters? And so, should we expect something like 3 points of solvency during the remaining of the year, solvency capital generation? Thanks very much.

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. Paolo, on the first question, technical margin at 7.2%

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

Yeah. I think, you guys are used so nicely with this steady 7%. I mean, the 20 basis points of over €8 billion book of premiums is – it will be normal volatility of the quarter. This quarter, we had a particularly good performance of our in-force book. We had one-off transactions that bump the margin up a little bit. It will normalize down, probably slightly higher than the Vision in Action interval by the end of the year. But that's really, I would say, normal business, but there was nothing super exceptional in the numbers.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor on the inflation...

A - Victor Peignet {BIO 6287211 <GO>}

Yeah.

A - Mark Kociancic {BIO 17852409 <GO>}

...expectations given the reserve release?

A - Victor Peignet {BIO 6287211 <GO>}

First of all, the reserve release are taken out of the margin, above best estimate. That has got to be very clear. It's only a very, very marginal fraction of the total reserves, which were well in excess of €11 billion. And those €45 billion have been spread across, well, four different lines of business, motor, liability, aviation and marine, across between 5 and 10 portfolios in Europe. So, I think, we are totally comfortable with this sort of reserve release. As far as for the inflationary pressures on claims, well, we are reviewing the situation on claims inflation every year. And, again, I mean, we are totally up to speed on that.

A - Mark Kociancic {BIO 17852409 <GO>}

Frieder, if you could say a few words on the solvency generation capacity.

A - Frieder Knüpling

Yeah. We don't really give forward-looking guidance on solvency ratio movement at this point. But when it comes to Q1, there was nothing unusual which drove the Q1 numbers. We've had a slight uptick because of financial market movements, interest rate movements. We have more than a percentage point and then a few small other improvements.

And then on the business side, obviously, the Ogden rate impact is quite significant, so this reduced the solvency ratio by a bit more than 2 points. And then there was normal run rate capital generation in addition. But you should note that on a quarterly basis in our estimates, we accrued the expected dividends on a pro rata basis. I don't think everybody is doing this, so this usually leads to a relatively smooth solvency ratio movements during the quarter, because we build up the expected dividends, which obviously needs to be funded out of the capital, which we generate quarter-by-quarter.

There is some seasonality on a quarterly basis. So, the business growth dynamics are not equally spread out over the quarters. And also capital generation is a function of the business mix in the respective quarters. So, there is some volatility, which is also caused by business mix and growth dynamics during the year.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thank you very much.

A - Ian Kelly {BIO 19976646 <GO>}

Can I just everybody to stick to two questions each. We've got short time this morning, and we can deal with other questions subsequent to the call. Thanks.

Operator

We'll move to our next question from Vinit Malhotra. Your line is open. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. So, my two questions. One is on the strong normalized combined ratio. Victor, would you say that there was anything very different, because this is obviously much lower, much better than what we were expecting and what is in the target range? Is there any one-off here, or is it something that just the effect of stabilization, that you're seeing in the market, I mean, pricing terms? And the second question is just on the - slightly weird, I apologize, from the U.S. proposals on tax. I mean, is there any rough estimate from what happens to solvency or DTAs or any such thought process from your side on this proposal? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor, on the 94% normalized combined ratio.

A - Victor Peignet {BIO 6287211 <GO>}

Well we are in the third quarter of the Vision in Action plan. And as for the previous two quarters, we have said that, we have managed until now to continue much more on optimal dynamics, which was basically a combined ratio between 94% and 95%. And as you will recall, we have been on normalized combined ratio around 94.3% to 94.5% for quite some time. It's a bit better this quarter.

There's nothing special into it. It's is just that the normal development of the business is positive, which means that it reinforces our conviction that the underwriting is very strong. But between 94% and 94.3%, I mean, the difference is not that huge. But it shows a trend, and what is important for us is that for the moment, we continue to be able to manage the combined ratio around the 94%, 94.5%. And we are not yet in the metrics of Vision in Action, which we're more 95%, 96%.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

On the second question with respect to the U.S. proposals on income tax reduction. So, there's a wide range of tax rates that are being floated around, as potential lending points in the U.S. I'll just give you a general proposal as to how it might affect existing DTAs that we have. So, roughly, there's between a €2 million and €3 million charge for each percentage point of decrease in the U.S. corporate income tax rate. That's a rough estimate. I think it is a net positive for us though, because we have such an expensive extensive operation in both the U.S. Life and U.S. P&C organization, so there would be a net positive benefit in the long-term with a lower income tax rate in the United States.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

Operator

We'll move to our next question from Kamran Hossain. Your line is open, please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, everyone. Three questions, the first one is, I guess, following the Ogden change (25:35) this quarter, can you maybe give an indication of what you expect to happen to prices, especially in the UK Non-Proportional Motor reinsurance market? That's question one.

The second question just coming back to, I guess, mix of long-tail versus short-tail business in P&C. Could you give an indication of what this looks like year-on-year? And have we seen a substantive move towards long-tail? As I know that was one of the things you indicated that would happen over the three-year plan period? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

As far as the market reaction to Ogden, I think it's too early to really say. I think we knew technically what is the impact on pricing of excess of loss reinsurance due to Ogden rate change. We are waiting for, first, the consultation and the outcome of it. I think as the rest of the market does probably. And I think we will see that 1/7 renewal. That's the first one. The consultation should be done by then. We'll have a better feel about what's going to be the market reaction. But it so appears that on the technical point, I mean, this makes a very, very substantial difference in pricing. And the higher the access point is, well, the more that multiple increases.

Regarding the split between long-tail and mid-tail, because you need to divide more in Sweden in two, we have a bit of an increase on few long-tails, we should divide the portfolio in between short-tail, mid-tail, long-tail. Short-tail is, say, around 45%; the mid-tail is about a bit less than 35%; and long-tail is a bit above 20%. So, now, if we look year-on-year, we are increasing the long-tail, we were in the 20%, 21%. We are now in the 23%, 24%. So, I mean, it's like a tanker, it doesn't move at a very high speed, but it is significant, yes, in terms of movement.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much. I appreciate the color.

Operator

We'll move to our next question from Jonny Urwin. Your line is open. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Thanks for taking my question. Just two for me. So, firstly, just thinking ahead to June 1, July 1, renewals. I've read a bit in the sort of industry journals, that demand has been falling in the U.S., in particular, from primaries and also due to a bit of model change from RMS, so any comments there would be interesting? And secondly, there's been growing sort of criticism of broker practices, and commission levels, and Lloyd's of London ,in particular in recent weeks as well. So ,just any, any comments from you guys there would be appreciated. That's all Thanks.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor, again.

A - Victor Peignet {BIO 6287211 <GO>}

On your question, the first question is very much focusing on pure CAD (29:09) business in the U.S., and again, within that focusing on Florida, which is not a big play for us. So, I think, yes what you say is right, but we are not going to be affected by this movement ourselves, because of the portfolio structure, nature, and clients, and geography. While the second regarding the levels of commissions and brokers, well I have read those comments, but I think that everyone has got his own view about that. And personally, I'm not willing to comment on this.

Q - Jonny Urwin {BIO 17445508 <GO>}

All right. Thank you.

Operator

Our next question comes from the line of Fossard, Thomas. Your line is open. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning, guys. Two questions. The first one would be for Victor, just to come back on the Ogden rate reserve strengthening. So, just to better understand, what was the starting point in terms of reserves you were holding on the UK Motor, just to put the €83 million into context? And also, to better understand, you are talking of Non-Proportional book reserve strengthening, have you as well as some Proportional exposure here or is that insignificant or does not matter too much in light of the Ogden rate table?

And also, the second question will be, I think, that Paolo mentioned a kind of normalization of the premium growth over the full year, so moving from 12% to roughly 5% to 6%. Victor, could you also give us a bit of, what is your current view regarding the full-year premium income you are expecting at this stage, following Q1 strong year performance? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Let me give you some facts on Ogden and demonstrate how transparent we are. We estimate our market share of Proportional and Non-Proportional UK Motor at about 3.5%. We used to have a larger share on Proportional, but considering market conditions, we have aligned basically to about 3.5% on both.

Now, the deterioration, we have taken in relation to Ogden have all been on 2011 and in subsequent years. Two-thirds of the deterioration is on 2014 to 2017, where we have no paid losses, so that is where we are. We would have been sufficiently reserved if the rate had gone down to 1%. We have always had a prudent reserve. We did not foresee and anticipate a large reduction in the discount rate and certainly not it going to be negative. So, that's where it gives you, well, the picture of where we were.

As to growth for the entire year, as I said, you've seen our renewals, Jan 1. You've seen our renewals, April 1, even though the April 1, is a bit impacted by two one-offs, but you can see that, we are within the range of Vision in Action. We're around the 5%, 6% at the moment. But we are waiting for first, well for June, July renewals, to get a bit clear on where we are going. I think, it's obvious that as market conditions are stabilizing, but still very competitive, and we are also extremely focused on the technical profitability. Well, we have to take views on certain contracts, which happen at 1/4, so we've got to see how the June, July renewals develop.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

Operator

We'll move to our next question from William Hawkins. Your line is open. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thank you. I think that you've just answered the half of my questions. I was to ask about Ogden, why this has affected the P&L, because I would have thought that such an event was covered by your bulk IBNR. But it sounds like in your answer to the previous question, you're saying that would have been the case if the rates had gone down to 1%. But the fact we've ended up such a negative, that's why it ends up affecting the P&L. Just to confirm if I've understood that correctly.

And then what you didn't answer from the previous question is what the reserves were before this charge was taken? That would be useful just to understand the scale of the impact to the portfolio affected. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Right. I mean if it would have gone to 1%, we would have no impact. Secondly, the reserves were a bit north of €300 million before Ogden.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

We are talking here of Motor Non-Proportional, right, so the €83 million.

Q - William Hawkins {BIO 1822411 <GO>}

(34:37) The €83 million.

A - Victor Peignet {BIO 6287211 <GO>}

(34:39)

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

We'll move to our next question from Frank Kopfinger. Your line is open. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have other two questions. My first question is on P&C. Victor, could you comment a little bit more on the reserve margin, how this develops after the reserve release? Do you see it on the same level, or how much did it affect the margin at the end of the day?

And the second question is for François. If I got you correct, and you mentioned that there might be realized gains from property being ahead on the cost of the year. Should we expect the same magnitude than we had at the last year, or what should be the expectation in this end?

A - Victor Peignet {BIO 6287211 <GO>}

We are talking of the magnitude of release, which is very comparable to the one we did last year, and when we faced the report on Fort McMurray fires. And as we commented at the end of the year, we had been able to replenish the margin by the end of the year. So, I think, we are at this year, in the same configuration. We have a hit on the margin in the first quarter, which is not massive, and we are hoping that by the end of the year, we will have replenished the margin.

A - Mark Kociancic {BIO 17852409 <GO>}

Francois...

A - François de Varenne

So, the second question on the investment returns for the full-year. So, yes, I confirm that we launched the sale process of the mature building billing, exactly in line with what we did in 2016. And you saw the impact in Q1. So, we expect the finalization of this sale process by the end of the year, probably an impact more - we should expect it in Q4. The magnitude is in line with the expectation for the full year that I gave in the presentation of the Q4 result. So, still, an income yield between 2.1% and 2.3% and the contribution of realized gain that should be between 0.5% yield.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

Operator

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

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, there. Just one question from me. Can you please shed some more light on the U.S. two large contracts that is mentioned on slide 9. The reduction in premium from €93 million to €49 million, what's really driven that. That's all from my side? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I can't say much more about that. I can tell you that one contract has disappeared because of consolidation by the client. The other contract is a voluntary cancellation from our part, because the contract was not providing the expected profitability we were looking for. One is property...

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

...the other one is Motor.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. That's very helpful. Thank you.

Operator

Our next question comes from the line of Xin Mei Wang. Your line is open. Please go ahead.

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

Hi. Good morning. I have just one question. It was for François. I think you said on the 4Q conference call that you expect 2017, the return on invested asset to be in the upper half of the 2.7% to 3.2% range. Could you please comment on that in light of the 1Q return on invested assets and reinvestment yield please?

A - François de Varenne

What I said in Q4, and I reiterate today is that our expectations for the full-year 2017 return on invested asset would be in the high part of the range given for Vision in Action in September 2017. So, 2.7%, 3.2%. And at this stage, again given what we are doing on the real estate portfolio and the sale process, I'm pretty confident that we will be in this range. It's a little bit too early to reduce the range today. I'd prefer to wait for the development of market environment for the full year. I confirm the 2.7%, 3.2%, which is the other part of Vision in Action expectation.

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

All right. Okay. Thanks.

Operator

It appears there are no further questions at this time. Mr. Ian Kelly, I'd like to turn the conference back to you for any additional or closing remarks.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. Thanks very much for attending the conference and please don't hesitate to call us should you require any further information. So, thanks a lot, and have a nice day.

Operator

That concludes today's conference. Thank you all for your participation. You may now disconnect.