Q2 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

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Ivan Bokhmat, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

[Abrupt Start] ladies and gentlemen, and welcome to the SCOR Group 2017 Q3 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 to limit the numbers of your questions to two.

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

Ian Kelly {BIO 19976646 <GO>}

[Technical Difficulty] (00:37-00:59)

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Ian. Good morning, everyone. [Technical Difficulty] (01:10) group bringing by combining profitable growth, strong return on equity [Technical Difficulty] (01:18).

Slide 3, let's start with the expansion of the franchise. SCOR delivers excellent growth, gross written premium, €7.5 billion in the first half of 2017, up 10.1% at constant foreign exchange compared to H1 2016. This is driven by the strong contribution of our two business engines, SCOR Global P&C continues to grow its franchise in the U.S. in line with our Vision in Action strap (01:46) plan. P&C division pursues its selective growth with stable pricing as witnessed during all of its renewal since the beginning of the year.

SCOR Global Life pursues its expansion in Asia-Pacific for both protection and financial solutions and continues to deliver a strong track record in UK Longevity reinsurance. SCOR records a net income of €292 million for the first six months resulting in a 9.1% return on equity including the impact of the change in Ogden and the reserve release associated with it, which were fully accounted for in the first quarter of 2017.

First half 2017 net income would have stood at €350 million, and our return on equity at 10.9%. Solvency position of the group remained strong at 226%, and remains for the present time above the optimal range. As announced earlier today, SCOR has commenced the share buyback program with an amount up to €200 million over the next 24 months.

Buyback reflects the group's confidence in the underlying fundamentals. We can still finance the present and future growth. We can still finance for increase in dividend. We demonstrate good profitability and a robust solvency position. This buyback also supports fact for us value proposition for shareholder remuneration is attractive.

Moving to page 4. I'd like to emphasize that both Life and P&C are performing very well, and are delivering strong technical profitability in 2017. P&C combined ratio stands at 93.5% and the Life technical margin is at 7.1%. On the investment side, the asset allocation changes that we implemented in the investment portfolio have been rewarded in terms of yield, and we are well positioned to take advantage from any upside in interest rate, especially in the United States.

SCOR Global Investments is delivering a solid return on invested assets of 2.7% for the quarter, in line with the 2.7% to 3.2% range indicated for the full-year 2017. François will confirm later on.

Going to page 6, despite a net income of €292 million in H1, shareholders' equity decreased over the first half of the year to €6.4 billion, and the reduction comes from the €308 million dividend payment in the second quarter, and a negative $333 million currency translation adjustment, primarily due to the weakening of the U.S. dollar in the first half of the year. This translates into a book value per share of €34.09 at the end of June. Financial leverage stands at 25.2%, marginally above our assumption, but we do expect it to come back under the 25% level for year-end 2017.

Let's move on to page 7, we're in line with our expectations, and SCOR generated operating cash flows of €328 million for the first half of the year. SCOR Global Life cash flows have shown some catch-ups since the first quarter as expected, but still reflect claims payment and retrocession settlement timing differences. Cash flows are expected to normalize in the second half of 2017. On the SCOR Global P&C side, cash flows continue to be strong and in line with expectations. The total liquidity of the group stood at €1.8 billion at June 30, with the rebalancing of the invested assets having commenced.

Now, let me hand it over to Victor, who will give you more details on the P&C results and the June-July renewal.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Mark, and good morning. As you can see on slide 8, if you remember the comments that were made when the Q1 results were published, Q2 and H1 are right in line with what we had anticipated that would be. On the top line, the rate of growth is lower than what it was reported at the end of Q1, but it still benefits from the effect of the large Proportional contracts that were underwritten in the second half of 2016.

It is no surprise that this geography of the growth is dominated by the U.S. The three components of the business being P&C treaties, Specialties and business solutions are contributing to the growth. Having now gone through the June-July renewals, we can indicate that the growth for the full year should be in the region of 7% to 8%, however, with the subjectivity of what the impact of the weakening of the U.S. dollar against the euro will be.

In the bottom line, at 93.5%, the H1 net combined ratio remains excellent. And as is illustrated by the normalized net combined ratio and the non-cat net technical ratio, this is not only thanks to the favorable cap ratio, normalized net combined ratio stands at 94.7%. The H1 non-cat net technical ratio, which is the sum of the net attritional and the commission ratio is stable year-on-year when excluding the impact of the change in the Ogden rate, which was fully taken into account in Q1.

This demonstrate that the quality and the performance of the portfolios are well managed and maintained. Along the same lines, is also worth mentioning that the net combined ratio for the first year of Vision in Action, normalize of net cat and Ogden, stands at 94.5%. In fact, the normalized net combined ratio of Q2 stands at 95.4% is the reflection of the prudent reserving approach, following the reserve release of Q1 and due consideration given to the low quarter, low net, to the low quarter net cat.

As far as the June and July renewals are concerned, the main features are shown on slide 9. These renewals have been negotiated in market conditions and have basically stayed the same since January and April, but for the reinsurance market for casualty lines in the U.S. at the TS level bottom (08:20). The most noticeable measures have been the portfolio management actions that were taken in the U.S. within the property segment and in particular in Florida.

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

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. I'm pleased to report that SCOR Global Life delivered stronger first half year of 2017, both in terms of premium growth and profitability. We've recorded gross written premiums of €4.4 billion, representing an increase of 9.7% at constant exchange rate and 11.9% at current exchange rates. Excellent growth is the result of the positive business flow across all our product lines, particularly in Asia-Pacific, one of our key areas of growth of Vision in Action strategic plan, recorded a gross written premium growth of around 40% (09:13).

Looking ahead to the end of 2017, we expect premium growth for the division to normalize at around 6%, in line with the top end of the Vision in Action annual premium growth assumption. Technical performance for the first half of the year remains strong, with technical margin of 7.1%, slightly above Vision in Action. We've been able to deliver this technical margin, thanks to both the profitability of our new business underwritten in line with the group profitability target, as well as the healthy performance of the in-force portfolio.

In addition to the quarter financials, as announced with our press release of July 17, SCOR signed an agreement with Fédération nationale de la Mutualité Française and Matmut with a view to the acquisition of 100% of the shares of MutRé. The ratification of the agreement by MutRé's other shareholders, which represent approximately 15% of MutRé's capital, is expected in October 2017 at the latest. This acquisition will enable SCOR to further strengthen its Life and Health offering to the French Mutual insurance industry. (10:21).

I will now hand over to François de Varenne, CEO of Global Investments for more details (10:30).

François de Varenne

Thank you, Paolo. Moving on to slide 11. SCOR's total investment portfolio reached €26.7 billion at the end of June, with an invested asset portfolio of €18.3 billion compared to €19.4 billion at the end of March. This decrease is primarily due to the evolution of the fixed rate and notably the weakening of the U.S. dollar against the euro, as well as to some cash outflows including SCOR dividend that happened during the quarter.

After an active phase of portfolio rebalancing executed during the first quarter of 2017, SCOR Global Investments decided to put temporarily reinvestment on hold during the second quarter of the year. Indeed, this quarter was masked by a more uncertain economic and political environment as well as lower level of rates during the most profitable quarter when compared to superlative levels of sales during the first months of this year and which enable us to reinvest at very good condition.

In that context, our liquidity is slightly reduced at 9% compared to 10% at the end of the first quarter. Meanwhile, our exposure to government bonds and (11:44) increased by 4 points compared to last quarter, mostly at the expense of our corporate bond portfolio, down 3 points compared to last quarter.

The duration of the fixed income portfolio was slightly decreased at 4.5 years, stable compared to end of 2016 levels and slightly below end of March. Our fixed income portfolio remains at very high quality, with an average rating of A+. At the end of June, expected cash flows from the fixed income portfolio over the next 24 months stand at €6.2 billion, which will facilitate the dynamic management of reinvestment policy as market conditions permits.

SCOR Global Investments delivered a 2.7% return on invested assets in the first six months of this year. Besides, our income yield continues to increase and stand now at 2.6% for the first six months and the second quarter of 2017, while our reinvestment rate stands at 2.6% at the end of June 2017. We confirm our 2.7% to 3.2% estimated range for the full year 2017 according to current market condition. This return should benefit indeed from realized gains linked to the sale of the mature real estate building that should be completed before the end of the year.

Finally, let me take the opportunity to remind that SCOR has published its first ESG report on investments a few weeks ago, which is a further testament of our commitment to our ESG policy.

With this, I would 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 September 6 with our Investor Day to be held 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 and just to remind that (13:48).

Q&A

Operator

Thank you. And we will now take our first question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. Sorry. This is Vinit from Mediobanca. I just want to understand two things here, please. One is the duration of this buyback, which has been in focus this morning. Could you comment a bit Mark on how you – what was the thinking behind announcing a two-year frame of reference for this buyback?

And second question is just on the normalized combined ratio that was mentioned by Victor that there was reserve buffer fill-up, if you like, in 2Q, is this the run rate we have to – we should kind of expect for the rest of the year in the sense of your actions increasing this reserve or is it nearly then – I'm asking because last year 2Q also had this phenomena, but then it calmed down in 3Q and 4Q. So I just want to understand. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Thank you, Vinit. So on the first question for the buyback duration, I think the 24 months represents a probably a more conservative figure than we might anticipate actually executing. I don't see any reason why it couldn't be executed sooner than the full 24 months duration, that gives us some degrees of freedom in case any kind of uncertain events were to happen in the marketplace. But I would expect something to occur on a more timely basis with respect to the buyback.

Victor, on the second question for the combined ratio.

A - Victor Peignet {BIO 6287211 <GO>}

Well, as I said in my comments, we always are in a situation where Q2 is having a very low net debt ratio or equals to one, during which we've made reserve release. So we've adopted a pretty prudent approach of the reserving in Q2, and as with that sort of 94.5%, we are still below 95% on a normalized for H1, but we think that we've done what we had to do to protect the rest of the year. So for me, the run rate of the portfolio, I would say, is below 95%.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much.

Operator

And we can now take our next question (17:02) from BNP Paribas. Please go ahead.

Yes. Good morning. Thanks for taking my questions. I would have two. The first one is on the buyback, and I'd like to consider a case where you have normalization in terms of supply and growth, and what would be in your view, your solvency ratio at the end of this year because that's the target you have in terms of top line growth. And in 24 months period, would you still be above 220% in your central scenario? And if the capital generation is higher than expected today, would you consider increasing this total €200 million, up to €200 million amount? So this is my first question. And the second question is, François, can you maybe guide us for realized gains going forward, not only 2017, but for the years to come? Are you expecting something to change on this side? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Thanks. I'll ask Frieder to handle the first part on the solvency ratio evolution, and I'll speak to the level of the capital. Frieder?

A - Frieder Knüpling

Okay. Solvency ratios are obviously more volatile than other accounting statistics. So interest rate movements, market movements in general, other changes (18:31) assumptions so on make them more volatile. So a one point estimate, I think is difficult, and it's going to be wrong in any case.

Having said this, the underlying trend of our solvency ratio has been good. In the past two years, the operating performance and capital generation has been more than sufficient to fund regular dividends, and the increase in capital requirements.

And as far as market volatility is concerned, the biggest sensitivity of our solvency ratio is to interest rates, the Group is generally expecting interest rates to increase further. We are well-positioned to capture this. So, that can provide a further upside. But as I said, there is going to be some volatility around this on a quarterly basis. But based on fundamentals, which should support our solvency position and are fully in line with the buyback program.

A - Mark Kociancic {BIO 17852409 <GO>}

With respect to the €200 million level, that's something we identified firmly in 2017 as the level of excess capital. We were prepared to address with respect to our share buybacks. So I don't see that changing with respect to this program. However, 2018 is a whole new year, so we'll see what happens a year from now with respect to that timeframe. François de Varenne, would you like to?

Q - Operator

Just a follow-up on this one. I think you said that full year that you wouldn't intend to remain above 220% Solvency II ratio, is this to look at the range is below 220%, right?

A - Mark Kociancic {BIO 17852409 <GO>}

We like to remain in the optimal range. However, if we are marginally above, we have to take into account several factors, not the least of which is the volatility that Frieder spoke about that we are subject to and then the second thing is the evolution of the business plan, operating plan for 2018, which could also require additional capital to support it.

Q - Operator

Okay.

A - François de Varenne

On the realized gains, understand that I am confident that we will – we are in the process of filling a building – mature building in Paris and that the sales should be completed before the end of this year, which would be more a Q4 event. Going forward, for the next three years, if you move through slide 39 in the appendix of the presentation, you've got the annualized gains analysis on our portfolio and you see that we have about €467 million at the end of June, an increase by an amount of almost €60 million compared at the end of December last year, despite the fact that we took €68 million in the first six months of gain on this portfolio.

If you look closely, you will see that on the fixed income side, we have, let's say, almost nothing left, but the significant portion of annualized gains are on equity, real estate, and other investments so which mean on asset classes where we will take gains when this recognize the performance and the value creation since inception. So, yes, we have a significant buffer to maintain our policy to realize gains by the end of the year.

Q - Operator

Thank you.

We can now take our next question from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Mark, sorry, just back on the, the buyback, given that there is this 24-month time period, and taken what you've said clearly. Are there any fungibility constraints that you guys have on getting capital into the center, and then distributing it that we may not have talked about the in the past. We know your Solvency II ratio is very strong and all the rest of it, but I'm just wondering if one of the reasons you've said conservative timeline is just related to cash flows around the group. I don't think so, just checking?

And then secondly, Paolo, your IFRS Life earnings, if we go to – I think you would gain about a €190 million both first half this year and first half last year on slide 16. Could you give us a number for what is the impact on your pre-tax IFRS earnings for the new business you've written this period and first half 2016?

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. Thanks, Will. With respect to the buyback, there aren't any cash flow constraints with respect to the 24-month period, I think that's more cautiousness in terms of external events that may impact the group, but I wouldn't read too much into the figure. I think in a normal situation, you'll see us execute sooner than that. As you know, through the IR Day presentations that we've had before, the fungibility of the group is really quite good. We have a strong set of subsidiaries in major countries, advanced economies with strong currencies, and we have a fairly diligent dividend program internally within the group and the ability to raise cash is of no concern at all to us at this point.

Q - William Hawkins {BIO 1822411 <GO>}

Sorry to be so bluntly explicit, but when you talk about external events, you're talking typically about capital markets and large loss rather than anything else, right?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah, I think if you were to look an extreme nat cat, if you were to have a Japanese Tsunami or something like that or something even bigger, that's really what we're discussing here.

Q - William Hawkins {BIO 1822411 <GO>}

Right. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

On your second question with respect to Life earnings and new business pre-tax fund rate, Paulo?

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

It's about €40 million.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

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

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

Hi, there. Three quick questions. First of all for François, your reinvestment rate went up 30 bps in the quarter despite the fact that benchmark yields didn't move, your duration reduced, your sold corporates and corporate spreads were ever benchmark or in the ones I look at, all spreads are pretty much tightened 10 basis points to 20 basis points. So how come your reinvestment rate went up 30 bps, maybe just to clarify was that spot reinvestment rate and not indicative of the average reinvestment rate over the quarter?

Second question, Mark, you mentioned that you expected the leverage to be below 25% by the end of the year. I'm assuming that's just because you assumed growth in equity, and not indicating early redemption of any debt. But maybe on the point of this leverage, I mean, you're clearly above your targets of Solvency II, but this is the actually constraint isn't it, the fact that you're kind of at the upper end of your target leverage or is that not the way to think about it? Thanks.

A - Mark Kociancic {BIO 17852409 <GO>}

François, on the...

A - François de Varenne

So the first question on the reinvestment rates, first, I come back and that's clear on page 11 in footnote 5 on definition of the reinvestment rate. So again, that's the picture as the last day of the quarter of – on the fixed income loans and real estate bucket of reinvestment rates at – not the duration of the portfolio, but the maturity of the securities we target especially in the fixed income portfolio.

If you look at the evolution of the 10-year history rate between the end of March and the end of June, you've an increase of almost 20 basis points almost everywhere, that's the case in the U.S. That's the case almost 18 basis points in the UK. And in Germany, that's 21 basis points. So you have an increase, if you take just the picture end of March, last day of March, last day of June on the risk-free component, you have an increase of interest rate in the magnitude of 15 basis points, 20 basis points depending on the currency. On the spread, we have almost a stable effect and we have a small duration effect in our composition, not the duration of the portfolio, but the average maturity of the security we target.

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

Sorry, what – you're not investing at the 10-year end and you're not really investing in governments. So what is the average duration of the new investment and what's the average rating?

A - François de Varenne

Usually, on the corporate bond side, we target 10-plus years and the same thing on (28:17). And it will be a little bit longer on agency, yet.

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

Are you investing new money at 10 years?

A - François de Varenne

Yes.

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

Yes.

A - François de Varenne

On both.

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

But as I say, the average reinvestment rate would have been materially lower over the quarter?

A - François de Varenne

No. Again, this is not an average of the quarter, that's again the future at-market condition on June 30 compared to March 31.

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

Okay, fine.

A - Mark Kociancic {BIO 17852409 <GO>}

So, Andrew, on your second question with respect to the impact of leverage, I do expect it to reduce below 25% just through the effects of retained earnings that are being captured or generated from the net income that we expect in the second half of the year. So that's a normal evolution. I don't look at it as a constraint at all on the buyback. Over the last 18 months, we've had two significant hybrid issuances that were fairly opportunistic where we captured coupon rates of 3% and 3.625%. So we secured long-term financing at a very attractive conditions, and that's what elevated the leverage ratio towards the upper part of that 20% to 25% range. And I think we need 25% to execute Vision in Action, but because we were able to lock in this kind of opportunistic low-cost financing, this sets us up real well for the next 10 years. And that's the reason we've put on a little bit more debt, and I don't view it as a constraint. With respect to calling any debt or anything like that, there's certainly no announcements for 2017 on the debt front.

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

Okay. Great. Thank you.

Operator

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

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Morning, everyone. Three (29:50) questions. Firstly, on the major renewals. Just give us an indication where you've grown in the UK (30:01) 11% in EMEA and it's on UK Motor?

And secondly, in terms of the message for Monte Carlo this year and to clients, could you maybe give us a bit of an information (30:11) on what that would be, whether that's going to be a continuation of previous year's messages just given the buyback? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well, first of all, the growth of UK you are talking about is in single digit millions or for the division, it's not going to be material. It's not Motor UK. There is a slight growth in Motor UK, but it's not there. It's much more on the liability. We have beefed up our underwriting capabilities in London recently on the liability side and it starts to pay off. So most of the increase is coming from five or six new contracts on the casualty side in the UK.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

On the Monte Carlo message, I think Victor will speak to P&C growth expectations during the IR Day that's coming up in early September. But overall, we've got strong fundamentals right now in the business. I think you can see that in the first half technical metrics for sure. I mean, the growth rate of both Life and P&C is on the higher side of where we expected the assumption to be, the technical profitability, combined ratio and technical margin is quite strong, and we were able to absorb the Ogden impact.

I think you would have seen stronger earnings in the second quarter if it wasn't for some tax anomalies that we had in the distribution of the profitability. We could have very well been in the €165 million to €170 million range for the quarter-to-date earnings of Q2 instead of the €153 million. So that message I think is still resonating quite strongly within the group, and you'll see us discuss that a little bit more in IR Day and also in Monte Carlo.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. Thanks very much Mark, Victor. Thank you.

Operator

Thank you. We now take our next question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there, good morning. Thanks. Just two questions for me. So firstly around the deployment of liquidity in the investment portfolio. And I know that you've obviously stopped redeploying the sort of cash and short-term investments, but what needs to happen from here for further deployment or indeed for you to perhaps increase that liquidity level? How do you think about the sensitivities?

And secondly, on the Solvency II ratio, I mean, you are saying that you are marginally above the target range of 226%. I mean, how do you define marginally above? I mean, if we were looking at 230% today, would you still be marginally above? I'm just trying to get an idea of the buffer above that 220% that you're thinking about holding. Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

François?

A - François de Varenne

On the reinvestment of liquidity and the rebalancing of the portfolio to our, let's say, the Vision in Action illustrative portfolio, we still maintain our roadmap and the redeployment of this liquidity. But if you look at what we did since last summer, and I will give the full update during the Investor Day in September, we were very active in September, October last year. Then we post the rebalancing strategy with the uncertainty of the U.S. election at the end of the year. We were very active and we locked interesting levels in Q1 due to the political uncertainty and also the uncertainty on central banks. We post a gain (34:10) in Q2 and we should resume the rebalancing strategy (34:17).

Q - Jonny Urwin {BIO 17445508 <GO>}

And (34:18)...

A - François de Varenne

We believe the economic environment is improving through that continent.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. And there's been no major action in July so far?

A - François de Varenne

It's too early to comment.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay.

A - Mark Kociancic {BIO 17852409 <GO>}

On the second question on what is marginally above the optimal range. So, the 226% is our best estimate right now, second quarter. It does not reflect the impact of share buyback, and that could be up to five solvency ratio points probably just under that when it's fully executed. But I think there's a lot of factors that go into the capital management decision. It's not just what is the number of the solvency ratio, it's also the fundamentals of the business, what are you going to be doing in the following years in terms of your operating plan supporting growth, and what are the prospects for volatility from macro factors. So, if we're in that 220%, 225% range, that's certainly marginal. I don't think that's going to force a decision just on the basis of that ratio. If we start to approach I think the 230% number, there is clearly more solvency margin at our disposal that we would have to efficiently use, and if we can't do it, then we are looking at an excess capital decision.

The other point to take into account, we do look at this over a medium-term timeframe. So, it's not just a one-quarter or a one-year horizon in terms of our capital utilization. So that's probably something that needs to be taken into consideration when we're talking about what's marginally above.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have two questions. My first question is on your tax rate, and apologies if you commented on it in the beginning, I missed it, then. And could you comment again on the challenge (36:45) behind this higher tax rate in Q2? My understanding is that from one side it's coming from the dividend income that you had generated. But there has been also some one-offs.

And my second question is for François, could you remind us on the realized gains that you expect to come from this real estate disposable by year end?

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. Frank, on the first part with the tax rate, I think we had two significant drivers. One was, what we historically have in the second quarter, which is the withholding taxes that are applicable to the external dividend payment. You'll remember that there is a 3% tax charge in France for the external dividend. So that's a little over €9 million of P&L effect. Plus, we also have withholding taxes applicable to the internal dividends that are generated globally amongst certain subsidiaries. So that on its own is roughly €13 million to €14 million of tax of – of P&L bottom line tax effect.

In addition to that, what we did not expect this quarter was really the geographic distribution on both Life and P&C of their profitability. We tended to have – just from a big picture point of view, we tended to have more of our profits in higher tax jurisdictions and more of our losses in lower tax jurisdictions, which led to this elevated rate of just over 30% for the quarter. So I don't see any of this as reoccurring. And I think the withholding tax is well known as an annual issue for us, and we'll see how long this 3% tax is outstanding given some of the recent activity in the legal system and its impact in France.

François, on the gains?

A - François de Varenne

On the gains. Okay. (38:47). So we are in a sale process of a major building in Paris, and then considering that this sale should be completed before the end of the year and should be a Q4 impact. And again, going forward, if you look at the appendix on slide 39, we have a significant buffer of unrealized gains on non-yielding asset classes, such as equities, real estate and other investments. So I am confident on the fact that we will maintain a contribution through realized gains through other plans.

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. But the magnitude that we saw last year, this could be also the other to expect this year?

A - François de Varenne

For the full year, I maintain the range 2.7%, 3.2% for the total yield on invested assets (39:47).

A - Mark Kociancic {BIO 17852409 <GO>}

Okay. Thanks.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good morning. Two questions for Victor. First question will be on the UK Motor side, now the situation is starting to stabilize, have you started to engage discussion with your clients and what could be potentially the opportunity for SCOR is next six to nine months on the UK Motor? That's first question.

Second question is, I think in your introductory comments, you described the current situation of the U.S. casualty. Could you just maybe rephrase and elaborate on what is the situation currently and what's your view going forward? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I wouldn't say myself that the situation on UK Motor has stabilized. I think everyone is waiting for the outcome. And the next step which is basically whether or not this minus 0.75% was going to be the situation and was going to be the formula. So I think for the moment we are still a bit in the uncertainty. Regarding the renewals, I mean, we have renewed with existing clients. Well, the price increases have been probably putting us in an equivalent of some realistic 0.5% to 1% equivalent discount rate. So we are not seeing, of course, the price increases that will put us on the minus 0.75%. But both the size of the book being what it is, we will continue to have discussions with clients. Most of our clients are composite clients, they are not motor or monoliners. So those discussions are within the global relationship and each client then is pretty specific.

Regarding the observation on the casualty on the reinsurance side in the U.S., well, this is just an observation that is coming from the renewal of June-July where we've seen that most of the programs have been renewed with no deterioration. And we have seen that the renewal process has been such that, yes, we are quite convinced that the market is trying to kind of stop to the deterioration of the terms and conditions, in particular of the commissions.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Very good, thanks.

Operator

We can now take our next question from Ivan Bokhmat from Barclays. Please go ahead.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, just a follow-up on the pricing question. We saw the industry comments of a stronger decline into high-single-digits on the June-July renewals, mostly concentrated on U.S. Cat.

Can you comment across your geographies on, what type of components came into your minus 0.5% price decline? And where did you see more constructive discussions, and where they're less helpful? So that's my first question.

And the second question is to Paolo, actually. I didn't quite hear your comments on MutRé , probably my line was bad. Maybe you could, you could comment again on the impact of SCOR, and what do you expect to gain from that acquisition? Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

I will say that, overall well, if we take the world, I think, the difficulties have been definitely around Middle East, Africa and Latin America for the most, plus U.S. Cat, and U.S. Cat with really an emphasis on Florida, and this is where we have done ourselves quite strong portfolio managements during the June, July renewals, that's what I mentioned in my comments.

For the rest of the markets, well, I think, the pricing is still on the slight decrease trend. But we are talking of reduction between zero and minus 2%, minus 3%. But we are no longer talking of really meaningful decreases.

So we think that, overall, I think, we are in for our own portfolio at least in a relatively stable sort of situation and we are taking step-by-step the measures that are required to manage the book, when it needs to be. And we've done what we had to in Middle East at this renewal, unfortunately, because that's an area of the world where we have a very, very strong track record and history of being a lead market.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Would you say that, overall in the past six month the situation for you has deteriorated or has remained stable on overall pricing?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I mean, we report minus 0.5% on the weighted average. So whether you call it as satisfactory or not, I don't think it is satisfactory, and it is marginally negative. But with that sort of price decreases, while we are able to manage the portfolio, what I see more of positive myself is the attitude of an increasing number of clients, where the discussions are going beyond just the existing reinsurance programs, and we see a lot of clients having real deep thinking on optimization, and capital utilization, and probably also financing of business, fluidity of cash flow within their own groups.

But that really prompts discussion that are much more interesting and where a reinsurance company like ourselves, I believe, and basically the deals that we are - have been doing on structured contracts are proving it, I believe, that we are among the few that can really entertain that type of discussions with clients, and that is positive, that allows us to demonstrate differentiation, and that's what we need to be. I mean we need to be relevant to clients and we need to be able to demonstrate that we are capable to provide things that others or only a few can provide. So I'd would say, reasonably optimistic on that front of the discussion.

A - Mark Kociancic {BIO 17852409 <GO>}

Follow on MutRé.

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

Yeah, my comments at the beginning of the call were really related to, what were the next steps, what was going to happen next. The agreement has to be ratified by the other shareholders, we expect that to happen as I mentioned during my speech, in October 2017, at the latest. And at this point, we would expect the acquisition to close at 01/01/2018. Those were my comments are the only words, I said (48:25).

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Okay. Well, maybe then you can comment on what made this acquisition attractive for SCOR, and what impact, if anything you would expect to see in the coming years?

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

French reinsurance mutual industry it's a very interesting industry, and that's why SCOR originally invested in MutRé at the end of the 1990s. Situation had been created, whereas the shareholder structure, we had participated for one-third. Some of the other shareholders felt that it was not a good place for them to be any longer. And we still thought business was very interesting for us.

So we decided to purchase it. We believe once the business is fully integrated, it would be fully accretive for numbers. It is not massive acquisition, you can see the numbers of MutRé on MutRé website, where you get all details and how big it is.

We already pick up some business (49:33) and probably some business will have to be evaluated for us for our own (49:39) in terms of the completion, but that will happen (49:41).

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Okay. Thank you very much.

Operator

And we can now take our next question from Paris Hadjiantonis from Credit Suisse. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes. Good morning from my side as well. I only have two questions. The first one will be on the reorganization of the subsidiary, something that you've talked about in the past. I was wondering if you could actually give us some update about the timing and the level of capital that could be released from this reorganization.

And then secondly, on the recent weakness of the dollar, I mean, we've seen the impact on shareholders' equity through OCI, you've talked a bit about what that could potentially mean for growth going forward. I was wondering if you actually hedge any of your FX risk, and if we can basically see some kind of offset from the U.S. dollar weakness? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Paris, on the first part with respect to the three SE merger, so this remains on track. We spoke about this, I think couple of quarters ago. So we've identified approximately €200 million of potential excess capital that comes out of that transaction by merging the three SE entities that we have in France.

It's targeted for completion in the first quarter of 2019. There's a series of steps that we're taking from a legal perspective, operational perspective and client perspective over the next 18 months to secure that. We have to work in approximately 48 jurisdictions to secure new licenses, branches, and portfolio transfers, which leads to the complexity.

However, that's simply a timing issue, I think the amount is still good, and any kind of decision on that capital level would be made in 2019. On the second piece, the U.S. dollar weakening has had an effect, you can see that we've had almost a 9% decline over the first half of the year, so the currency translation adjustment for the group was close to minus €300 million for the second quarter.

We do hedging of monetary assets and monetary liabilities, but we do not hedge subsidiary capital, rather we consider that really as a permanent source of capital, and broadly speaking, it matches the underlying business flow from those countries, so we have in the U.S., for example, roughly a commensurate level of capital in U.S. dollars supporting a premium base in U.S. dollars.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Thank you very much.

Operator

We can now take our next question from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, thanks for letting me follow-up, didn't expect the call out. Mark, I just wanted to check at the 1Q stage, there was a lot of talk about SCOR being happy at 200% Solvency II ratio, and you were very much wanting to operate within your range, that was what I took away last quarter. I don't think there's been any mention of that this time and most of the discussion has being anchored about how much you are above the top of the range instead, so what's changed in terms of that language? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

Well, nothing's changed in the sense of – we still want to operate in the optimal solvency range. What we said is that, we would feel more comfortable operating in the 200% to 220% level, and so, whether we're at 205%, 215%, you know those figures are fine. It provides the level of security that our clients expect; it makes our board comfortable with the execution of the plan and so on. It's not that we're targeting 200%, I think, we'd rather be in the upper part of the range, and then deal with capital decisions and growth issues, it certainly gives you more flexibility to be at 220% rather than 200%. But if we did have some sort of event that took us down to 200%, we would be comfortable at that level as well.

Q - William Hawkins {BIO 1822411 <GO>}

Just to be clear, if we're talking about managing capital, it is not managing capital to get down to the top end of your range, it is managing capital to get into your range.

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. Over the long-term. I would agree with that.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you very much.

Operator

We can now take our next question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Hi. Thanks once again for a follow-up question. One question on the FX, and how to better understand it. There are several moving parts, so I appreciate that, it might be a tricky question, but I mean, right from solvency, we heard once Frieder say that, the dollar strengthening had helped the SCR (55:08), today we've heard obviously the FX move in the asset, which is maybe €600 million, €700 million or something similar, I don't know.

Then there's a €12 million hit on the investment income, and then there's dependency on the premiums. Mark, have you run a scenario of some sort, which just helps us to understand that if the dollar weaken from now or even remains where it is, how much is the hit we should expect, or how should we estimate in your suggestion? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

I don't think it will be as material as you might think, partially because of the matching, we do have a slightly more profitability coming from U.S. dollar jurisdictions, simply because a lot of the corporate overhead is headquartered here in Europe, and so, there's a larger euro expense base.

So you can take sensitivity analysis on FX rates on profitability as really a function of that, assuming you have a normal claims distribution, but it's not really that much of a meaningful movement in terms of rising USD or strengthening euro.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. But it was on the investment income and an important number or it's not for that?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. I think just to give you some figures. So if we had, I mean, U.S. dollar is clearly the biggest impact that we have of all the other currencies we deal with. But a 10% movement either direction in the U.S. dollar from a balance sheet perspective is going to give us approximately a €350 million impact at this point in time, either direction. And on the net income side, you're looking at something similar, so a €35 million FX impact, plus or minus depending on the movement of rates.

Q - Vinit Malhotra {BIO 16184491 <GO>}

The €35 million for 10% for net income?

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah. That's right, plus or minus.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Plus or minus, fair enough. Thank you. I appreciate that.

A - Mark Kociancic {BIO 17852409 <GO>}

Annualized, annualized.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Annualized, of course. Thank you.

Operator

There are no more questions in the queue at this time. I will now turn the call back to the host for any remarks.

A - Ian Kelly {BIO 19976646 <GO>}

Okay. So thank you very much for attending this conference call and please do not hesitate to call us should you require any further information. The team is available as usual. So, thank you very much. And have a nice day.

A - Mark Kociancic {BIO 17852409 <GO>}

Thanks, Ian. On behalf of the entire (58:01), I would like to wish everyone a good summer break. And for those who are taking some vacation, we look forward to seeing you at our Investor Day in Paris on the 6th of September.

Operator

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