Q1 2016 Earnings Call

Company Participants

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

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Kamran Hossain, Analyst
- Olivia Brindle, Analyst
- Sami Taipalus, 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's 2016 Q1 Results Conference Call. Today's call is being recorded. At this time, I would now like to hand the call over to Mr. Bertrand Bougon, Head of Investor Relations & Rating Agencies. Please go ahead, sir.

Bertrand Bougon {BIO 18934799 <GO>}

Good afternoon, everyone, and thank you for joining the SCOR Group Q1 2016 results conference call. Before starting this presentation, please consider our disclaimer on page 2, which indicates that the presented Q1 2016 financial information is unaudited.

With this, I would like to give the floor to Mr. Denis Kessler, CEO and Chairman of SCOR Group, who is joined on this call by the entire committee (00:50) team.

Denis Kessler {BIO 1498477 <GO>}

Thank you, Bertrand, and good afternoon, everyone. As you have certainly seen, SCOR delivered a strong start to the year, absolutely in line with the Optimal Dynamics strategy plan, with quite a very robust set of financial results.

The group indeed benefited from the momentum recorded in 2015. The plan, Optimal Dynamics, will reach its maturity in a quarter from now at the end of June, at the end of Q2. That means that we have only one quarter to go before the successful end of the plan. The excellent news is SCOR remains firmly on track to achieve the targets defined in Optimal Dynamics. We continue to combine profitability and solvency with an ROE of 11.2% above the 1,000 bps over the risk-free rates, and despite financial market fluctuations in the beginning of the year, a strong solvency ratio at 202%. We are well within the optimal range of the solvency scale.

During the first quarter, SCOR was once again quite active in the reinsurance market, and we did confirm Tier 1 positioning. We did successfully sponsor a new catastrophe bond, which contributes to optimization of retrocession structure in U.S. market; we did that in January 2016. SCOR Global P&C continues to perform in this long-lasting soft market by delivering good January and April renewals which Victor will discuss in more detail later on in the presentation.

With regards to reserves themselves, they confirm our ability to combine gross profitability and solvency in an environment that is not only becoming increasingly competitive, but also increasingly challenging for the traditional reinsurance industry. In this context, SCOR has been able to expand its franchise globally with gross written premiums of €3.3 billion, up 5.1% at constant exchange rates compared to Q1 2015. Frieder will also detail the excellent MCEV results of €5.6 billion or €30 per share in 2015, validating the strength of the biometric portfolio.

SCOR Global Investments delivered a pretty strong return on invested assets this quarter of 3.3% despite volatile markets whilst continuing to adhere to the principles of prudence.

Overall, SCOR records a net income of €170 million for the first quarter. In Q1 2016, SCOR also successfully entered the Solvency II framework, using its full internal model to manage the business and operations on a daily basis.

I'm also quite pleased to report at the Annual General Meeting for shareholders did approve all of our resolutions this morning, including a dividend increase of €1.5 per share that will be paid on Monday.

As you know, the traditional reinsurance market is affected by both the evolution of the risk universe and the turmoil of the economy. It's widely known that the reinsurance industry is currently in a situation of excess capacity due to a series of factors including the low nat cat activities since 2011 and the development of ILS.

Naturally, we experienced increasing price pressure at the recent January and April renewals, fortunately, resisting on terms and conditions. I explained during the Q4 2015 results presentation that 2016 will be a difficult year in terms of the macroeconomic and financial environment. The context has not changed and we are affected by a number of exogenous factors. When I say we, the industry, the slowdown of the global economy and adverse developments in some sectors, such as oil and gas, are pushing down the demand for reinsurance.

As you well know, we face increasing foreign exchange instability which affects almost all currencies. The economic cycle is troubled and there are more and more questions about the duration of this economic cycle, and some people now really admit the hypothesis of secular stagnation. Reinsurance market is also suffering from ultra-low interest rate environment, in some cases, negative interest rates, and we believe that the pain of persistent low if not negative interest rates driven by QE (06:00) monetary policies will last for the foreseeable future.

This extremely low-yield environment is weighing – has weighed on the return on invested assets, and our RoIA decline that is also partially due to the combination of IFRS 9 accounting rules and the capital charges, Solvency II, and rating agency models.

On top of that, you can add regulatory overload, imposing blunt capital charges and even ever-increasing reporting requirements. The industry, reinsurance industry is also facing an ever-growing number of protectionist regulations, notably in emerging countries which is affecting the contribution (06:44) of capital. These regulations include limitation of internal repossessions in Brazil and India, and mandatory sessions to state-owned or local reinsurance in Indonesia.

The environment that has changed represents some great opportunities for the group. Traditional risks remain and are growing in severity, notably natural catastrophes while in the meantime risks are developing, for example, nuclear, cyber, biohazards, cloning, connected cars, the impact of solar storms on grids and so on. The protection gap is significant and needs to be closed. It concerned all business lines: nat cat, mortality, disability protection, enterprises coverage, and so on.

The fiscal austerity in developed countries will drive risk in the private – from the public to the private sector, creating opportunities in pensions, healthcare, nat cat, infrastructure and so on. In the end, I believe that the tailwinds will be stronger than the headwinds, even if the road gets a little bit bumpy.

SCOR has proven its resilience, and we continue to prove its ability to anticipate and absorb shocks. We are simply realistic about the changes offered by the environment we operate in. SCOR will pursue development based on the cornerstones that has proved to be successful in the past and which have enabled the group to become a recognized Tier 1 reinsurer. Agility is in the group's DNA and thanks to our seasoned teams, we will continue to find solutions to ensure both technical and financial profitability and an optimal level of solvency.

We know how to deal with an uncertain environment. Thus, it is in that context that we are meticulously preparing a new strategic plan, which will be unveiled on September 7, 2016, during IR Day and we all hope that you will attend this IR Day.

Let me now hand it over to Mark, who will give you more details on the financial performance in Q1 2016. Mark, the floor is yours.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis. Moving on to Slide 6, I will walk you through the key financial highlights of the first quarter of 2016. SCOR wrote approximately €3.3 billion of gross written premiums in the first quarter, representing a 5.1% increase over Q1 2015 at current exchange rates, or 5% at constant exchange rates. This top line growth was driven by SCOR Global Life with a 10.5% rise at current exchange rates. During Q1, SCOR Global P&C's gross written premiums slightly decreased by 1.6% at current exchange rates and this decline is specifically explained by Victor later on.

During the first quarter, SCOR achieved high-quality results with a net income of €170 million, benefiting from a low nat cat environment, generating an 11.2% return on equity, thereby exceeding the group targets set at 1,000 basis points above the risk-free rate.

The P&C net combined ratio for Q1 stood in an excellent 89.7%, and the Life technical margin continued to outperform at 7.1%, both surpassing the Optimal Dynamics assumptions. SCOR Global Investments delivered a solid return on invested assets of 3.3%, and their ability to generate this level of return on invested assets in the extremely low-yield environment confirms the relevance of its prudent investment strategy, notably through the derisking of the portfolio.

Going to page 8, shareholders' equity was relatively stable over the first quarter at €6.4 billion, corresponding to a book value of €34.13 per share. The shareholders' equity was supported by the strong net income recorded in Q1 while being negatively offset by the currency translation adjustment of minus €191 million, largely due to the weakening of the U.S. dollar against the euro. Financial leverage stands at 27.6%, temporarily above the range indicated in Optimal Dynamics.

And as explained during our fiscal 2015 results, the normalized financial leverage would be approximately 20.6%, assuming the intended calls of the CHF650 million and €257 million subordinated debts, callable in the third quarter of 2016.

Let's move to page 9. SCOR generated a high level of cash flow. Thanks to the contribution of both business engines, we've been able to deliver a strong net operating cash flow of €317 million for the first quarter. That figure benefited from some timing differences, leaving the normalized operational Q1 cash flow generation at approximately €250 million.

The total liquidity of the group reached €2.7 billion at March 31, representing a substantial increase year-on-year, in line with temporary pause of the rebalancing of the investment portfolio which François will discuss later on. Approximately €6.8 billion of liquidity including cash and short-term investments is expected to be generated within the next 24 months from the maturity of fixed income securities and interest coupons.

I will now turn it over to Victor to comment on the P&C results.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Mark, and good afternoon. We are on slide 10, and it shows that Q1 is an excellent start of the year for us. This quarter is again characterized by low level of nat cat loss activity. Besides this, the large manmade loss activity that we experienced than unusually high level during two consecutive quarters of last year remains back at its normal level. This confirmed that what we saw last year was a spike as we commented at the time, and illustrates the very nature of our business, which must be looked upon at over a sufficiently long period.

This brings us to an excellent net combined ratio of 89.7%, which is in line with our assumption on where it should be on a normalized basis. You will recall that for this year, we have revised our annual nat cat budget downwards to the equivalent of 6 percentage points of net combined ratio instead of 7 percentage points previously. Normalized net combined ratio stands at 94.3% for this quarter. It is worth mentioning that there is nothing to report on the reserving side.

On the subject of nat cat and regarding the two post quarter close events, the information is not complete and final yet, of course. However, I can tell you that based on the information available to date, the total amount of losses for our shares on the Kyushu and Ecuador earthquake should stay within one quarter of our annual nat cat budget. This means that we believe that these two events can be absorbed in the second quarter.

Regarding the top line, as Mark mentioned, the comparison between the first two quarters of this year and last year is influenced by the fact that Q1 2015 was a very buoyant quarter with relatively stronger growth. In addition to this, Q1 2016 top line is impacted by two specific measures that we took.

First, is our decision to discontinue our capital provision to one of the syndicate in the portfolio of 10 syndicate plus channel. The second is the consequence of the continued realignment of our activity and portfolio in Aviation, which led to a reduction of the premium income. This leads to a Q1 gross return written premium decrease of 1.1% at constant exchange rate.

The impact of these two specific measures will get diluted over time during the year, and without them, the quarter-to-quarter comparison of the gross premium written would have shown a growth of 2.7% at constant exchange rate. Such a massive growth of about 3% is in line with the indication that we gave previously regarding the trend of the top line of the entire year.

Now moving on to Slide 11 and the two following, well, those three slides provide you with the same detailed information as following any renewal season. They complement the press release of last Friday. For us, there are two main reasons to be satisfied with the results of the April 1 renewals. The first is that they demonstrate our ability to continue to keep the expected performance in line with the group target and the assumptions of Optimal Dynamics. This is achieved by activity managing the portfolios and simultaneously seizing opportunities to win shares of profitable business from existing and new clients. The second reason is normalization of the relationship with the major Japanese insurance groups.

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

Paolo de Martin {BIO 15930577 <GO>}

Thank you, Victor. Moving on to page 14 of the presentation I'm pleased to report that in Q1 2016, SCOR Global Life continues to deliver strong and profitable growth. Our gross written premiums reached €1.9 billion, which represents a growth of 10.5% at current exchange rates or 9.9% at constant exchange rate. Our new business pipeline continues to be healthy across all regions and all product lines with new business margins expected to meet the group profitability target.

When comparing our 2016 premiums to last year premiums is to note that last year our premium growth was back loaded in the second half of the year. Therefore, during 2016, we expect our year-over-year growth in premiums to normalize at around 4% to 5%. This will bring us in line with the Optimal Dynamics assumption of 6% average growth between 2013 and 2016 at constant exchange rate.

Overall, technical performance over the first quarter of 2016 stands at 7.1%, ahead of the 7% assumed in Optimal Dynamics. We've been able to deliver the strong technical margin thanks to both the profitability of our new business and the good performance of the in-force portfolio.

I will now hand over to Frieder Knüpling, SCOR Chief Risk Officer, to comment on the 2015 MCEV results.

Frieder Knüpling

Thank you, Paolo. Page 15 gives an overview of the development of SCOR Global Life's embedded value of the past eight years. Since 2007, that means during a period which spans spent the entire financial crisis, it has grown almost three-fold. Its development in 2015 mirrors that of our Solvency II own funds as our MCEV valuation basis is very close to Solvency II.

Page 16 shows that last year SCOR's embedded value has grown by over €800 million, reaching €5.6 billion even after repatriation of €236 million of capital from the Life division. The main contributor to the increase was solid operating earnings of €426 million which were mainly driven by a strong new business value of €354 million.

Economic variances led to a strong increase of MCEV of €245 million mainly resulting from market value gains from SCOR's investment portfolio and modest (18:37) interest rates on U.S. dollar and GB pound. Foreign exchange gains of €395 million are mainly caused by the rise of the U.S. dollar against the euro in 2015.

Moving on to page 17, the value of new business has grown by 9% year-on-year. MCEV earnings have more than doubled driven by the value of new business and economic gains. Embedded value is more suitable for capturing the economic value of Life business than IFRS. This can be seen in the increase in SCOR Global Life's off balance sheet value by €574 million in 2015 to €2.4 billion. This increase in value not recognized under IFRS was mainly driven by the new business written in 2015 which is only partially reflected under IFRS and by far foreign exchange movement.

During 2015, SGL has generated more than €520 million of free surplus from the development of its existing business. €470 million were used to finance the capital and reserve requirements of new business written in 2015. In addition, a very significant amount of €236 million was returned to the group consisting of €100 million in dividends, together with interest on and repayment of internal loans.

This demonstrates the ability of the Life business to fund new business growth whilst returning significant amounts of cash to the group and increasing the financial flexibility of the group. As in the past, there are more details on the MCEV 2015 in the full presentation and the technical document which are available on the website.

With this, I hand over to François de Varenne for the Investment part.

François de Varenne

Thank you, Frieder. Moving onto Slide 19, SCOR's total investment portfolio reached €27.6 billion at the end of March 2016 with an invested asset portfolio of €18.2 billion compared to €18 billion at the end of December last year.

To face the increased level of economic and financial uncertainties, SCOR Global Investments has reinforced its prudent investment strategy since June 2015 temporarily and tactically in order to preserve our investment portfolio and wealth of SCOR's shareholders.

In response to additional headwinds which have materialized since the beginning of 2016, we have further increased our liquidity at 14% of invested assets, up from 11% at the end of 2015. This de-risking has been done at the expense of (21:25) portfolio and most specifically the financial, energy, metals and mining sectors. The duration of our fixed income portfolio has been maintained stable at 3.9 years.

The high quality of our fixed income portfolio has been maintained as well with a stable average rating of AA-. Moreover, SCOR Global investments has maintained a very strict policy of avoiding any sovereign exposure to eurozone peripheral countries.

At the end of March, expected cash flows from the fixed income portfolio over the next 24 months stands at €6.8 billion which represents more than one-third of invested assets, facilitating the dynamic management of our reinvestment policy as soon as market condition will permit.

In spite of the adverse economic environment and the prolonged low yield context in all major currencies, SCOR Global Investments manages to deliver a very strong and recurring return on invested assets which stands at 3.3% for the first quarter of this year compared to 3.1% last year. This performance has been notably driven by capital gains realized on our real estate portfolio.

Looking forward, I am confident in achieving our objective of delivering a return on invested asset of above 3% until the end of the Optimal Dynamics plan. For the full year 2016, the estimated return on invested asset may be impacted by the temporary derisking of our investment portfolio and the length of this derisking strategy. Given our current reinvestment rate of 2% and the cash position, 10 percentage points higher than our long-term strategic level of 5%, the annualized cost of our current hedging strategy can be estimated at around 20 basis points if it was maintained during the full year, impacting momentarily our return on invested asset.

With this, I will hand it over to Bertrand Bougon for the conclusion of this presentation.

Bertrand Bougon {BIO 18934799 <GO>}

Thank you, François. On page 20, you will find the next scheduled events starting on July 27 with the Q2 2016 results. And, of course, our Investor Day on September 7 as well as conferences which we are planning to attend over the remainder of 2016.

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

Q&A

Operator

We'll take the first question from Kamran Hossain from RBC. Please go ahead, your line is open. Kamran Hossain, your line is open. Please ensure the mute button is switched off.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Can you hear me?

A - Denis Kessler {BIO 1498477 <GO>}

Yes, we can.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. You can hear me? Great. First two, the first question is on the April renewals. Can you just give us a little bit of color around the Japanese renewables? I know you lost some business last year due to the state that somebody have taken the score? Can you just talk us through whether you recaptured all of that?

And the second question is just on how you categorize nat cat claims in your combined ratio calculation. Could you just maybe articulate what level of loss you need for something to be considered a nat cat claim rather than fully situational? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

I think the question, Victor, on the first one, the renewables in Japan. That's number one.

A - Victor Peignet {BIO 6287211 <GO>}

I think you will understand that we are not going to comment on specifics on our Japanese clients. I think that is not – that will not be correct. What we said last year is that we had lost the Mitsui business. What we say this year is that well the relationship has normalized, which means that the relationship has been established – reestablished or have continued with this re-launch of Japanese insurers and I think that's what we can say.

And regarding nat cat, and the nat cat event is a nat cat event. There is no threshold or size given everything that we can do, the nat cat ratio. But for really events of below €3 million which we can consider that. We can ignore.

Q - Kamran Hossain {BIO 17666412 <GO>}

Great. Fantastic. Thanks very much.

Operator

We now take the next question from William Hawkins from KBW. We now take the next question from William Hawkins from KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thanks. Just for the operator, we get blanked out when you're announcing us. Two quick questions, yes, so you get a lot of questions on the investment return, I've just got a very simple one. Is there any seasonality in your investment income in the first quarter? It does – typically in the past year, seems to have been below the run rate from the rest of the quarters. I know last year you had a CPI issue that depressed the figure. But even allowing for that the first quarter it seems to be weak. So I just want to see is there anything seasonal going on in your investment income?

Secondly, the Solvency II ratio, could you tell us the numerator and the denominator and you might think I'm splitting hairs on this, but the 202%, but by my math against the 211% at the end of last year, maybe 7 percentage points comes from the decline in yields. But I can't really find anything else that should be negative. Market sensitivity otherwise is quite low. And presumably, you should have had some capital generation in the first quarter. So, for me, again, you may just say it's splitting hairs, but I would thought your Solvency II ratio should have been around 205% or even slightly higher, not 202%. So, either I'm underestimating the sensitivity to yields or there's some other negative that I've not allowed for that makes a few percentage points. Could you maybe help me on that? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

François?

A - François de Varenne

On the seasonality of the investment income, so there is no seasonality in Q1, usually, that's in Q2 mainly due to the dividend we received and the equity portfolio also on some funds. So, no specific comment on this in Q1. Just as a reminder, if you look at Slide 39 in the appendix, you should compare the income of 2% in Q1 this year to 1.8% last year. So, it's (28:44) increasing. It's only for Q2.

Q - William Hawkins {BIO 1822411 <GO>}

Thanks.

A - Mark Kociancic {BIO 17852409 <GO>}

On the solvency ratio, so we estimate a decline by 9 percentage points. We are not disclosing a split between own funds and solvency capital requirement at this point. We may be doing this in the future. It is largely explained, as you said, by the decline in interest rates. That has accounted for about 8 points given that interest rates have dropped by roughly 50 basis points. It is largely in line with the sensitivities which we published two months ago. And then there's been a bit of impact from general market volatility and market value movements. Yes, we do allow for some capital generation during Q1, but we also reflect the (29:58) exposure of the portfolio, and we accrue expected dividends on a quarterly basis, so in total it doesn't have a strong impact on the solvency ratio.

Q - William Hawkins {BIO 1822411 <GO>}

Forgive me. Even if you're not going to give me an exact number, just should I understand the decline mostly comes from available capital going down or required capital going up or (30:22)?

A - Mark Kociancic {BIO 17852409 <GO>}

It's led between the two. The decline in interest rate leads to an increase in our capital requirement and a decrease in our own funds, so you can pretty much spit it between the two.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. Thanks.

Operator

We now take the next question from Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. Can you hear me? Yes. Okay. I'll go ahead. First thing is on the P&C comments on Aviation. It just seems like the – at least the renewal data wasn't really lowest. If I look at last two years, say, renewal in January, for example, Aviation book used to €125 million odd last January, and this January it's around €150 million, €170 million.

I'm just trying to square this comment that something has changed in Aviation because I understood that so far you were squarely comfortable with that, and I mean that it's enough to make an impact at the group level, if you could just comment a bit about that. And also, just to clarify, the 2.7% you mentioned, did you also say that going forward it should normalize? I just want to understand that.

And second question is on the Life Re growth. So, the free surplus is (32:08) well, €250-odd million lower this year than last year on that Slide 18 I think. And that's probably due to the very strong growth. Should we assume that if growth is sort of normalizing then the new business strain should kind of normalize?

And in that same context, the dividend upstreamed were a little bit lower this year than last year despite such strong growth. And this year was €100 million; last year was €125 million. Is there any (32:42) into that? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks a lot. Maybe on Aviation, I don't know. Is Victor?

A - Victor Peignet {BIO 6287211 <GO>}

In the Aviation side, it's, as you know, most of the primary policies renew in November. And what we had is with one particular of our major participation we had an over estimate of premium by the ceding company. And since we were at the same time asking them to re-underwrite part of their portfolio and revised the underwriting guidelines, the estimates that they had done before while they had to get them down. And as you know, we work on estimates when we write quota share, so we have to rectify the estimates, hence, the volume being down. So, it's very one specific and you could even imagine which one, probably.

Regarding the 2.7%, yes, what we are saying is that this is an impact that – in January that we have, and this will normalize during the year. So what I said is that about 3% increase of the premium that we had planned for the entire year, we maintain it, yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Because, sorry, in the past it used to be a 5% premium growth, up until – because you had €6 billion targeted for 2016, which was sort of like and implied growth. That's why

I'm curious now. Hello? Hello? Okay. Sorry, I think I've cut myself off.

A - Victor Peignet {BIO 6287211 <GO>}

It's my mic. It seems to be receiving (34:33). I think we said €6 billion. Well, we continue to do that. I think €6 billion was not exactly (34:31-34:42) But we don't change our (34:47).

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry, in this mic confusion. €6 billion is still maintained, or should we expect to be a bit lower?

A - Victor Peignet {BIO 6287211 <GO>}

Yes. Well, we maintain it. I think it's maybe a bit short of that, but overall we have no reason (35:05).

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Okay. That's fine. Thank you very much.

Operator

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

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

Hello. This is In-Yong Hwang from Goldman. I hope you can hear me. I've got two questions both the P&C Re side. Firstly on the U.S. growth, again, as of January, you seem to have grown quite strongly there. Obviously, it's a focus market for you guys. Could you just give us some confidence of the profitability of the growth that you're getting here, given that the pricing trends in that market seems to be probably the most, yes, negative out of the all three divisions that you show especially in the April renewals?

And secondly, I think Denis you mentioned emerging risk such as cyber at the start of the call. Could you just remind us where you're standing there and where you see the opportunities from your side? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Sorry, we forgot to answer the previous question on Life. Free surplus since we tried to answer all the questions.

A - Frieder Knüpling

Yes. I could take that.

A - Denis Kessler {BIO 1498477 <GO>}

Frieder, could you please answer this question? That was the previous question, sorry. Come back afterwards.

A - Frieder Knüpling

Yes. So the capital transfers back to the group were slightly lower than last year but still far above what one would consider, for example, SCOR Global Life's share in the group dividend. So it is still capital repatriation beyond those needs. So that's an element of active capital management in this.

The new business strain in 2015 was slightly higher than that of the year before because the business mix was slightly different and the way the business was placed with the group. This is also related to the fact that this still measured on a Solvency I basis which was still in force at the end of 2015.

Going forward, the main entities, operating entities in the group are – European entities will be subject to Solvency II instead. The free surplus of the operating entities under Solvency II basis will be significantly larger than under Solvency I basis, so this constraints if you like will be much, much softer and the group will place even more importance on its group solvency scale and solvency target to managing cash and capital within the group. So, this is something which will really drive our capital management much more in the future than the Solvency I based free surplus metrics which are no longer in force.

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

And sorry, can I follow-up if I'm still in the call? Can I follow-up, and will this change to Solvency II on the Life side on new business strain, will it start showing up in the group solvency as well, should we factor for that or I mean the group S II ratio?

A - Frieder Knüpling

It is already included in our Solvency II disclosures so the movement in solvency between one year and the next which we disclose thus reflect the impact of new business. Under Solvency II basis, this will in many cases not be a new business strain anymore because Solvency II allows for new business on a – closed to economic valuation, so at least for the business which sits within Europe and this conservative new business strain which you traditionally saw under Solvency I will not exist anymore, at least not in the same way. So we will see situations when new business actually increases solvency and free surplus rather than consumes capital.

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

Okay. Fair enough. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Sorry. I didn't catch In-Young's questions. So sorry, could you repeat them? This is one of the gross written premium. Let's start by that and (39:49) Victor, can you answer the first question?

A - Victor Peignet {BIO 6287211 <GO>}

Well, the growth at the 01/04 renewable is more in line with the growth that we have planned for the entire year. Well, that is quite explainable in the sense that, well, EMEA is January 1 whilst April May, June and July is much more Asia and U.S. and our growth is much focused on the Asia and U.S. In actual facts, we even slightly reduced in EMEA. So I think the trend is there to say that basically we are where we thought we would be.

As far as the U.S. is concerned, well, first of all I don't quite agree with the statement that is where – the problem is the starting point and where we are. I think I can assure you that the business we book in the U.S. is clearly at the required profitability and even the underwriting ratio which is loss ratio plus commission of our U.S. at the moment is below the average of the division.

So I think we have no worry on the business we book which is a mix essentially. We are extremely careful to have the short tail, long tail mix by which, well, we can stick to the overall target. So definitely our long tail intake is limited by how much short tail we can find in the market, including proportional, by the way that fits in with the target.

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

Great. Thank you. If I could just, yes, repeat my second question. It was on emerging risks which Denis mentioned at the start of the call. Just wanted to get your sense on that especially on cyber because some of your competitors seemed to be taking a slightly different approach regarding, yes. these emerging risk. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Slightly different in what sense?

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

In terms of how aggressively they want to be writing cyber contracts, for example.

A - Victor Peignet {BIO 6287211 <GO>}

Okay. Well, we ourselves are at the moment of the view that we do not have yet the level of technical knowledge and data by which, we can get aggressive on the market. We are actively learning, acquiring knowledge and I think we are progressing reasonably well. We're also testing the water with a certain number of businesses that we accept to write, but this is very well contained in something that we feel is totally manageable and it's not going to impact the overall profitability target.

So that's where we are and we are building. And there is an opportunity clearly there, but it's not yet reached the stage where as we feel that – I was talking this morning about symmetry of information. Well it's even, well, level knowledge and information from both sides, the buyers of insurance and the providers. So we are very active, but in a cautious way.

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

Okay, great. Thank you very much.

Operator

We'll now take the next question from Sami Taipalus from Berenberg.

Q - Sami Taipalus {BIO 17452234 <GO>}

Hi. Can you hear me? Hello? Yes. Okay, perfect. Yes. Two questions, please. First on the Life business. The proportional longevity in premium seems to be going up and I think you mentioned on the last call that the margin on this business is a bit lower than on the (43:30) business. I understand that the ROEs are obviously similar. I'm just wondering if you could just give us an indication of what the proportion of mortality was - sorry, longevity was in Q1 and how big the proportion would need to be before it started affecting your margin target in the Life business where you'd have to start thinking about maybe bringing that down a little bit.

And then the second question is on your expense ratio where it had ticked up a little bit in Q1. I was just wondering whether this is sort of a new normal for that expense ratio. You kind of indicated in your comments that there was some structural reasons behind the uptick and whether there are any items elsewhere in the combined ratio that offset that uptick. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks. Paolo, on longevity and the effects on margin.

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

Yes. Right now, we're at around 7% of the group being longevity. The longevity business, by definition. has a lower margin. It's much more longer term. The risk in nature is very different. So we usually give some indication of the margin would be somewhere between 3% and 5% of that business, and it really does depend - it varies greatly deal by deal.

I think we're in the process of looking at the next three years in terms of the strategic plan. So, for this year, the growth on longevity will not drive any changes in our expectations on technical margin, at least at this point. I think we - the best place to have this conversation will be actually in September when we present the new strategic plan if as a group we decide that we still have the appetite to write as much longevity as we write more, and those decisions are in the process of being made really at this point.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Fair enough.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Paolo. Victor, on the Q1 (45:39) ratio and the impact of cost.

Q - Sami Taipalus {BIO 17452234 <GO>}

I can't actually hear anything.

A - Victor Peignet {BIO 6287211 <GO>}

Yes. Well, it seems to be (45:57). We said we will navigate between 6.5% and 7%. I think we are (46:04) of this trend. What is important for me is that we speak to the combined ratio, and, well, I mean, it may happen in a given quarter that we are a bit higher than the average at the end of the day. On a normalized basis, we are still where we want to be. So I think...

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay.

A - Victor Peignet {BIO 6287211 <GO>}

No particular comment on this one.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Would you say that there's a loss ratio offset to the higher expense ratio?

A - Victor Peignet {BIO 6287211 <GO>}

Well, what I'll say is that in this particular quarter, despite the fact that we are at the upper end of our range, well, our combined ratio on a normalized basis is still where it should be. So – yes.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. All right.

A - Victor Peignet {BIO 6287211 <GO>}

And that's what we are making sure will continue.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Thank you.

Operator

So now we take the question from Andrew Ritchie from Autonomous. Please go ahead.

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

Hi there. Two quick questions. Firstly on U.S. mortality. I noted in the EV report that you strengthened assumptions for U.S. mortality, so it's the old SCOR book. I mean, was there a big difference in assumptions within the old SCOR book and Transamerica and Generali so that's part of a wider review of assumptions in U.S. mortality and maybe just tells us how experience has been on the – on all of those books in U.S. mortality over the course of 2015 and what we might discern from the EV report.

Secondly, for François, you're running a high level of liquidity. You increased it again in Q1. What has to happen for you deploy that liquidity? You talked about wanting greater clarity on the outlook. I think we'd all like that but I'm not quite sure what you feel you're going to get and what you feel you need to see to deploy some of that liquidity. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Paolo, on (48:12).

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

So the change in assumptions is the consequence of the regular review of our assumptions which we do every year even during the year, so there's nothing particular which triggered this. There is still a bit of assumption harmonization to be made between the different blocks of U.S. business which SCOR has acquired over the past years hence the comment. But as I said, this is a regular exercise which we conduct every year and which we're possibly doing over the past. And mortality experience of the U.S. portfolio was very close to our best estimate assumptions, so no significant deviation.

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

So, presumably there was a deviation in your old SCOR book hence the assumption change, but you've never referred to the U.S. mortality assumption change before.

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

No. There was no specific negative experience on this book. These are long-term assumptions over I mean several decades and we want to make sure that our assumptions also in 10 years and 20 years down the road are consistent and are valid. And because – all of this is present value, you see the impact in the assumption changes but it was not triggered by specific experience variance in either book.

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

Okay.

A - François de Varenne

So on the Investment side, just to answer to your question, I think we have been quite, not to say, very successful since 2007 to detect in advance potential shocks on the market. And we demonstrated our ability to reinvest quickly our cash and liquidity position as soon as the market condition permit.

That was exactly the case. You should be happy that we detected the mess at the beginning of this year and we started to announce it after the summer last year. And we started to de-risk the portfolio end of 2015, with the peak of volatility probably reached late January or February this year.

Today, yes, it's true that in the market the level of risk aversion or volatility is a little bit lower compared to the peak observed a few months ago. Having said this, the level of uncertainty is still very high in terms of interest rate policy, monetary policies, geopolitical risk or tension are the maximum today everywhere. So the level of uncertainty is very high. Again, we prefer in those situation – and again, I think we have been quite successful since 2007 to do this, we prefer to protect the value of the portfolio to increase momentarily just for a few months the cash position. And as soon as we have more visibility on the market, we also demonstrated in the past that we have the ability to reinvest directly (51:30). We are waiting still a little bit to have more comfort on the market today.

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

So, have you increased liquidity since the end of Q1, or is it still standing around that level?

A - François de Varenne

No. No. It's relatively stable.

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

And the real estate realizations you made during the quarter, is that part of raising liquidity, or is that just a timing issue unrelated to that?

A - François de Varenne

Not at all. This capital gain has been achieved through the disposal of one of our buildings in Paris within our real estate portfolio. And this production is a typical illustration of our value-added management style within the real estate portfolio, which I presented, if you remember, during our last Investor Day in September. So we have completely restructured this building, let it to a new tenant and subsequently sold it, achieving a net return on this transaction above 12%, which is nice.

(52:33) in terms of your question on the fact that this transaction is not a one-off for us. It was entirely factored in my expectation for the full-year assumption in terms of return of invested assets embedded in the last presentation. And if you look at Slide 51 with the unrealized gains in the real estate portfolio, we still have a significant amount of unrealized gains within our real estate portfolio, and those assets will be sold in the future as soon as the value creation will be at the maximum for each asset we own.

So you should expect over the next quarter and year still a significant contribution of the related portfolio. That's the way we really manage this portfolio where we try to create value through the restructuring of assets.

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

Okay. And just to be clear, the 20 basis points you referred to in the opening statement was if you maintain the current level of liquidity, the annualized impact will be 20 basis points roughly?

A - François de Varenne

Yes. Basically that's it because their investment rate is 80%. That's indicated in the slide times basis points and that's 20 basis points, again, if this is on a full-year basis.

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

Okay. Thank you. Thanks.

Operator

We'll now take the next question from Olivia Brindle from Bank of America.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi there. Can you hear me before I start to say anything? Hello?

A - Denis Kessler {BIO 1498477 <GO>}

Yes. We do.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay. So first question just, I guess, probing a bit on your cat book, so especially in light of the fact that you've gone from the 7% cat load to 6%, just trying to understand what you're doing around cat at the moment. So in the April disclosure, you sort of mentioned a bit of – a bit more of U.S. cat more in the specialty side. U.S. cat rates in January seem to have stabilized a little bit. So I'm just wondering if you could talk about what you're doing on your exposures there and how we should, therefore, think about the 7% to 6%?

If I look at the earned to gross premiums on the P&C side, that's actually gone up. So just wondering if any sort of compute that we can get around that 7% to 6% would be helpful. And then, the second point also touching on something mentioned in the renewal disclosure, you said that's improving pricing on the proportional side and you had a 1% number on that. I was just wondering exactly what lines you're talking about and could it be that doesn't include any offsets and increased ceding commissions. That would also be interesting to hear.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Olivia. On the cat book, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

On the cat book, the reduction from 7% to 6% is basically due to the improvement of our risk position (55:37) program and not to a change in our underwriting policy on Cat. As far as the U.S. cat is concerned, well, this is a bit an exception of our underwriting, we do it with a combination of the specialist cat team in Zurich that dates back to the era of the acquisition of the acquisition of Converium and the complement team in Chicago. But actually, the philosophy is exactly the same as for the rest of the cat business, and we have a general management of our cat portfolio worldwide.

As far as the property, well, it's basically specific property risk in the U.S. that we are talking about on which what you are mentioning is not effective totally. I mean, the commission – there is no increase of commission compensating for the improvement of the price or at least new compensation is not complete.

Q - Olivia Brindle {BIO 17273762 <GO>}

And just sort of following up on that, if we were to look at overall across your P&C business what the proportion of cat has been and what it's trending to, I mean, should we assume that there is a bit more of that given that you've been growing in various places including the U.S., or would you say it's more stable and any business you pick up is rather opportunistic?

A - Victor Peignet {BIO 6287211 <GO>}

Well, I don't think we are opportunistic writers in general, so not even in cat. No. I think our cat premium overall is still a bit above 10% of the overall, so probably something like 12% maybe today, something like that. No big change from the year before. I mean, the cat increases with the rest of the portfolio. I'm talking here of the pure cat premium which is non-proportional cat.

Q - Olivia Brindle {BIO 17273762 <GO>}

So, yes.

A - Victor Peignet {BIO 6287211 <GO>}

Olivia, you're satisfied or you want to ask more?

Q - Olivia Brindle {BIO 17273762 <GO>}

Yes. No, on that point, yes, just the second question on proportional business.

A - Victor Peignet {BIO 6287211 <GO>}

Which was? Pardon.

Q - Olivia Brindle {BIO 17273762 <GO>}

So, you talked about proportional lines benefiting from improved pricing in certain areas, and you had a 1% improvement I think on your book. So, just wondering exactly sort of where that's coming from and to what extent it's offset by increases in ceding premiums, ceding commissions.

A - Victor Peignet {BIO 6287211 <GO>}

I told you that this basically specific property in the U.S. There's cat exposure in it.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Next question?

Operator

We'll now take the next question from Frank Kopfinger from Deutsche Bank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good afternoon, everybody. I have two questions. My first question, I would like to come back to William's question regarding the seasonality that we see in the investment income. And to François, you pointed to Slide 39, and last year, at least we had this sort of (59:10). If you look back, you also can see that Q1 was structurally regarding the regular income on a lower level than the other three quarters and has been that there is some seasonality from dividend in Q2. And now again in Q1, it looks the 2.0% and also if you take an absolute number, they look further on the lower level compared to where we have been in Q2 to Q4. And the question is really whether the 2.0% is the run rate going forward, or should we expect some ramp up going forward?

And then the second question is on the Life Re business. On the net technical results that you showed on page 34, the €86 million, the margin here looks stronger than last year in Q1 and could you elaborate a little bit on the drivers behind this margin improvement? Should technical margin improvement on the drivers and whether this should be the run rate going forward also?

A - Denis Kessler {BIO 1498477 <GO>}

Thanks, Frank. François...

A - François de Varenne

(01:00:29) on the seasonality, again, we don't see a lot of seasonality in Q1, that's really in Q2 especially on the equity portfolio. Just to understand the different sectors (01:00:44) on the income yield in Q1 compared to Q2 the last quarter if I expect the Q2 to Q3 with the dividend last year, the income still is good. It's affected as I mentioned in the previous question or in my speech by the fact that we have 14% of cash in the portfolio that returns (01:01:08). So again you see in this especially income yield the effect of the prudence (01:01:15), but again, it grew up to (01:01:20) basis points of return to protect and to avoid the peak of volatility that we observed in the market during Q1.

A - Denis Kessler {BIO 1498477 <GO>}

On the life technical margin, , Paolo?

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

Yes. The increase is largely growth-driven. So it's really focused on the margin rather than the absolute amount.

Q - Frank Kopfinger {BIO 16342277 <GO>}

The margin increased as far as quarter-on-quarter. So, were there any business mix drivers or...

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

The margin is decreasing from 7.2% to 7% (01:01:59).

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. If I strip out the interest from funds (01:02:03) so only look on this €86 million and take the margin?

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

You cannot really strip it out. We have a lot of business that the deposit moves in sync with the reserves. That's why we put the deposit, the interest on deposit in the technical margin calculation. So you cannot strip it out.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Fair point. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Next question, please.

Operator

We'll now take the next question from Vikram Gandhi from Société Générale.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Thank you. This is Vikram Gandhi from SocGen. I've got two questions. The first one, can you please share how much of the total P&C premiums emanates from China? And related to that, are you already experiencing cedents moving business from motor lines to more volatile (01:02:59) lines of business with the (01:03:01) implementation?

And secondly, on Slide 8, what is the main driver of the minus €81 million component in the development of shareholders' equity? Does that largely offset the positive impact on the valuation result?

A - Operator

Your first question? (01:03:28).

A - Victor Peignet {BIO 6287211 <GO>}

Well, in China, first of all, we are not big writers of (01:03:35) quota share or motor quota share. So, we have not observed movements, but as we are not a player in that particular line, I cannot really comment on that.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay.

A - Denis Kessler {BIO 1498477 <GO>}

The book value per share, Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

On your second question with the cash flow, so the minus €81 million, the lion's share of that movement is the purchase of treasury shares during the first quarter when the share price was struggling used primarily for the compensation of the shareholder plans that we have within the group.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Next question?

Operator

We'll now take the next question from Thomas Fossard from HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon. Two remaining questions for François. The first question would be on the cash position of the group, the 14%, 15% you're currently having. Is anything changed in terms of outlook and in terms of the state of financial market, we see cash flow generated by the group in the coming months and quarters and with the coupon and maturing securities coming in, should we expect the level of cash by year end to increase again from the 14% level to the end of the year? Again, nothing is changing in the market or you're more likely to reinvest with the same type of split of assets?

And the second question would be related to the unrealized gains on the real estate book, the €160 million. Can you just clarify if this is purely invested assets and not taking into account unrealized gains on the real estate for own use? Thank you.

A - François de Varenne

So, Thomas, on your first question, so we have 14 points of liquidity in the portfolio today, and the amount of €6.8 billion including the liquidity we have today that will mature between today and the next 24 months.

Given the economic environment, we don't expect to increase the liquidity position unless there is a strong deterioration of the market condition in the next week or month. So if we see better condition in the near future, you should expect a decrease of this cash, but at this stage, the intention is not going to the cash position today or in the future.

On the unrealized gain or the realized gain, so I confirm that the realized gain we took on the real estate portfolio is really, again, on one single building that is located and which belong in Paris that was just describing (01:07:08) largely last September during the Investor Day presentation and (01:07:16). All the unrealized gain on the real estate portfolio that you see on Slide 52 – or 51, that real estate portfolio, we own for investment purposes which means it excludes the premises or the buildings we own as operating premises (01:07:44) which are classified under IFRS and all intangible asset.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. That's clear. Thank you.

Operator

We'll now take the next question from In-Yong Hwang from Goldman Sachs.

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

Hello. Thank you so much for letting me ask a follow-up question. I just have one very quick one on portfolio management in your P&C book. Obviously, that's helped you a lot in staving off the pricing pressure in the reinsurance market over the last few years. I was just wondering if there's a kind of a logical limit to how much can do on the portfolio management side. I just noticed that the cancellation of your businesses for the April and January, renewals have decreased in the last couple of years. So I was just wondering if there's, yes, let you can (01:08:33) directly beyond that front, or if there's – if you still see opportunities where you can do that. Thank you.

A - Victor Peignet {BIO 6287211 <GO>}

Well, I hope we'll never reach the limit, but there must be one somewhere. If you look at Slide 11, I think the qualitatively what you see in the first of April renewal is what you were not seeing but what you start to see which is showing how we proceeded in the past, well, couple of years ago, you would have had cancelled only to manage the portfolio, we were canceling business that was not producing and we were replacing by better business.

Today, we are still doing that to a certain extent and also to another extent, we are reducing shares on business where we think that strategically we should not lose but practically, well, we cannot continue to support at the same level because of the competition on prices. So, the way we have added a second stage to the portfolio management.

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

Okay. That's very clear. Thank you very much.

A - Victor Peignet {BIO 6287211 <GO>}

And this second stage, you can only add it, in my opinion, if your franchise is dipping up or the client tolerated you having it.

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

Yes. Understood.

A - Victor Peignet {BIO 6287211 <GO>}

Okay.

A - Denis Kessler {BIO 1498477 <GO>}

Okay. Thank you very much for attending this con call. We will talk to you again at the end of July for the half-year results and, of course, at the IR Day the early September for the group. Thanks a lot and don't hesitate to call us if you need any more information. We will do our best. Thanks a lot and have a nice day.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. You may now disconnect.