FY 2013 Earnings Call

Company Participants

- Antonio Moretti, IR Director
- Denis Kessler, Chairman & CEO
- Francois de Varenne, CEO, SCOR Global Investments SE
- Frieder Knuepling, Chief Risk Officer
- Gilles Meyer, Deputy CEO, SCOR Global Life SE
- Mark Kociancic, CFO
- Paolo De Martin, CEO, SCOR Global Life SE
- Victor Peignet, CEO, SCOR Global P&C SE

Other Participants

- Andrew Ritchie, Analyst
- Frank Kopfinger, Analyst
- Jason Kalamboussis, Analyst
- Kamran Hossain, Analyst
- Maciej Wasilewicz, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good day ladies and gentlemen and welcome to the SCOR Group 2013 annual results conference call. Today's conference is being recorded. At this time, I would like to turn the call over to Antonio Moretti, Investor Relations Director. Please go ahead sir.

Antonio Moretti {BIO 17681290 <GO>}

Good morning, everyone and thank you for joining the SCOR Group Q4 2013 results call.

Before starting the presentation please consider our disclaimer on page 2, which indicates that the presented Q4 2013 financial information is audited. Also note, as indicated on page 3, that in this presentation two sets of financial data are used. The first set is presented on an audited published basis and includes Generali US figures from the acquisition date of October 1, 2013. Obviously prior-year comparatives do not include

Generali US. The second set of data is presented on an unaudited pro-forma basis and includes Generali US as if the acquisition had taken place on January 1, 2013.

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

Denis Kessler {BIO 1498477 <GO>}

Thank you, Antonio and good morning everyone. With a record net income of EUR549 million and an ROE of 11.5%, may I say that 2013 was a highly satisfactory year for SCOR. For me and certainly for the whole COMEX this is largely due to the rigorous and consistent application of the strategy we've been pursuing over the last 10 years.

The Group is transparent about its roadmap and you remember that early September we presented the new three-year plan called Optimal Dynamics after we completed the previous three-year plan, the Strong Momentum, by the way a successful completion. The strategy which is based on a very balanced business mix between life reinsurance on one side and P&C reinsurance on the other side, and also on the fact we are consistently striving to optimize the use of resources, human resources, financial resources, capital resources, is followed by all three of the Group's engines.

SCOR Global P&C, with it's high diversification and status as a tier one partner for its global clients, is well placed today to make the most of current development on the P&C business reinsurance market. The success of initiatives like the Lloyds Channel 2015 Syndicate, moreover, demonstrates our agility and our ability to find profitable growth drivers.

SCOR Global Life, strengthened by the acquisition of Generali US, holds particularly strong positions in a sector characterized by high barriers of entry. Without deviating from our core business, biometric risks, we are developing a business in longevity reinsurance today and financial solutions.

In terms of Investments, moreover, we maintain a prudent strategy that offers the maximum flexibility.

With regard to the reserves, 2013 has confirmed our ability to combine growth, profitability and solvency. Gross written premiums have risen by 8.3% in P&C reinsurance and by 14.5% in life reinsurance at constant exchange rates. We have delivered a high level of profitability, with a return of 1,129 basis points over the risk-free rate, and this profitability is based on our technical performance in line with the trajectory set out in Optimal Dynamics and with the active management of our investment portfolio.

At the same time the Group has consolidated its solvency. SCOR solvency ratio calculated by internal model stands at 221%. This is at the upper part of the range we have set in Optimal Dynamics. Combined notably a very strong enterprise risk management and our capital protection strategy, the famous capital shield strategy, illustrated by the issue of a mortality bond last September and by the renewal of a contingent capital facility under very advantageous conditions, amongst other things, this has led Standard & Poor's to raise the outlook on an A-plus rating to positive.

Finally, the Group's performance has been acclaimed by the financial markets, or at least recognized, with a total return for shareholders of more than 36% over the course of 2013. These results mean that we will propose a dividend of EUR1.3 per share at the annual general meeting of shareholders. This dividend increase, which continues the regular upward trend observed throughout the past few years, brings the total dividend paid to our shareholders since 2005 to approximately EUR1.5b.

This is sustained by the Group's capacity to generate results and substantial cash flow over the long term. Thus, more than EUR2.1 billion of cash flow has been generated over the last three years. With a high rate of total return for shareholders, 14% per annum on average over the period 2005 to 2013, with a low volatility, SCOR offers a unique proposition of value creation. And this is what the graph illustrates on slide 7; the optimal zone is on the top left hand side and this is where we are positioned.

Let me now hand over to Mark Kociancic, Group CFO, who will take you through the financial details of these results before going to the business engines' results. Mark, you have the floor.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis. Moving on to page 9, I'll walk you through the highlights of the 2013 results. SCOR wrote more than EUR10.2 billion of gross written premiums during the year, which represents a 7.8% increase at current exchange rates, fuelled by healthy SCOR Global P&C renewals since the beginning of the year, by the strength of the SCOR Global Life franchise, whose teams have signed several major contracts, and by the Generali US contribution of EUR209 million for the Fourth Quarter. At constant exchange rates the premium growth reaches 11.5%, highlighting once again the growth story of the Group despite the depreciation of the dollar throughout 2013.

The net income reaches a record EUR549 million for the year, which generates an 11.5% return on equity or 12.4% if we exclude the equity impairments.

Both SCOR Global P&C and SCOR Global Life delivered an operational performance which is already trending towards Optimal Dynamics assumptions. The P&C combined ratio for the full year stands at 93.9%, in line with the indications for 2013 given in the Optimal Dynamics plan and the Life technical margin reaches 7.3%, also trending towards the Optimal Dynamics assumptions. Finally, SCOR Global Investments delivers a return on invested assets excluding equity impairments of 3.1%, while slightly increasing the duration of the investment portfolio.

On page 11 you'll find a clear picture of the Generali US acquisition contribution to the Q4 published and pro forma accounts. The net income coming from Generali US stands at EUR193 million including a gain on purchase, or badwill, of EUR183m, and an operating performance net if tax of EUR10m. For more details please refer to the appendices, page

27. On page 12, the successful US Generali acquisition and integration enlarges the scale of the Group. On a pro forma basis the gross written premium for the Group would reach EUR10.9b, total assets would have increased to EUR34.2 billion and net income would have been EUR571m.

Moving on to page 13, the shareholders' equity stands at just below EUR5 billion after a payment of EUR223 million of cash dividends during the Second Quarter of 2013. During the year the book value per share has increased, reaching EUR26.64 at year-end.

One note regarding financial leverage, it stands at 21.2% as at December 31, after the issuance of our CHF250 million hybrid perpetual subordinated debt during Q3. Since the beginning of the year SCOR also repurchased a portion of its subordinated floating rate debt by acquiring a total face value of $46 million at an average price below 90% of par. Lastly, you may recall we entered into a bridge loan facility for $228 million on October 1 to help finance the Generali transaction and I'd like to point out, even though it's not a Q4 event, this loan was entirely paid back in Q1 of 2014.

On page 14 you can see the record operating cash flow, which increased by 18% compared to last year to reach EUR897 million thanks to the strong contribution of both business engines.

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

Victor Peignet {BIO 6287211 <GO>}

Good morning. We are now on page 15 of the presentation that details the commercial performance and the technical results of the P&C division for the full year 2013. As you can see, both the commercial performance and the technical results are in line with or better than our projections and objectives. They are giving us a good base from which to implement our new plan for the next three years.

On the commercial side the gross written premiums for the full year stand at EUR4.85b. We are showing a growth of the gross written premiums by more than 4%, which is corresponding to more than 8% at constant exchange rates. This compares well with our projections, whether they are retrospectively by reference to the Strong Momentum plan, or prospectively as part of the new Optimal Dynamics plan.

In addition, this growth is well spread across the three main business units of the division. Treaty P&C which accounts for about 54% of the total gross premiums has the largest progression, up 5% and 9% respectively, that is to say at annual versus constant exchange rates. Whilst the specialty lines are at the average of the division and business solution is slightly below, at 3% and 6% respectively.

In treaty P&C the growth is mainly driven by proportional property and to a lesser extent by casualty, whilst motor is stable. In the specialty lines the largest increases are recorded in our Lloyds business and in agriculture whilst the activities in construction and the senior liability are logically the most effected by the crisis.

With regard to the geographies, the main increases at constant exchange rates are located in Asia, Germany and Latin America. Within Asia the largest contributors are China, India and, to a lesser extent, Singapore because of the regional programs of certain global and international insurers.

On the technical side the net combined ratio stands at 93.9% for the full year. It is the resultant of two factors. First factor is that despite the competitiveness of the market we are able to continue to have a very active portfolio management and to improve the business mix overall and by client. The second is the good timing of our initiatives like the one we launched in 2012 towards global insurers and the very positive responses they have received from the clients and their brokers.

Regarding the global insurers initiative, not only it brings a positive contribution but also it has expanded beyond the segment of the global insurers as a number of large international and regional as well as national mid-sized insurers have followed earlier and faster than we had expected the same path of reconsideration of their reinsurance purchase and the restructuration of their reinsurance programs.

This bold movement, triggered by all the studies that are being made around solvency and capital management, is offering us opportunities to make the most efficient use of the strengths of our organization, strengths of this organization that has proven to be able to be fast to mobilize itself and to leverage our teams and centers of expertise in an effective and flexible way to adapt and respond to the need of clients when they move towards a more global and centrally controlled purchase of their reinsurance.

Looking at the components of the net combined ratio, again there is a lot of continuity and consistency in the trends that are reported. The net attritional loss ratio continues to improve and the 57.7% achieved in 2013 include only a marginal reserve release affected in Q2. Considering the current business mix and the opportunities to further manage and improve it even in today's market conditions, we are confident that the targets set in Optimal Dynamics are reachable.

The impact from nat cat losses that comes out in the middle of the 6% to 7% range is consistent with the hypothesis of an increased budget of 7% in the new plan. It is worth mentioning that the nat cat load for this year is generated by the occurrence of multiple medium-severe intensity storms, including hail and floods, that have mostly affected Europe throughout the year and Canada in the summer.

The impact of large man-made losses has been contained by the underwriting discipline that is applied by all the business units potentially exposed to such losses, which consist in, one, paying a lot of attention to maintaining balances in the portfolio; two, to be as vigilant as possible to keep the accumulations from all business units under control; and three, to respect the risk tolerances before and after retrocessions.

The three main business engines, namely treaty P&C, specialty lines and business solutions, are producing good technical profit margins that are well in line with their respective objectives under the operating plan. The largest contributions are coming from the property cat segment, business solutions, our business at Lloyds, and treaty P&C markets such as USA, Asia and France.

As a conclusion, the two trends that are shown on slide 16 are a very good picture of what has been achieved since we saw the crisis coming and we entered into an operating mode that has been driven by the clear objective to improve the technical performances in order to counterbalance the impact of the crisis on the financial side of the revenue generation.

To achieve this we invested a lot in building all the infrastructure and the practices that are required to have a culture of portfolio management at all levels of aggregation in the P&C division and the demonstrated ability to form worldwide deal teams to quickly adapt and respond to the transformation of the reinsurance strategy and policies of any given client or prospect we consider as valuable and fitting in with our risk appetite.

The investments we made are paying off. We have positioned SCOR as a first-tier reinsurer and a core partner in reinsurance panels that are getting more compact under the pressure on buyers to closely monitor the financial security of the counterparties, to value the willingness to pay beyond the ability to pay, and to ensure the cash flows are recoverable following major losses and to make savings on the handling costs. All these considerations are leading to significant and large efforts being made to simplify and rationalize the reinsurance programs and their placements.

We view this ongoing and rapidly spreading tiering or bifurcation of the reinsurance market as a major and transformational change in the industry with the implication that will translate in differentials or contrasts in access to business and quality of performances over time. Without minimizing the impact of the inflows of new capital and the challenge from the new coming capacities, they need to be put into context in comparison to the tiering. As a matter of fact, the overlap and the direct competition with traditional providers of risk financing and ultimately risk transfer solutions may be more sensitive in retrocession than in reinsurance.

Simultaneously, the impact and the challenges of this potential competition need also to be seen having in mind how complementary they can be in the longer run and how significant they can be in the near future for global diversified reinsurers. In view of the expansion of the known and emerging risks that are partially transferred or not transferred at all today by insurers, the complementarity seems to be a given for the mid-term.

Currently, and as an illustration of the depth and breadth of the current penetration of the segment where a global diversified reinsurer life co operates, we estimate in single-digit the proportion of our P&C premiums that are put under pressure because of the activities of alternative forms of capital. On this note and having achieved what we have achieved over the past six years, and in particular in 2013 and at the 1/1/2014 renewals, I believe that we have good reasons to be positive for the future and to have trust in the successful completion of our part of SCOR 6 strategic plan.

I'll now let Paolo and Gilles present you the results of the life division and their convictions in the future of their business. Thank you.

Paolo De Martin {BIO 15930577 <GO>}

Thank you, Victor. In 2013 SCOR Global Life has posted record growth with total gross written premiums reaching EUR5.4 billion for the total year on a published basis or more than EUR6 billion if we include Generali US premiums on a pro-forma basis.

Over the last three years SCOR has vastly increased its global footprint in the life reinsurance market. Our worldwide portfolio has more than doubled during the last three years from the EUR3 billion we were writing in 2010. We have achieved this by successfully combining organic and external growth. On one side, we have kept growing our strong European franchise by continuing to expand our leading market position in several European countries and we have significantly expanded our Asian franchise. On the other side, through the successful acquisition of Transamerica Reinsurance portfolio in 2011 and then Generali US in 2013, we've been able to reach a leadership position in the US market.

Equally important, if not even more important, is the fact that this dynamically combined organic and external growth has been achieved without comprising the profitability of the division. This last year 2013 is a great example of this and I will pass it over to Gilles now who will guide you guide you through the details of SCOR Global Life results on page 17.

Gilles Meyer {BIO 3949646 <GO>}

Thank you, Paolo. This is exactly what happened during 2013 where we have been able to take advantage of a number of opportunities in the life reinsurance market, enabling us to have a record premium growth of 14.5% at constant exchange rate and reach a premium volume of EUR5.4 billion on a published basis.

This is thanks notably to the acquisition of the Generali US book, which contributes 4.3 percentage points to the total growth, but in fact the vast majority of the premium increase in 2013 is due to a strong organic growth of our portfolio, which contributed for 10.2 percentage points. The pockets of growth, of strong double-digit growth in 2013 were in the UK and Ireland, especially on the longevity sector, in Spain in the traditional life sector mainly thanks to the so-called value-in-force monetization deals we did there, as well in Asia mainly on the life financing niche.

These strong areas of growth more than offset the negative impact of exchange rates -- we have a negative impact of roughly EUR160 million -- as well as the selective portfolio decrease we did in our health portfolio in the Middle East, which we scaled down at the last renewal due to unsatisfactory terms and conditions. In France and Northern Europe too we slightly decreased and reduced our disability and personal accident books.

Our strong pipeline of potential deals have materialized to a large extent during the last quarter of 2013, which enabled us to record an exceptionally high new business production for the entire year 2013. All the three strategic market segments, namely protection, financial solutions and longevity, have contributed to this strong new production. This once again confirms the dynamism of our franchise and our leading market position in the largest life reinsurance markets of the world.

Regarding the result, we record a robust technical margin of 7.3% including a 0.1% non-recurring positive item, with all strategic segments contributing to the positive result. This performance is very stable compared to 2012 and is in line with our new three-year plan, Optimal Dynamics. On the next slide you will see that it's not only 2012, but it's over also a long period of six years we have been very stable in the technical margin. So we were able to combine quite an important growth, doubling the portfolio over the last four years, and maintaining a technical margin within a very narrow band.

I will pass the word now to Francois for the SCOR Global Investment result on page 19.

Francois de Varenne {BIO 7447858 <GO>}

Thank you, Gilles. SCOR's total investment portfolio reaches EUR23.4 billion at the end of the December 2013, with an invested asset portfolio of EUR15.2 billion compared to EUR14 billion at the end of 2012. This represents a growth rate of 9% in 2013, mainly supported by the Generali US acquisition.

Throughout 2013 SGI has maintained a prudent investment strategy. In particular, the quality of the fixed income portfolio has been maintained, with a stable average rating of AA-minus. At December 31, 2013 expected financial cash flows on the fixed income portfolio over the next 24 months stand at EUR6.1 billion including cash and short-term investments, facilitating dynamic management of the reinvestment policy.

In 2013 the invested asset portfolio has generated a financial contribution of EUR372m. The active management policy practiced by SCOR Global Investments has enabled the Group to record capital gains of EUR130 million in 2013.

The Group has rigorously applied its amortization and impairment policy to its investment portfolio. Impairments stand at EUR97 million in 2013, of which EUR64 million apply to equities which are net asset value neutral. The Third Quarter of 2013 marked the end of equity impairments impacting the profit and loss statement. At current market levels SCOR does not expect further impairments on the equity portfolio.

Excluding equity impairments, the ongoing return on invested assets reaches a robust 3.1% for the full 2013.

Moving on to slide 20, SCOR considers that the current economical and financial environment has slightly improved but remains uncertain. In such a context SCOR Global Investment has continued its policy of progressively reallocating its liquidity while selectively increasing the duration of the fixed income portfolio in line with the direction of the strategic plan, Optimal Dynamics.

Thus, cash and short-term investments have been reduced by 4 points over the last quarter and reinvested mainly within the fixed income portfolio as well as in corporate loans, infrastructure loans and real estate loans. The duration of the fixed income portfolio reaches 3.4 years, excluding cash, at the end of December 2013 compared to 2.9 years at the end of June 2013 and 2.7 years at the end of December 2012. This increase in duration is mainly on GBP and USD dominated portfolios.

As you can see on the table on the right part of the slide, the main driver of the decrease of the ongoing return is the interest rate environment. Thanks to its active management, SGI has been able over the last few years to compensate part of this massive interest rate reduction since our return on our invested assets has decreased much less than the risk-free rates.

It should be noted that for the full year 2014 our current reinvestment rate is increasing, with a pick-up of 40 basis points compared to the average 2013 recurring yield. In 2014 we will pursue a rebalancing program along two axes in order to achieve higher investment results by 2016, the progressive and selective reallocation of the investment portfolio towards its strategic asset allocation, and the progressive rematching of the fixed income portfolio towards a target effective duration.

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

Denis Kessler {BIO 1498477 <GO>}

Thank you, Francois. The environment in which we operate today is obviously not static. Amongst these developments, some are positive, some others are more challenging, certainly some of them are eventually negative. But whatever the case may be, we believe that our strategy today positions us well to make the most of the situation.

Among recent developments, financial risks in emerging countries naturally raise the issue of exposure to these risks. In actual fact our exposure represents just 3% of assets -- I'm talking about emerging countries -- essentially to ensure ALM congruence, and exposure represents only 2% of our shareholders' equity. So the crisis of emerging markets is for SCOR a non-event.

The tough P&C pricing environment is a second challenge, but thanks to its diversified portfolio and its status as a tier-one reinsurer, SCOR recorded strong renewals in January, with premium growth of 5% and stable expected net technical profitability.

The third challenge, linked to the previous one, has been mentioned by Victor, is increasing weight of alternative capital sources in P&C reinsurance. Because of our business mix, again, we are only exposed to direct competition from these market instruments on a small proportion of our premiums. Moreover, we believe that (technical difficulty) an opportunity that we're already seizing, whether in terms retrocession or third-party management.

And the last development, which I already mentioned, is clearly positive, where insured clients increasingly want to have a core set of global reinsurers present virtually everywhere in the world offering a wide range of reinsurance products and services. And SCOR, with its global presence and its reputation, is part of the inner circle of reinsurers with special access to clients, thus the famous tiering hypothesis.

Taking account of all these elements, we confirm the Optimal Dynamics objectives, both in terms of profitability, 1,000 basis points above the risk-free rate, and in terms of solvency, a solvency ratio of between 185% and 220% according to our internal model. Similarly, our shareholder remuneration policy remains unchanged and this year we'll propose a dividend of EUR1.3 per share to the general assembly.

With this I would like to pass over to Antonio for the start of the Q&A session. Antonio?

Antonio Moretti {BIO 17681290 <GO>}

Thank you, Denis. Before moving on to the Q&A session, please note on page 24 the next scheduled event, which is the Q1 2014 results on May 6, as well as the conferences which we are planned to attend over the remainder of 2014. With this we can start the Q&A and I would like to remind you to please keep it at two questions maximum. Thank you.

Questions And Answers

Operator

(Operator Instructions). Jason Kalamboussis, Societe Generale.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, hi. Good morning. A couple of questions. The first one is on the P&C side we have seen some peers sharply increase their guidance for reported combined ratios. Now some can be justified from their mix or expected direction of their mix, but there remains nonetheless a sharp deterioration. You seem to be very confident to stick to your targets. Just what do you think could throw you slightly off, not off your target, but could make you go towards the higher end on the combined ratio?

And the other thing is on the life side, on the technical margin, Generali has shown a 7.7% technical margin for 2013. Do you find that's likely to be sustained and was it at such high levels in the previous years or is there anything that -- how should we expect that to develop basically? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Jason. Victor?

A - Victor Peignet {BIO 6287211 <GO>}

I think we've demonstrated that we know how to manage our portfolio. And I think our planning, budgeting and delivering has been pretty much stable and satisfactory year on year so I myself feel comfortable with where we are. Our reserves are at best estimate with the same margin as last year, while our business is growing and we have opportunities to improve the business mix. So I only see unexpected losses, exceptional losses that could basically put us out of track.

A - Denis Kessler {BIO 1498477 <GO>}

And on the life technical margin of Generali USA?

A - Gilles Meyer {BIO 3949646 <GO>}

Yes. The 7.7% is due to some positive results and positive trends on the mortality side on the Generali US portfolio. In terms of looking forward, I'd like to reiterate the indication that we gave during Optimal Dynamics, with the 7% indication we've given there. The performance of Generali US is already factored in that number when we gave that indication so that's where we believe, with all the portfolio mix evolution we have, that's where our technical margin will be trending over time.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you.

Operator

Kamran Hossain, RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. I've got two questions, one on capital and one on investments. Your target -- your capital came in above your target range at 221%. I know it's only 1% above. Could you give some thoughts on, if you begin to exceed that number significantly, what you might consider doing there?

And also what yield you're building in to your forward earnings expectations into the 221% ratio.

Just on investments, we've probably had this number before, but could you give target duration on fixed income? So I know it was 3.4 year to date, but what that could go to? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Mark on the capital management.

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. So we unveiled a new solvency metric on the IR day last September and we provided a target range of solvency for the Group in which we're providing the expected rate of protection or solvency to our stakeholders. And as you point out, we're just slightly above the range at 221%; it's really immaterial. I think when we're in that range of 185% to 220% that we combine -- it's kind of a sweet spot for us, we combine profitability and the solvency target.

If we were to exceed the 220% range in any significant and sustained fashion, we outlined some actions that we could take, which would largely encompass capital return options, either increasing the dividend potentially, a special dividend if circumstances warranted or repatriation of capital. But those are more unlikely scenarios. I think the other side of it is we did in Optimal Dynamics point out that we think we can grow profitably with 1,000 basis points of return target metric in there. So I do expect us to utilize the solvency capital that we have over the three-year plan.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks Mark. And Francois on the target duration on the bond portfolio.

A - Francois de Varenne {BIO 7447858 <GO>}

The target durations we mention in the presentation of Optimal Dynamics last September. The target duration for the economic balance sheet, that's for the total Group 4.2 years. But that's for the total invested asset portfolio, so which means for the fixed income portfolio the target is a little bit higher. It's more in the range of 5.3, 5.5 years.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. Thanks very much.

Operator

Andrew Ritchie, Autonomous.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. Two quick questions. First of all, you kindly provided the reinvestment rate, 2.6%. I just wanted to clarify, is that a running yield reinvestment rate? You're not assuming any or are you assuming any capital gains in that number? Is there anything unusual about it year to date? But have you been investing in particularly high-yielding assets year to date? So just give us a bit more granularity behind that 2.6% and where, based on what the yield curve's done year to date, you'd expect that to be going.

Second question. On the life business, you had a big pick up in year-on-year growth in Q4, I guess even bigger if I was to FX adjust it. I think you mentioned that a lot of that was longevity-related and a feed through of a pipeline. Does that mean that that'll have, as you earn through, maybe there'd be negative impact early in 2014 on the technical margin? Or maybe just give us some color as to how quickly earnings from that recent top-line growth feed through to the bottom line. Is there anything particularly unusual about that growth? Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks Andrew. Francois on the reinvestment rates.

A - Francois de Varenne {BIO 7447858 <GO>}

So how we computed this reinvestment rate, that's based on the 2014 roadmap we've got on the investment portfolio, and that's based on the current rate spread and forward rates. So that's not where we invest today, so that's the average reinvestment yield of the cash or cash, financial cash flows over the full 2014 year. So it includes only income and fair value by income yield, but excludes amortization, impairments and capital gains.

So it should be compared to the recurring yield of the full year 2013. And you've got all the information in the appendix on slide 51. And this average yield for, recurring yield for 2013 is 2.2%, if we exclude the exceptional item linked to the MRM acquisition and the badwill for 19 basis points. And that's the same recurring yield that we observed in Q4 2013 as well.

Q - Andrew Ritchie {BIO 18731996 <GO>}

That 2.6% is a weighted average expected number for 2014 based on observed spreads today. Is that --

A - Francois de Varenne {BIO 7447858 <GO>}

And spreads, yes. But not the average yield of the portfolio. That's the average reinvestment yield for the full year 2014.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Yes. No. I know. But I guess it makes the assumption that current yields and spreads don't change. Is that right? It makes an assumption on future asset mix, but it's using observed market levels today. Is that right?

A - Francois de Varenne {BIO 7447858 <GO>}

Yes. That's based on current market levels.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. So if nothing else changes, based on your planned asset reallocation that you've talked about, the weighted average reinvestment yield would be 2.6%, if nothing --

A - Francois de Varenne {BIO 7447858 <GO>}

Yes.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Right. Got it. Understood. That's clear. Thanks.

A - Denis Kessler {BIO 1498477 <GO>}

On the life development at Q4?

A - Gilles Meyer {BIO 3949646 <GO>}

Yes. On the life development, it's better if we step back and look at the entire year. Overall we had about 14.5%, if you look at the overall growth on a constant exchange rate we had about 14.5% growth. 4.5 percentage points is Generali USA acquisition. Then about 6 percentage points is driven by our inroads in financial solutions. Then you have 2% longevity and 2% protection. That's how you make up that 14.5 percentage of overall growth.

In terms of the dilution over the technical margin as the business mix is shifting slightly to the financial solutions and to longevity, that is factored in again on our Optimal Dynamics target, target indication that we gave in September, with around a 7% technical margin. So you will see that happening in 2014 as we transition to this new business mix from the 7.3% where we are now.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. And just to be clear, things like the BBVA deal is financial solutions.

A - Gilles Meyer {BIO 3949646 <GO>}

Yes.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Yes. Thanks.

Operator

Maciej Wasilewicz, Morgan Stanley.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Hi. It's Maciej from Morgan Stanley. Thanks for taking my question. On slide, I think it's slide 20, yes it might be slide 20, you show the risk-free rate at the end of 2013 and also give us that running yield of 2.6%. My question is looking back at your plan optimal dynamics, it looked like you were expecting a 0.8% spot rate, a risk-free rate, at the end of 2013. Then you expected it to rise about 1 -- to 1.4% by the end of this year. I'm just wondering -- and so far yields have fallen 30 basis points rather than rising so far.

I'm just wondering, that 3.1% target that you had, if you had to recalculate it today based on the current market rate, would it come out to 3.1% still despite the yield moves or would it be at a lower level, and can you make that up in some other way?

A - Francois de Varenne {BIO 7447858 <GO>}

So you see on the table, on the right part of the slide, two effects. The first one, that's the massive decrease risk-free interest rate since 2010. And the fact that what we start to observe today at the end of 2013 and that we see in forward rates today for 2014, 2015 and 2016, that's an increase of risk-free rate. Having said this, you see the green line in the middle of the table, which is the average of the last four years of interest rate, is still decreasing due to the lag effect in the moving average.

We recomputed our investment assumption for the next three years and at this stage, given market levels, we still maintain the assumption of delivering a return on invested assets above 3% by the end of 2016.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Okay, because I guess that that 0.7%, you were expecting 0.8% and then yields are down another 30 basis points, but I guess the yield curve might have, the forward rate curve might have steepened in that time. Is that what offset that or is it that you're investing in a more favorable mix than you were expecting at the Optimal Dynamics plan, because it looks just -- sorry, go ahead.

A - Francois de Varenne {BIO 7447858 <GO>}

You know in the strategic asset allocation, we have ranges of asset classes, so which means we actively position the portfolio to take opportunities where we see opportunities. And the beauty of the portfolio today is the fact that we are invested in many different currencies. And for instance, we started to increase the duration of the GBP and USD buckets, where we invest today between 7 and 10 years. We invest, as you know, in loans as well, where we see many opportunities and still very attractive spreads and margins.

Q - Maciej Wasilewicz {BIO 16462204 <GO>}

Okay. Thank you very much.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. First of all, could you just give us an indication of how the actual versus expected mortality losses are developing in the Transamerica portfolio of a couple of years ago? Presumably it's still actually better than expected because there's no reference to any problems, but I just wonder if you could give us some indication on that and if there's been any change year on year in that portfolio.

Then, secondly, just a clarification. On that slide 22, when you talk about just 3% exposure to emerging market currencies, I don't really understand that ratio because you do a lot of business in Asia and so I'm not quite sure why that ratio is as small as that. So can you just help me understand what that number actually means? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, William. Maybe on the evolution of mortality of the Transamerica Re portfolio?

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

Yes. I think, William, the (technical difficulty) actual versus expected. I think throughout the year, mid of year we had seen some negative blips. Those have come back into order at the end of the year so at this point we're very comfortable with where we are in the Transamerica portfolio. Now going forward we really look at the two portfolios joined and in that case we feel even more comfortable with where the joint portfolio is.

A - Denis Kessler {BIO 1498477 <GO>}

And on the exposure to --

A - Francois de Varenne {BIO 7447858 <GO>}

So just to come back on the figures on slide 22, so on the asset side, we have two different types of exposure to emerging markets. The first one, as mentioned on the slide, in an exposure that is linked to our strict policy of congruence between assets and liabilities, so which means at SCOR we invest on the asset side exactly in the same currency as on the liability side in the technical reserves. So this exposure at the end of December 2014 is of EUR339 million and is mainly made of local government bonds and money market funds.

Our second type of exposure in emerging markets is taken through, let's say, our view and our wish to be exposed to emerging markets in terms of securities but denominated in our currencies, in euro or USD. We reduce significantly our exposure to emerging market 18 months ago and it currently stands at around EUR120m. So the overall exposure to emerging markets within the invested asset portfolio represents 3% of the portfolio, of which 2.25% for congruency policy and 0.75% in emerging market funds.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Thanks.

Operator

Vinit Malhotra, Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. Good morning. This is Vinit here at Goldman Sachs. Just on P&C growth, Victor, you mentioned one market which caught my attention. This is Germany. And I think this has been a market you've been trying to grow as well for the last few years and some renewals we can check that there's been a 10% to 15% even growth over the last two years. I'm just wondering if you could comment on anything more on helping us understand how this growth is coming about, maybe using Germany as an example and from a broader perspective P&C?

And second thing is one very minor question on FX. In the investment income this year, a large charge and FX losses in Fourth Quarter. I was wondering if Francois could just comment on that given that we just heard the exposure is fairly limited. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thanks Vinit. Maybe on the German marketplace P&C, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

In Germany it's a combination of two things, the work that has been done year after year for quite a number of years now to expand our penetration of the market, in particular in the mid-sized area. And the second is the successful implementation of the global insurance initiative. So you combine the two and you get to where you are. I think we still have in Germany a potential to improve the positions, but I think it's moving in the right direction.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. And there's no pricing -- the reason I ask it because people say to us that SCOR might be pricing and this is why you're getting more business. Just to put our minds at rest, there is no -- this is more recognition of more leadership positions on the contracts rather than pricing, right, just to reconfirm?

A - Victor Peignet {BIO 6287211 <GO>}

You would have to segment the market in Germany and see how the market was affected by the natural catastrophe. And I think that the response of the market to the natural catastrophe is commensurate to how much each and every sitting company has or hasn't been affected and how its reinsurance program was affected. So I think there is certainly a disconnect between the image we have of the natural catastrophe and the impact it had on the reinsurance programs.

So I think you need really to take pretty specific approach of each sitting company making a large difference between the global insurers and the top band of insurers in Germany having a widespread national business or even international, and the more regional ones that, for some of them, have been much more seriously hit by the natural catastrophe than the average of the market and was able to absorb it, at least from a reinsurance standpoint (technical difficulty).

Q - Vinit Malhotra {BIO 16184491 <GO>}

Alright. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

On the FX movement at the end of 2013, Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

Vinit, on the FX, most of that movement, it's roughly EUR10 million in the quarter. Most of that movement is a result of really hedge effectiveness. We hedge on a quarter -- we set our hedges on a quarterly basis within the Company and so I would give you a range of anywhere between zero and EUR10 million in either direction in terms of hedge effectiveness. We had some positives, for example, in Q3. We had some negatives here in Q4. But it's really normal volatility in this process and if you look at it over a longer term it tends to balance out.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So these are active hedges, not just asset liability, natural hedge?

A - Mark Kociancic {BIO 17852409 <GO>}

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Alright. Thanks Mark. Thank you.

Operator

Thomas Fossard, HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. I have got two questions, one for Victor, one for Francois. First question for Victor would be on the -- in 2013 we've seen small cat and large man-made risk frequency increasing. Could you please comment on the potential impact on your attrition or loss ratios in 2013?

And potentially if you could comment on the trend and if there is, I would say, anything to worry about for 2014 and 2015, maybe with a pick up of (technical difficulty) recovery or, I don't know. So if you could please comment on the potential beginning of a trend.

And sorry, the question for Francois would be, coming back to the 2.6% expected reinvestment yield for 2014, could you tell us what has been the average reinvestment yield on the full year 2013, so how the 2.6% will compare for 2013?

And what would be the effect of the 2.6% on your guidance for return on investment for 2014, including capital gains realization? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Since you allocated the question directly to the owner of the issue, I've nothing to do. So Victor?

A - Victor Peignet {BIO 6287211 <GO>}

I don't think there is a trend in large man-made losses. I think that's a bit like natural catastrophe. It happens and some years you've got more of them and some years you've got less of them. I don't think we can see a crisis-related pattern, for instance, in the occurrence of those losses.

I think you can certainly analyze the losses and see which companies are affected, insurers in particular. Then you can draw some conclusions regarding the underwriting policy of each and every, and then it's up to you as a reinsurer to select your partners.

I think as I said in my speech, I think the way we've gone through that relatively immune, in bracket -- we have our share of it but that didn't really affect our attritional or the part of our attritional that is related to that -- is linked to the way we manage our underwriting in a sense that we have a control of accumulation because those large losses are generally coming from many angles in a large global diversified reinsurer. We see them for today [ph]. We can see them from our facultative operation and large corporate operation. They can come from many sources.

I think we have a management of our accumulation. We have a management of the balance in the portfolio. And we have a retrocession policy that protects us against those losses. So you combine the three and for the moment, well, we think that we have the situation under control. And I see no reason for us to think that 2014 would be behaving different from 2013. If you refer, for instance, to the shares we have of some of the large published-in-the media losses, like the Costa Concordia or things like that, you can see that we've been able to manage the impact of those losses on the net basis to the Company. And I think we intend to continue that.

We are making even more efforts today with our cedents to try to identify the large risk in every market and to get through a system that we are developing currently and putting in place, market by market, a vision of all the streams of commitments that we get on the largest risk for each and every market. This is part of the underwriting information we are more and more asking to our cedents and getting computed and aggregated within our underwriting management business.

A - Francois de Varenne {BIO 7447858 <GO>}

Thomas, to answer to your questions, so the first one is the comparison of the average reinvestment yield. So if you move to the slide 51, you can see that the recurring yield, so with the definition income and fair value by income only in 2012 was 2.4. In 2013, if we exclude the exceptional item linked to the valuing of MRM, it's 2.2.

You know that in 2013 we maintained a huge amount of cash and we started to put, to reinvest the cash in the second part of the year. Book yield of the fixed income portfolio -- market yield of the fixed income portfolio in 2013 was in the range of 1.6%, 1.7%. So let's say the average reinvestment yield in 2013 was in the region of 2%.

For the guidance of 2014, so you know that just -- it's not a guidance; it's an assumption based on the current market level. And I don't like to comment on the constituents of the return on invested assets, such as the recurring yield or the realized gains, and we prefer to concentrate on the total return on invested assets as a whole.

As you know and it was mentioned in the slide, year after year we are affected by the massive and brutal decrease of interest rate. And as a benchmark, the moving average of the full-year risk-free rate weighted by euro [ph] currency mix in our portfolio, was at 1.5% in 2010, 1.4% in 2011 and dropped to a (technical difficulty).

So it's early to have a view on full year 2014. But the expectation or the assumption at this stage is return on invested asset in the range of 2.4%, 2.9%. And given its current defensive positioning and its relatively short duration, the investment portfolio should, however, benefit much faster from improved market conditions. You have to compare this range, 2.4%, 2.9% to the normalized 2013 return on invested assets, which is 2.9% if you exclude the 19 basis points of the MRM valuing.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

Frank Kopfinger, Commerzbank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you. Good morning, everybody. I have two questions. My first question is on your reserve situation. As we had only a small impact from reserve releases in 2013, the question is whether you comment on, could comment on how you see your overall reserve situation now.

And also related to this, whether you might have reached now a point where we will come to a status where we should expect more regular reserve releases going forward. This is my first question.

And second question is, as we are ahead of April renewals, is whether you could comment on what your expectations are and then how do you position yourselves there.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Frank. Frieder, on the situation of the reserves? So Frieder is the new CRO of the Group.

A - Frieder Knuepling

Yes. The reserve situation is pretty much unchanged compared to one year before. As always, we've done a thorough review on an annual basis and gone through all avenues [ph] and reserve positions, and we can confirm that the reserves are above estimate, as in the past.

A - Denis Kessler {BIO 1498477 <GO>}

And on the second issue, which is April renewals, that's P&C so I don't know if you can say really a few, give a few trends, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

Well just one point maybe on the reserves. I think over the last six years the results we've presented are the true results of our business. We have not used reserve release or whatever. We were not basically, during the hard market 2002/2005, we were not there in a position to accumulate. So I think what you see from the results is two results and with very marginal reserve release. So that's a comment, we are not.

Regarding April, I think April is for big majority an Asian renewal. And each market is different from the others there. We have a very long presence in Asia and more than 40 years. I think our franchise there is very deep. So I think there is competition like in any other market, but I think the franchise and the very, very deep relationship we have with most of the clients are putting us in what I feel is a good position to have very decent negotiation and discussions with those clients. So this is an ongoing process. I'm not particularly worried about those renewals.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

Operator

Jason Kalamboussis, Societe Generale.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, hi again. Just two quick ones. We have seen the Berkshire Hathaway Specialty Insurance, the BHSI, base it [ph] up last year, having quite aggressive targets. Does that affect in any way your plans at P&C to reach the 1 billion premiums? So that was the first one.

And the second one, it was around your -- you were mentioning that you have improved the Group costs to 5.1% from 5.3% 2012, so that's very good. You have a target of 4.8% on average over the next three years. So what we should expect in 2014? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Your first question, Jason, there's a small fee for the new questions now. So this first question of Jason, Victor, some (inaudible)?

A - Victor Peignet {BIO 6287211 <GO>}

The answer is no.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Good.

A - Denis Kessler {BIO 1498477 <GO>}

That's in one word. So the answer is no, Jason. And on the cost ratio of 4-point -- sorry, yes, we plan an average cost ratio of 4.8% over the next three years according to the new plan. Now for 2014 I turn to Mark, tell us the budget.

A - Mark Kociancic {BIO 17852409 <GO>}

Yes. So as Denis mentioned, we were projecting 4.8% over the three-year plan, Optimal Dynamics. We've seen a nice trend downwards in our cost ratio over the last few years, touching 5.07% for a little more precision. Some of that is due to the increasing scale of the organization. We are getting larger. We do get economies of scale by adding companies like Generali and leveraging overhead. I think there's also a significant productivity component as we leverage some of our global systems and so forth. So those are the two main drivers over time.

I would caution on specific figures because we are a global organization and therefore subject to a little bit of foreign exchange, differences between the US dollar and the euro. Still feel very confident about 4.8%, but there could be a touch of volatility in the ratio as we're a little bit overweight in expenses in euro relative to the US dollar, but we definitely believe we'll reach that target, that goal.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Mark. I think it was the last question so I wish to thank you very much for your presence at this conf call. And don't hesitate to call us if you have additional questions or explanations. We'll be happy to provide that to you. And next will be the Q1 results and the general assembly results in May. Thank you very much and see you soon. Bye-bye.