Y 2016 Earnings Call

Company Participants

- Denis Kessler, Chairman & CEO
- Francois de Varenne, CEO, SCOR Global Investments SE
- Frieder Knuepling, Chief Risk Officer
- Ian Kelly, Head of IR
- Mark Kociancic, CFO
- Paolo De Martin, CEO, SCOR Global Life SE
- Romain Launay, Group COO
- Victor Peignet, CEO, SCOR Global P&C SE

Other Participants

- Anasuya Iyer, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- Xinmei Wang, Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to the SCOR Group 2016 Q4 results conference call. Today's call is being recorded. There will be an opportunity to ask questions after the presentation.

In order to give all participants a chance to ask questions, we kindly ask you to limit the numbers of your questions to two.

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

Ian Kelly {BIO 19976646 <GO>}

Good morning, everybody. And thank you for joining the SCOR Group's 2016 results call.

Before we start, I please ask you, as usual, to consider the disclaimer on page two of the presentation, which indicates that the 2016 financial information is audited; and, that the Group's solvency final results are to be filed with the supervisory authorities by June 2017 and may differ from the estimates expressed or implied in this report.

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

Denis?

Denis Kessler {BIO 1498477 <GO>}

Thank you, Ian; and good morning, everyone. We have some exciting news to give you today. But let's first recap on the year.

2016 was another outstanding year for SCOR and was marked, in particular, by the successful launch of a new three-year strategic plan, Vision in Action.

Shortly after launch, that was last September, the strength of the new plan was recognized through another upgrade from Moody's, which cements our position in the top tier as a global and highly-diversified market leader.

As part of the capital management policy, which is at the heart of Vision in Action, we successfully issued a new EUR300 million contingent capital facility to help safeguard the Group's solvency in case of extreme catastrophe events.

For continual development in the emerging markets, both for life and for P&C, SCOR has successfully been granted a license to operate at a branch in India.

I'm also pleased to report that our internal model was approved by the regulator with all restrictions lifted.

We also managed to issue debt under excellent conditions to support the financing of the Vision in Action plan.

We continue to grow sustainably and profitably in both P&C and life reinsurance. On the P&C side, the renewals demonstrated the strength of the franchise with selective growth and quasi-stable pricing. And as per Vision in Action, we are successfully expanding in the US market.

On the life side, we confirmed a strong and growing position in the longevity reinsurance sector; and, in line with what we said, we're expanding the franchise in Asia Pac.

SCOR has consistently delivered; both of the targets, set in Vision in Action, have been exceeded.

The annualized return on equity stands at 9.5% in 2016. This is above the target of 800 basis points above the five-year, risk-free rates. And as you can see on the slide, if we were to exclude the cost of reflecting the future French tax rate chances, by the way due in 2020, net income would be at EUR660 million with a return on equity of 10.4%.

In addition to exceeding the return on equity target, we have been able to generate significant Solvency II capital. So that the solvency ratio now stands at 225%, exceeding the higher end of the optimal range.

Let's move to slide 4. SCOR has consistently delivered, not just on achieving the strategic targets. But also in delivering excellent shareholder returns. Today, I'm able to announce a proposed increase to regular dividend of EUR0.15 to EUR1.65 per share. By the way, it's an increase of 10%. A powerful testimony to the strong sustainable earnings of the Group; a testimony to the consistent solvency capital generation of the underlying business; and third, to the active shareholder remuneration, which we are pursuing.

This increased dividend will be proposed at the next Annual General Meeting to be held on April 27.

SCOR, we have distributed in excess of EUR 2 billion in dividends over the last 10 years, a period during which the Group's rating has risen to AA minus and shareholders' equity, as you can see, has risen to EUR6.7 billion. This translates in a book value per share of EUR35.94, let's say almost EUR36, which is a new record level since the first strategic plan back on track for those who were already shareholders at the time.

Let's move to slide 5. The strong capital generation that supports increased dividend also supports our increased solvency. In Vision in Action, we describe the solvency scale, which, by the way has remained the same as in previous plans. Indeed, consistency and continuity in management of capital is important. We describe the management actions, as we move up through the solvency scale.

Today, the Group can generate capital sustainably, above the optimal range. Today, I believe that the SCOR Group fundamentally enters a new era, not one where the solvency, for just one in point in time, goes above the optimal range. But one where the longer-term direction of the Group solvency benefits from the strength of the underlying business fundamentals; the strength of the excellence ratings; and the optimal use of leverage.

As at the yearend, our excess capital is at about EUR200 million, or 5 points of solvency ratio above the upper end of the optimal zone.

Our solvency scale provides for specific management actions when we exceed the upper end of the optimal range. Out of those actions, we could consider accelerating growth, provided it meets the Vision in Action plan targets.

We could consider adapting a risk profile. We could consider increasing a dividend growth rate, or buying back shares. At the moment, we don't focus on special dividends or acquisitions. But these are, of course, not excluded.

I would like to announce that today we introduced a framework for share buybacks. It allows the Group to undertake, across the next 24 months, a specific share buyback program, with the amount and timing to be settled by the Board of Directors, in accordance with the Group's growth performance.

Further to the share buyback program, a word on the merger plans of the Company at the head of the Group. This project remains on track with work progressing well on dealing with business, regulatory and operational points. We expect the project to be completed in early 2019.

The merger of the three SE companies in France should provide the Group with diversification benefits of up to EUR200 million of solvency capital upon its completion.

I will now hand over to Mark to give you more details on the 2016 financial performance. Mark, you have the floor.

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Denis. Good morning, everyone. Moving onto slide 6, I will walk you through the financial highlights of the 2016 results.

SCOR wrote more than EUR13.8 billion of gross written premiums in 2016 representing a 5.3% increase over 2015 at constant exchange rates, or 3% at current exchange rates. This top-line growth was fueled by the strong contribution of both business engines, SCOR Global Life, with an 8.3% rise at constant exchange rates; and SCOR Global P&C with a 1.2% growth at constant exchange rates.

SCOR achieves a strong set of results for 2016 with a net income of EUR603 million, generating a 9.5% return on equity. Thereby, exceeding the Group profitability target set at 800 basis points above the five-year, risk-free rate.

It's worth mentioning that the 2016 net income was impacted by the passing of the Finance Bill 2017, which provides for the planned reduction of French corporate income tax rates from 34.43% to 28.92%.

While the Group acknowledges this is good news in the long term, it will reduce the tax charge -- because it will reduce the tax charge. It also means an adjustment to the P&L at the end of 2016 in the amount of EUR57 million.

As Denis mentioned, excluding this non-cash impact accounting for the downward adjustment of deferred tax assets, the Group would have recorded a 2016 net income of EUR660 million. And a return on equity of 10.4%.

The P&C net combined ratio for the full year stood at 93.1%, while the Life technical margin reached 7%.

Finally, SCOR Global Investments delivered a solid return on invested assets of 2.9%, benefiting from the execution of the Vision in Action asset management policy.

Moving to page 8. One of the more impressive value creation metrics for our shareholders is shown by the 5.2% increase in shareholders' equity to EUR6.7 billion. This translates into a very strong book value per share of EUR35.94.

The shareholders' equity was boosted by the strong net income; the strong foreign exchange impact between the US dollar and the euro, while accounting for the EUR278 million in dividends, that were paid out during the Second Quarter of 2016.

The financial leverage ratio stands at 24.4%, under the 25% threshold indicated in Vision in Action.

On page 9, SCOR delivers excellent recurring cash flow for the year, at EUR1 billion, after normalizing for SCOR Global P&C, a return of funds withheld in the amount of EUR300 million, which took place during the Third Quarter.

Cash flow used in financing activities mainly reflects the dividend payment and the impact of our active liability management policies in 2016.

Total liquidity reached EUR2.3 billion at the end of 2016, compared with EUR2 billion in 2015 supported by the very strong operating cash flow generation, although the rebalancing of the invested assets has commenced. Liquidity is down from the first half of 2016 level of EUR2.9 billion. And Francois will speak to this shortly.

I will now hand it over to Frieder to comment on the Group's solvency ratio evolution.

Frieder Knuepling

Thank you, Mark. Slide 10 shows the development of the Group's solvency position during 2016.

In total, the solvency ratio has increased by 14percentage points during the year, to a level of 225%, that means 5percentage points above the upper end of the optimal range.

Economic variances, which are mainly driven by financial market movements, have led to a marginal decrease in the solvency ratio by 0.5percentage point.

We have fully reflected the change in French corporate tax rates. This has reduced the value of DTAs on existing tax losses and the loss-absorbing capacity of future taxation.

The combination of both effects has reduced the solvency ratio by 3.3percentage points.

A number of areas of our internal model have been improved in 2016. The most significant change related to the operational risk module. The total impact on the solvency ratio, which also includes the effect, of a number of minor changes to other areas, is an increase by 4percentage points.

Operating earnings of the reinsurance portfolio have led to a growth of the solvency ratio by 11.9percentage points. This includes a bit less than plus 1percentage point of unwinding of estimates in the yearend 2015 solvency ratio.

The remainder of the increase is driven by the value of new business written by the Life and P&C divisions during 2016. And the development of the existing business.

As in the previous years, capital and solvency generated by our business divisions is well in excess of the proposed dividend.

Moving on to page 11, among the sensitivities to financial market parameters, the most significant ones relate to interest rate movements and to large natural catastrophes, as in the past.

All the potential events included in this list of sensitivities, however, would lead to a solvency ratio in the upper half of or above the optimal range. SCOR will continue to benefit from increases in interest rate.

As a reminder, SCOR does not use any long-term guarantee or transitional measures. And its solvency position is not sensitive to the level of the ultimate forward rate.

As shown on page 12, SCOR's risk profile continues to be dominated by insurance underwriting risks, in line with our stated risk appetite. In comparison, the contribution of market and credit risks for the total capital requirement is significantly smaller. The life and P&C underwriting risks continue to be very well balanced.

The level of diversification at this level of aggregation has increased further to 49%, which is a clear indicator of the strength or SCOR's business model. It is built on the continuous maximizing of diversification, which in turn, is the basis for optimizing the Group's capital efficiency and profitability.

With this, let me hand over to Victor for his comments on the P&C portfolio.

Victor Peignet {BIO 6287211 <GO>}

Thank you, Frieder; good morning. As you can see on slide 13, this is another set of very good results. And we are continuing on the basis of the metric's optimal dynamics.

As far as the activity is concerned, the Q4 of 2016 and the January 1, 2017 renewals have put us back on the growth trend assumed for optimal dynamics. That is a growth rate slightly above 5% at constant exchange rates, which is at the mid-point of the 3% to 8% range that we have indicated for Vision in Action.

This is in line with the comments that were made when our Q2 and Q3 2016 results were released, showing a reduced growth rate, due to specific run off -- one-off revisions of prior premium estimates by cedents. These revisions were more particularly related to the aviation, marine. And engineering lines of business.

As you would expect knowing our plan, the distribution of the growth is very much weighted towards the property and casualty treaty business in the US market. Both the specialty lines and business solutions are impacted by the situation of the worldwide economy that mostly affects the engineering and marine and energy lines of business.

We are, however, seeing prospects of improvement in the construction area, starting with the US, possibly followed by Asian economies, like China, India or Japan, whether it be locally or through investments abroad, mostly in infrastructure, power, including renewable energies. And water treatment and distribution.

We will see how the April 1 and July 1 renewal will go. As we said during the 2016 IR Day, we will come back around Monte Carlo with the narrowed range of assumed growth for the Vision in Action plan.

As far as the technical and management expenses ratio are concerned, our net combined ratio continues to be very satisfactory at 93.1%. In addition, the activity continues to produce excellent cash flow.

Our normalized net combined ratio is stable at 94.4%. Here again, we stay in line with the optimal dynamics assumptions. You will recall that our January 1, 2017 renewals only show a marginal deterioration of the expected profitability.

There are basically two one-off items to underline in the contents of the net combined ratio. And I would like to qualify each of them.

On one side, you will recall that we did reserve releases in Q2 that correspond to a reduction of 0.8% in the net combined ratio of 93.1% over the entire year. The position at the end of the year is that we are reserved at best estimate, plus a margin that is of a size similar to what it was at the end of 2015.

On the other side, the commission ratio is loaded by one-off adjustments on large specific contracts that are subject to sliding scales. As the loss ratio for these contracts are landing more favorably than expected, there is a shift from lower losses that are reflected in the attritional ratio to higher commissions that are reflected in the commission ratio.

These one-off adjustments are neutral from a P&L standpoint. And net of those, the overall commission ratio is down to the level indicated in Vision in Action. That is within the range of 25% to 26%, which reflects the slightly increased weight of proportional in the overall portfolio.

I'll now hand over for Paolo for his presentation of the life results.

Paolo De Martin {BIO 15930577 <GO>}

Thank you, Victor. In the life division, we had an excellent year in 2016. The First Quarter in particular has been our strongest quarter on record, in terms of both volume and results.

For the total year, gross written premiums have reached EUR8.2 billion, with an increase at constant exchange rates up 8.3%, or 6.4% at current exchange.

The growth in 2016 has been very well diversified, in terms of both geographical spread and product lines, with longevity driving the lion's share of growth in Q4 standalone.

On the results side, we're delivering EUR526 million of technical result, with a margin of 7%. The strong level of profitability is reached through the combination of profitable new business and strong performance of our in-force book.

We're very proud of our achievements over the last three years and of our contribution to SCOR's twin-engined strategy. We've integrated Generali USA acquisition; maintained our leadership in the US; and received two years in a row the Reaction magazine award in North America as Best Life Insurer.

We have further energized our global organization with a new set up, based and regional focus in global product lines, which has driven a significant improvement of our competitive position. And we have successfully demonstrated our team's ability to grow organically, both in terms of footprint and in terms of product offering. Since 2013, we have added EUR2.1 billion of profitable premiums, for a total growth of more than 30% over the last three years.

We're confident about our momentum going into 2017. We see growth being potentially higher -- or slightly higher than the Vision in Action assumption of 5 -- 6%, with a technical margin in line with the strategic plan assumption.

I'll now hand over to Francois for more details on our Group investment strategy.

Francois de Varenne {BIO 7447858 <GO>}

Moving on to slide 15, SCOR's total investment portfolio reaches EUR27.7 billion at the end of December 2016, with an invested asset portfolio of EUR19.2 billion compared to EUR18.8 billion at the end of June.

During the second half of 2016, SCOR global investments has rebalanced its investment portfolio, as announced in the Vision in Action plan. Liquidity was reduced by 3 points; the proportion of corporate bond increased by 5 points; and duration of the fixed income portfolio was increased from 4 to 4.5 years compared to June 2016 level.

The high quality of our fixed income portfolio has been maintained as well, with a stable average rating of double AA-.

Moreover, SCOR global investments has maintained a very strict policy of avoiding any foreign exposure for eurozone peripheral countries. And has currently no exposure to the French sovereign debt.

At the end of December, expected cash flows from the fixed income portfolio over the next 24 months stands at EUR6.7 billion, despite the rebalancing of the investment portfolio completed since the announcement of Vision in Action. It will facilitate the dynamic management of our investment policy, as market conditions (inaudible).

In spite of the prolonged (inaudible) environment, SCOR Global Investments manages to deliver a strong and recurring return on the seed assets, which stands at 2.9% for the full-year 2016, well above our risk-free benchmark.

Moving onto slide 16, you will appreciate that the significant portion of Vision in Action rebalancing has been completed in the second half of 2016. Consistent with the Group's risk appetite. And of continued focus on the preservation of our asset value, we have tactically decided to pause the rebalancing strategy, in November 2016, anticipating the market impact of the US elections. And of the Italian referendum. And our asset allocation has remained broadly stable during that period.

This does not change our Vision in Action strategic objectives. And we have resumed our rebalancing strategy early 2017, taking advantage of a favorable market for US corporate bonds. This enabled us to lock a nice yield on its reinvestment program well above our recurring (yield).

Recent financial market developments are overall positive for the execution of Vision in Action, as illustrated by our reinvestment yield increasing from 1.9% to 2.5% over the last quarter. And above our current income yield.

Looking forward, we will continue to redeploy opportunistically on investment portfolio, towards Vision in Action strategic asset allocation, in order to lock favorable market entry points.

Finally, I wanted to stress the fact that I believe we are uniquely positioned to take advantage of the global context of rising interest rates and inflation, through our asset management policy. We continue to benefit from our unique currency mix; 48% of our invested assets being denominated in US dollar. And only 30% in euro.

More importantly, you can notice that the rebalancing of our investment portfolio, completed since the announcement of Vision in Action, will not impair our ability to take advantage of improving reinvestment conditions.

We keep a high degree of flexibility with EUR6.7 billion of assets that will be reinvested in the next 24-month period, without selling any assets we currently own in our portfolio.

Excluding cash, more than 30% of our investment portfolio will be available for reinvestment in the next two years, just taking into account redemption and coupon. And us benefiting from improved reinvestment rates.

In a low inflationary environment, it should be noted that a significant portion of our portfolio, 43% is also protected from an increase in inflation, or will benefit from an increase of interest rate, as illustrated in the chart on the bottom left of this page.

Let me finish this presentation with my expectation of the return on invested assets for the full-year 2017. This year should be, as market conditions are low, an inflection point for our income yield, which should increase on average, thanks to our rebalancing strategy. And increasing reinvestment rate.

We also expect some recurring capital gains to be generated at some point in the year, mainly coming from non-yielding asset (classes).

Having this in mind, I believe our return on invested assets should be in the range between 2.7% and 3.2% for the full year.

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

Denis Kessler {BIO 1498477 <GO>}

Thank you, Francois. As you can see, 2016 was marked by some key events. We had Brexit, the US election, the Italian referendum; and SCOR has been able to navigate these events successfully. We have an excellent start to the Vision in Action plan.

In 2017, we are well placed to continue to deliver on our plans. Overall. And it has been said again by Francois, interest rate increases are positive for the Group.

We continue to execute upon our investment strategies through redeployment of our assets, to take advantage of increasing rates. We see positive prospects in the reinsurance market.

FINAL

Bloomberg Transcript

The SCOR Global P&C has underwritten excellent January 1 renewals and expands successfully in the US.

SCOR Global Life deepened its franchise in Asia-Pac. And continues to successfully grow the longevity business.

The Group is well positioned to leverage changes in legislation, with restrictions on our internal model entirely lifted; potential benefit from the US/EU collateral agreements that would reduce the need for LOCs; and, we are unlikely, I repeat unlikely, to have the burden of being classified as globally systemically important.

Finally, the Group has a stable secure, yet fungible, capital base, with more than 97% of its capital held in advanced economies and currencies.

On the final slide, I leave you with a picture of our successes in 2016. Under the new Vision in Action plan during H2 of 2016, the Group has achieved an ROE of 10.6%, above a minimum target. And a solvency ratio of 225%, above the ultimate range.

We are very well positioned to continue our success story and execute upon our plans in 2017.

Thank you very much for your attention. Ian, we can now start the Q&A session.

Ian Kelly {BIO 19976646 <GO>}

Thank you, Denis. Before moving to the Q&A session, quickly, please just note on page 20 the next scheduled events, which are the Q1 2017 results and the Annual General Meeting, both taking place on April 27.

Also, the Investor conferences are noted here that we currently plan to attend in 2017.

With that, we can now start the Q&A. I would like to remind you, as ever, to limit your questions to three each.

Questions And Answers

Operator

(Operator Instructions) Kamran Hossain, RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Two questions. First of all, on the buyback, can I just ask, if interest rates do come back down -- obviously, your ratio is 225%, it's above the 220%. But it's not enormously above. And you've been above before. If rates do come back down, does that change your thinking on that? So that's the first question.

The second question is just above economic capital generation. Really appreciate the disclosure; I think it's fantastic that you're giving that. If I ask about the 11.9% operation experience this year, could I ask what that might look like on a -- what you would consider to be like a normal or planned basis, just so we've got an idea about how the ratio should move over time?

Any color on that would be really helpful. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

Well on the first question, Kamron, on the buyback. So there's many factors that come into play. It's not -- I don't think we can isolate it to one.

During the Investor Day, last year, we outlined a framework for how we view buybacks or excess capital and how we would deploy it.

Taking into account our solvency level, making sure that's secure and making sure that we can fund future accretive growth. And so on. And the regular dividend, we would then make decisions on the excess capital.

Right now, we're in a position today to tell the market that we have strong underlying fundamentals, both in the technical aspects of the business -- I think we're on a positive trend for the investment side.

And probably more importantly, the 225% that you're looking at today is not based on some volatility of -- favorable volatility of market conditions. But rather what I've just spoken to, which is the solid underlying fundamentals of the business.

A - Frieder Knuepling

I can take the second question. So as I mentioned, in the 11.9%, there's a bit of a positive effect which results from the unwinding of estimates of prior years. That's -- well, it's a bit less than 1percentage point. So if you allow for this or strip this out, the capital generated in 2016 is a bit closer to 11percentage points. That is, actually, quite close to what we published for 2015.

This is -- there's nothing -- there is no particular one-off in this, either positive or negative, which would have a significant impact either way. Model changes we've shown separately.

This is sensitive obviously to claims experience; it's sensitive to the profitability of new business. That means renewals and new business written on the life side, both volume and profitability will drive this up or down.

But as of today, there's -- as I said, there's nothing unusual in this, which would lead us to think that this is either much higher or much lower than what you should expect.

Q - Kamran Hossain {BIO 17666412 <GO>}

Sorry to follow up. But is there an easier -- is there an easy rule of thumb to get from your ROE to what that number looks like, or is that just one for the actuaries?

A - Frieder Knuepling

I'm afraid it's the latter. The accounting mechanisms between IFRS and Solvency II are very different, particularly on the life side. This is the same story as under MCV.

Under Solvency II, profitability of the new business is fully recognized as value in the year when the business is written. Then you have very different mechanics of unwinding of discounting, compared to IFRS, where the profitability of the business is really spread out over the lifetime of the treaties.

So I'm afraid there's no such easy reconciliation. It's probably easier to compare it to MCV, particularly on the life side where we pretty much use the Solvency II methodology already.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's great. Really appreciate this. And I think that disclosure on Solvency II is fantastic. Thank you.

Operator

Xinmei Wang, Morgan Stanley.

Q - Xinmei Wang {BIO 17860767 <GO>}

Two questions, please. So first is on the extra solvency relief from legal entity restructuring. Can you just remind us of how you think about the use for that in terms of the priorities for accelerating growth that's in the risk profile? Then thinking about use for the dividend and the potential buyback. That's my first question.

My second question is on the reserve. You mentioned, the margin above best estimate on reserves and on a similar level to 2015. Is that on an absolute basis or on a percentage-term basis?

Then, just considering the release of reserves in 2Q, could you just talk through what actions replenished the buffer to remain the same? Was it due to the continued low inflation in the year or were there other actions as well? Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you very much. I will ask Mark maybe to talk about the consequences of merger with the (three Cs)?

A - Mark Kociancic {BIO 17852409 <GO>}

Just to give you a status update on where we are. So the project itself is on track. It's definitely very complex. We're dealing with 48 jurisdictions at the present time and the creation of 10 branches. So this is taking a significant time to go through.

Obviously, we are trying to protect and maintain the business franchise. And the continuity for our clients throughout this process. So we envision a completion of the project probably something around early 2019.

One of the constraints that's come out of this is that, essentially, you would need to have a fiscal year beginning after a merger effective January 1 of a given year. So I would expect this to crystalize or finalize in early 2019.

I do confirm the EUR200 million that we spoke about last IR Day. Those are the projected solvency capital benefits. Given the fact that this is a prospective transaction, we would still go through the decision tree that we outlined on the IR Day with respect to excess capital.

So can we redeploy it in the business? Given that it's a one-time I don't think it would enter the discussion of the regular dividend. But we could certainly discuss the share buyback question that we raised during the IR Day with respect to this.

A - Denis Kessler {BIO 1498477 <GO>}

Now, the second question was the margin above best estimate, Victor?

A - Victor Peignet {BIO 6287211 <GO>}

I think the total amount of technical reserves has increased slightly. But not in proportion that really changes. I would say that it's both valid in absolute and in relative to your question.

As far as the measures, there is no particular measure. It's just showing that the prior years are showing positive developments and that there is a regeneration of margin, which is like a natural mechanism. We start with very prudent reserving in general. Our underwriting years are developing favorably. And recreating margins, which means that it naturally, well, replenishes.

Q - Xinmei Wang {BIO 17860767 <GO>}

Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Almost magic. Next question.

Operator

In-Yong Hwang, Goldman Sachs.

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

Two questions. Firstly, on the buyback, again. And just thinking about the timing. I think, obviously, that's up to the Board of Directors. But Victor, you mentioned that Monte Carlo is the time where you'll have a clearer view of where the growth trajectory's going. So is that the time when we should expect a more clearer view of what the buyback is going to look like? That's my first question.

And my second question is on the running yield. There was a strong pickup in the Fourth Quarter; 2.2% from 1.8% the quarter before. I appreciate the interest rate environment is more favorable and you had a much higher reinvestment rate. But I'm just wondering if there's any one-offs in the 3.2%? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

The share buyback, again, Mark?

A - Mark Kociancic {BIO 17852409 <GO>}

On the buyback, with respect to the timing, we gave guidance today for the next 24 months. It could happen at any time. I think there's a couple of variables that we're waiting to clarify.

Victor mentioned one of them in his speech, which is the growth possibilities for the P&C division. We referenced 3%, 8% scenarios, everything in between, last IR Day. This is something where we said that we probably need a year to sort that out and clarify it.

As I mentioned before, one of the decision tree points is to try to, obviously, produce accretive growth in the Group and we want to self-finance that, where possible. But the excess capital decision is something that could happen at any point in time. And I would not exclude (IR).

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

On your question of the (inaudible). So it was the published one (inaudible) yield.

On the running yield, to answer to your question. The published running yield in Q3 was 1.8% and the previous one in Q4 is 2.2%. So that's an increase of over 30 basis points. If I take into account the one-offs in Q3, that's almost 8 basis points. So the normalized running yield in Q3 was close to 1.9%.

If I look at Q4, we have positive one-offs linked to inflation and some dividend for 11 basis points. The effect of the reinvestment program we started, since the launch of Vision in Action. So the summer, the full effect of Q3 is equal to 12 basis points that is recurring in the recurring.

The normalized yield, excluding one-offs. And they are positive in Q4, is close to 2.1%. That's why we increased our expectation for the income yield, or the running yield, for the full-year 2017 at between 2.1% and 2.3%.

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

Great, thank you very much.

Operator

Frank Kopfinger, Deutsche Bank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

I have two questions. My first question is on the 12percentage points, again, capital generation. Can you break it further down into the underlying drivers? Obviously, there have been effect from new business value. But also, is there an effect from the growth overall within your portfolio? And could you also separate the unwinding of the existing business?

And my second question is on potential benefit, which you pointed to from the collateral agreement. Could you give some more information on this, please?

A - Denis Kessler {BIO 1498477 <GO>}

Maybe this done by Frieder?

A - Frieder Knuepling

Yes. On the operating experience, new business is a significant share in this and, I would say, in the range of about half, maybe a bit more. Then unwinding and claims experience. And assumption changes. And so on, the remainder.

We don't disclose the exact split at this point. But in line with developing a good practice in the market, we might do this in the future. And then hopefully use standardized categories, which are comparable to our peers.

The growth of the underlying business is shown separately. The SCR increase of about EUR200 million is reflective of the growth of the business during 2016. And the increase in risk exposure.

A - Denis Kessler {BIO 1498477 <GO>}

And maybe Mark, on the benefits of the recent US/EU agreement?

A - Mark Kociancic {BIO 17852409 <GO>}

The new agreement that's come about in the last days of the Obama administration is, certainly, a welcome development for SCOR, for the industry. But we don't expect any meaningful benefits, at least in the short run.

There's numerous administrative or legislative hurdles that have to be overcome in the United States, both at a state level and a congressional level. Some of this will clarify itself as the Trump administration makes it clear what they wish to pursue with this agreement.

The agreement's prospective. So it doesn't impact our existing collateral arrangements that we have on the business, which are primarily on the life side. But if it does come into play, it would have some benefits for us on a going-forward basis. The timeframe that we would estimate is -- could be anywhere from three to five years, assuming this gets all of the legislative approval that you would anticipate in a best-case scenario.

A - Denis Kessler {BIO 1498477 <GO>}

It is a positive development. And SCOR supports this agreement. It was -- we've been fighting for years and years and years and so even it's late, it's very welcome.

Next question?

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you.

Operator

Vinit Malhotra, Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Just one question on the 2.5% reinvestment yield, Francois.

Is it a fair understanding that even thought there was a pause of rebalancing in November, if this pick-up has happened because of some of the rebalancing actions taken in the Third Quarter itself? Is that how we should perceive it, because I remember you had gone -- you had invested about EUR1 billion or so into US corporate debt already in the end of 3Q? So if you could just clarify a little bit more about this 2.5%?

And can I have one clarification, please, on the legal entity merger, the EUR200 million benefit, if I may? I seem to think that to really get that money deployed, the criteria was not really the completion. But was more understanding with the regulator, or agreement with regulators. Has there been any change to that philosophy? Or is it still the same in 2019 is when we should really look for it? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

(So again).

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

So again, we need to come back on your question. Our definition of the reinvestment rate is consistent quarter after quarter. So this is the marginal reinvestment rate, i.e., the marginal market yield on all yielding asset classes; so, mostly fixed income, loans and real estate.

That's taken the last day of the quarter, according to the asset allocation in our portfolio. It means if we reinvest, the last day of December EUR1 or $1 in the portfolio, is the same asset allocation, we reinvest it at 2.5%. This is a -- really a very good news.

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The second good news is that this reinvestment rate is well above the (book-to-bill). That's why we are optimistic on the fact that the running yield or the income yield will improve in the future.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And is this pick-up from the 3Q simply -- I'm sure some of it is market move. But is it a large part market-driven, or larger part from asset reallocation yield?

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

You have two effects, of course, in the move. The fact that market conditions are much better; and the fact that we slightly change the asset allocation. If you compared the effect just between Q3 and Q4. So the 1.9% reinvestment rate at the end of Q3. And the 2.5%, the asset allocation effect is almost marginal, due to the pause we put in place in the rebalancing strategy in November and December.

Most of the effects here that you see between Q3 and Q4 is linked to the improvement of the market conditions.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So as you release more this should further pick up, then, presumably if market flat?

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

So which means if we continue to re-risk, or to rebalance the portfolio, especially in favor of credit, as illustrated in Vision in Action, at constant market environment this reinvestment rate should increase, due to the balancing effect.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

On the -- again on the question of the merger.

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A - Mark Kociancic {BIO 17852409 <GO>}

Vinit, on the legal entity merger, this is something, as I mentioned before, that's very complex on a regulatory basis.

The international nature of the restructuring requires many countries to sign off. And it requires not just to sign off on posing legal entities. But creating new branches, to make sure that we do not impact the business. That is fundamental to provide a continuity for the clients of both life and P&C.

That is something that is very complex. And is subject to regulatory approval. Once we have that certainty. And I think it's something that is likely to be a lot more clear later in 2018, then we'll be able to give you a more firm update. But I do expect this thing to complete in early 2019.

The only difference, I would say, from the discussion we had at the IR Day last year, is really the increasing complexity of transferring the portfolios, creating the branches and the numerous jurisdictions that are affected. That's probably a little bit more than what we had expected last September.

Q - Vinit Malhotra {BIO 16184491 <GO>}

But these uncertainties now are well understood, I presume?

A - Mark Kociancic {BIO 17852409 <GO>}

I'm sorry, could you repeat that?

Q - Vinit Malhotra {BIO 16184491 <GO>}

As in the fact that it was -- it became slightly more complex in the last three/four months. So there is (multiple speakers).

A - Mark Kociancic {BIO 17852409 <GO>}

Yes, I do expect feasibility is clear. It's more of a timing issue, because there are so many incremental steps that need to happen with the transferring of portfolios, creation of new legal entities. I can't see why anyone would be against this, on a local country level. It's more a process that takes time.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Thank you, Mark. Thanks.

Operator

Anasuya Iyer, Jefferies.

Q - Anasuya Iyer {BIO 18981555 <GO>}

My first one is just a follow up, actually, on the investment return. Could you remind us where you want to take the duration to? And with the more -- with more rebalancing, could you get to the 3.2%, even if interest rates were to stay where they are today?

The second one was going back to the EUR200 million potential from the excess capital. Not from the internal restructuring. But from the solvency ratio.

Sorry to come back to it. But I just want to try and understand a bit more about what could attract you to the alternatives. For example, where could you increase your risk profile. And where looks attractive at this point in time? And is there any M&A you might consider? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Mark, do you want to pick up the last question?

A - Mark Kociancic {BIO 17852409 <GO>}

Sure. So on the excess capital question, we do have different growth scenarios in P&C, 3%, 8%. That's quite a wide range. The principal use of potential capital would come from the P&C division. We're fairly stable with the life plans, that's coming along very nicely.

Then, on the asset side, we do have some room still to redeploy resources to increase the capital intensity. But clearly, the major part is on the P&C side.

With respect to M&A, there's nothing on the horizon right now. We did state to you, during the IR Day, that, that's an option for us. But it's not something -- our plan is purely organic. It's not something that we are actively pursuing, at this time.

A - Denis Kessler {BIO 1498477 <GO>}

If I add one point. You talk about change of risk appetite, the risk profile. We have no intention to change the risk profile of the Group. It has been set, it has been announced at the IR Day. We have all the risk drivers, risk limit. And it's absolutely the framework that we respect.

The idea is different. It's within the framework. Of course, we can saturate certain limits or not. So it's a situation where we have no intention to change the risk profile. But we'll look at resources, of course, within this framework that could sometimes reach the limit of the risk appetite, as said.

So a very important statement. We -- when we (fit) the risk profile of the Group, it's for three years; it's well announced, it's measured. And we stick to it during the period of the plan. Within this framework, we navigate always with respect to the limit.

Francois?

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

On your two questions on the investment portfolio. The first one on duration. So we are still relatively short on the asset side, compared to the liabilities, which is good, again, in the context of increasing interest rate.

We are more open today to take duration. And to reduce the duration gap within the US denominated portfolio, where interest rates are increasing. So we do it very, very positively.

You have an illustration of what we did. When we reinvest today, we reinvest at longer maturities. The average duration of the program we implemented in the first few days of January, in US corporate bonds, has an average duration of close to eight years. And we lock an average yield of 3.6%. The current duration of our US denominated portfolio is 5.1 years.

As far as the euro denominated portfolio is concerned today, we are waiting a little bit. The duration is much lower. And we tend to privilege loans, which is variable asset classes, which will benefit in the future when the euro rates are going to (increase).

For your second point, is the 3.2% achievable, I would say yes. And that's an illustration on slide 17. With the improvement of the income yield, we have a flow of good news here that are sustainable.

If non-yielding asset classes, such as real estate, other investments or equities do perform well, we can maintain our budget of realized gain in 2017. And we could be in the upper part of the 2.7%/3.2% range for 2017.

But also, I think this is sustainable in the current improved market conditions. It could be sustainable as well for 2018 and 2019.

Q - Anasuya Iyer {BIO 18981555 <GO>}

I agree. Thank you very much.

Operator

Jonny Urwin, UBS.

Q - Jonny Urwin {BIO 17445508 <GO>}

Just two questions from me. Firstly, on the redeployment of liquidity in the investment portfolio, just how should we be thinking about the pace of that? You paused in November, given the uncertainty around the US election. Obviously, we've got a few important elections in Europe coming up. So how are you thinking about navigating that environment?

Secondly just on the Solvency II ratio. And the target range. The optimal target range is 185% to 220%. You obviously now are above that. And there's a bit of excess capital over and above the 220%. But should we really be thinking about that target range as just being 220%, because, obviously, you could have done a share buyback today, over EUR200 million, especially given line of sight on the SE structure surplus. You still would have been well towards the top end of that range. And relatively insensitive to certain macroeconomic fluctuations. How should we think about that? Thank you.

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

On the redeployment of liquidity, as you mentioned we halted for a few weeks the rebalancing strategy. That was very strong in Q3. And that was halted end of November and in December.

In the first few days of January, we invested 1.7% of the portfolio, which means that liquidity today has reduced to 9 points. You should still expect this level of liquidity to reduce to the target level of 5 points over the next few months and quarters. And by the end of the year.

What is key again is also ability to have recurring financial cash flows on the portfolio, on top of positive operating cash flow coming from the two divisions. This is illustrated on slide 17.

We have almost 2% or 3% of the portfolio that is maturing each quarter over the next two years, which means that we can capture all the increase, if market conditions are improving in the future.

A - Mark Kociancic {BIO 17852409 <GO>}

On the optimal zone, we do have the optimal zone of 185% to 220%. We do say that when we're inside there we're exactly where we want to be.

185%, I think is not something you're going to see us pursue. That's something that is there in case of a shock event or extreme volatility from external factors. The 220%, I think that's probably a little bit too conservative. We would certainly want to be above 200% with respect to the solvency ratio. And it could be anywhere in there between the 200% and the 220%.

You have to remember there is volatility that can occur on a quarterly basis, on an annual basis. We've seen swings, even from something like credit spreads from one year ago, where we had a movement of 10 solvency ratio points within one quarter. That never manifested itself in the March 31 figures, because the market corrected itself. But that type of volatility is quite apparent.

More importantly, we do view capital management I think on a longer view than just one quarter. We look at the growth potential of the franchises in life and P&C over a longer-term period, a three to five-year period even in many respects. So it's a nice place to be.

I think the key message today is the underlying fundamentals of the Group's solvency and its profitability are very strong. That's why we're envisioning share buybacks in the near future.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

Sorry, I would just like to add. The objective is not to be at 220%. We say that we are above 220%; we will deploy capital. But the objective is to be within the optimal range. So 185% to 220%. And we feel comfortable we are above 200%.

It's just to say that you can measure the excess capital, the difference between 225% and 220%, that's (EUR200 million). The objective is not to be at 220%. We're fine at 210% or 215% or whatever.

It's just an important statement just to say that we just see marginally. It's just not --

A very important point which is said twice by Mark, even three times now. We want to self-finance the growth of the Group. That's very important for us. Therefore, there are some question marks about the growth rate, just because the markets are developing right now. We said it last September and we're extremely blunt.

We could see an acceleration of the P&C business in the -- but we have margin to finance the development of the acceleration of the P&C business. And do share buybacks. So it's not a question about it's either or, we can do both.

Now, the timing will certainly depend when we have more information about the, let's say, development of the P&C business in the coming months. So what Mark says is extremely important to understand how we do capital management. And we are in a good position, because we can make arbitrage.

Next question, please?

Operator

Thomas Fossard, HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

I've got two questions. The first one is on the life and health re business.

Paolo, could you comment a bit more on the 2017 outlook? Obviously, 2016 has been very strong in terms of premium and margins. Maybe could you shed some light on how new business margins have trended in 2016 and what's the outlook for 2017. And basically what you're expecting, in terms of business trends?

Second question will be maybe for Mark, have you made your mind regarding what is the kind of additional disclosure we're going to get with SFCR and QRTs in the coming months, anything that you will -- you would like to draw our attention to?

And maybe one last, last question on the SIFI regulation. Any specific, not explicit. But implicit capital buffer, or I mean lasting case of SIFI implementation, which potentially could be removed at some stage? Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

What I said is the probability for SCOR to be -- qualify as systemically relevant or important is extremely remote. That's a good news, because if you are considered as potentially systemic, you will have to post additional reserves, you might have much more reporting to do. And so on. And so on.

So it's an extremely positive news which is not yet confirmed. But it seems that's a probability for SCOR to be doing to this category is extremely remote, extremely weak today.

For those who follow up what we say, we have been arguing for years about the fact that the reinsurance industry is not systemic. But anyway SCOR is not systemic.

So according the news that we have. And the information that we gather, it seems that this debate is lacking fuel right now. And it was a hot issue a few years ago.

It seems that the regulatory pendulum is swinging in the other direction right now. We have been waiting for four years to receive the list of systemic reinsurers. And the list not been yet released.

You have seen also that in the US there are I would say important debates about systemicity. For instance, the declaration of the new NAIC Chairman against systemicity in insurance is certainly something to note.

What I am saying is we didn't put any reserves for systemicity, because we don't believe in the story. But in the meantime, if I said we are not likely to be considered as systemic means that we keep all the degrees of freedom we have, especially because we will not have to post additional reserves, or to have additional reporting requirements.

That's -- from our sense, it's very good news, very good news. It's not a news by the way, it's a pretty good development, I would say, at that stage.

Did I answer your question or --?

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. You did.

A - Denis Kessler {BIO 1498477 <GO>}

On life, we have -- Paolo is so happy to have a question on life; he is smiling and look big with shape, joyful.

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

Thomas, we had a very good 2016. As I said both geographies and product lines.

Protection market, on the protection line of business we were up overall 6%, a very good underlying trend. Some of our key core franchises that we're investing in in Asia Pacific; Mainland China was up 19%. If you look at Northern Asia, Japan and Korea were up 10%.

I would say, in Asia, also we had good successes in the Americas, as with Canada up 16%. Latin America made a big jump, got to around EUR200 million in premium, up over 50%.

And even some traditional markets like Iberia, where we have a smaller protection business, that was up about 13%. So the growth on the protection side was very well spread globally.

Obviously, longevity was up significant, we ended up the year at around EUR700 million. On a constant exchange rate, that was adding about EUR200 million with the strong Q4.

So finished the year, very happy where we are. And very happy with the trends we're seeing. I think we're going into 2017 with a strong level of comfort. We keep deploying resources in Asia Pacific; the market keeps being very buoyant in the region for life protection business.

We still see a good trend on the longevity market, particularly in the UK. I think we'll keep benefitting by the diversifying footprint that we have on smaller markets, like in 2016.

In terms of margin, we're writing well above our ROE assumptions. So we have business coming in well above the old 10% ROE assumptions that we have in our pricing models. So we're very comfortable where we see the margin coming in.

On top of that, the in-force business has been doing very well in terms of results.

Overall, we feel confident going into, do feel confident going into 2017.

Q - Thomas Fossard {BIO 1941215 <GO>}

Paolo, any more precise number in terms of gross premium expectations for 2017. And anything to have in mind regarding the change in the mix -- in the business mix, regarding the technical margins of 7.0% for 2017?

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

Yes. At this point we don't expect the mix to alter that number.

Unless we find some sizeable transactions that are very profitable per se. But at this point, we have nothing in the pipeline. So we don't see the -- we don't see a mix impact in that.

In terms of growth expectations, the assumption that we made on Vision in Action was 5% to 6%.

The way we're looking now in the outlook, we think we're going to beat that, we're going to be above that assumption in 2017. But since it's the beginning of the year, it's tough to say by how much. But we're definitely going to be either at the higher end of that range, or slightly above that.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thanks.

Operator

Vikram Gandhi, Societe Generale

Q - Vikram Gandhi {BIO 18019785 <GO>}

Congratulations on a good set of results. I've got two questions.

The first is on the sensitivity of a Solvency II ratio with respect to interest rate movements. I see that has gone up to about 20percentage points versus 15percentage points last year. Maybe that is largely attributable to a redeployment of liquidity. The question is, would this increased sensitivity act as an impediment to further re-risking the balance sheet. That's the first question.

The second is really on the development around the issue with the CCR. Can you update us with your latest thoughts around that? Thank you.

A - Mark Kociancic {BIO 17852409 <GO>}

On the sensitivity to interest rates, this is a function of both the sensitivity of our SCR and our own funds, the solvency ratio sensitivity.

Mechanically, because you're looking at a ratio of 2 to 1. And the SCR is the denominator, the leverage from the SCR sensitivity is quite bigger. Also, the SCR in itself is more sensitive to interest rates than our own funds.

The bulk of the interest rate sensitivity, actually, comes from our capital requirements. And it's gone up because of a number of independent factors.

Some of the model changes, which we've made, had a consequential impact on interest rate sensitivities. We've improved the methodology to compute the sensitivities in itself. Then, there have been also a few secondary impacts of financial market movements, in particular, strengthening of the US dollar and so forth.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Thank you.

A - Denis Kessler {BIO 1498477 <GO>}

May I ask Romain Launay where we are with CCR?

A - Romain Launay {BIO 18747770 <GO>}

Regarding CCR, you may have seen that CCR has spun-off its commercial activities. The new entity called CCRE.

You may also have observed that contrary to the CCR itself, CCRE does not benefit from the same rating as the sovereign rating of France. We think that this development is a positive development for fair competition between reinsurers.

The other side of this case was the opening up of the French net debt reinsurance market. On that topic, we're about to file a recourse before the Court of First Instance of the European Union, with a view to attaining this opening up of this market.

But I would like to mention the fact that in our strategic plan, Vision in Action, there is a no assumption that this market would open up. It can only be a plus if it does. But it is not at all factored in our strategic plan.

A - Denis Kessler {BIO 1498477 <GO>}

Thank you, Romain.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Thank you very much for the color.

A - Denis Kessler {BIO 1498477 <GO>}

It's a question of principles. CCR is a question of principle. Always say it, you want to operate in a market, you have to do that in a fair way. That's it; it's a principle.

But this is not only for France, it is true around the world. We belong to a few associations, such as the Global Reinsurance Forum. And we were in the same position. If the government wants to intervene on the market, he has to do that in a fair way.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Right.

A - Denis Kessler {BIO 1498477 <GO>}

Anyway, are there still some additional questions?

Operator

This will conclude today's Q&A session. I would now like to turn the call back to Mr. Ian Kelly for any additional or closing remarks.

A - Ian Kelly {BIO 19976646 <GO>}

Thank you. It just remains for me to say thank you very much for joining the call. And speak soon.

A - Denis Kessler {BIO 1498477 <GO>}

Bye, bye.

Operator

Thank you. This will conclude the call. You might now disconnect your line.