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SCOR's success is based on a shareholder-centric approach

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SCOR
The Art & Science of Risk

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REINSURABILITY UNDER THREAT FROM WORLD REFRAGMENTATION

Political risk is blocking reinsurers' best efforts to push back the frontiers of reinsurability, says **Denis Kessler**, chairman and CEO of SCOR

A lot of the attention, effort, energy and resources deployed by the reinsurance industry over the last two years have been dedicated to dealing with issues linked to unfortunate political developments, rather than acts of God or re/insured events in general.

The long list of examples proves the point: Brexit and the spectre of the cliff edge it is raising for capital markets and financial services as a whole; the Base Erosion and Anti-Abuse Tax provision of the US tax reform, which taxes reinsurance premiums ceded to affiliated foreign subsidiaries and has obliged many global reinsurers to heavily restructure their operations; the episodic sharp increase in financial market volatility, as the recurring prospect of a Euro-sceptic party winning an election in Europe casts a shadow over the future of the Eurozone and its currency; the multiplication and continual back-and-forth of sanctions and embargoes, placing reinsurers under the unpredictable threat of a constantly moving compliance risk; the accelerating trade wars rhetoric which could set the entire economic and financial world on fire; the potential dismantlement of multilateral agreements, and so on and so forth.

Negative divergent forces

Most of these developments reflect an ongoing refragmentation of the world in all areas. This could become a serious concern for all activities that have benefitted from globalisation over the last 25 years.

Economic inclusion, freedom of trade, freedom of establishment, freedom to move capital and freedom to provide services all create optimal business conditions for any economic sector. Conversely, economic fragmentation, regulatory and trade barriers, obstacles to trading and providing services freely and the non-fungibility of capital hamper economic activity and weigh on economic growth and the rate of innovation.

These simple truths mean that all developments – be they trade policy measures, geopolitical dynamics, regulatory frameworks, or even fiscal measures – that are economically inclusive, are "constructive", while those which contribute to economic fragmentation are "destructive". In short, convergent forces are positive and divergent forces are negative.

The pendulum of globalisation seems to be slowing down and may even be starting to swing in the opposite direction. After more than half a century of progressive inclusion, the world today seems to be becoming increasingly fragmented. This fragmentation is pervasive: international cooperation is weakening, tensions between countries are increasing, norms are being challenged, multilateral institutions are becoming weaker, populist movements are pressuring countries over their sovereignty, etc.

The example of Europe says it all. The increasing opposition to the European Union (EU) is crystallising in nearly every European country. On 29 March 2019, the UK will leave the EU, and with it the single market and the customs union. The perspective of a hard Brexit has recently returned to centre stage as the UK parliament is fiercely split over an agreement to propose to the EU. Such a divorce in Europe sets a precedent and sends out a very strong political signal from what has been – historically – the country of free trade.

A tipping point

The golden age of globalisation most likely reached a tipping point with the financial crisis of 2007. Like every crisis, it ignited the flames of populism, patriotism and protectionism, on the back of strong resentment against globalisation and trade liberalisation. Since then, globalisation has been increasingly blamed for the subsequent economic turmoil and fall in people's living standards, and for magnifying inequalities to the benefit of a privileged global elite. The crisis has hence strengthened nationalist political forces throughout the world and made states and economies increasingly inward- instead of outward-looking, with falling confidence in supranational entities and international frameworks. The number of trade barriers – non-tariff restrictive trade policy measures in particular – appears to have been rising since the crisis first erupted. Protectionist measures are being advocated, and adopted, worldwide. Multilateralism is increasingly being replaced by bilateralism and the threat of a global trade war has not been this high since 1945, driven by the current US administration. Donald Trump believes that "Trade wars are good and easy to win". The only fallacy in this argument is that trade wars are not zero-sum but negative-sum games: over the long term, everyone will lose from global economic fragmentation.

Today's situation is rather an abrupt about-turn from the six-decades of economic integration since the end

1 **SCOR consistently creates superior shareholder value**

2 In a positive environment for reinsurers, SCOR has unique qualities that create additional value for shareholders

3 Under current IFRS, SCOR considers that it has considerable unrecognised value that could be unlocked in the future

SCOR sticks to its core principles to deliver superior shareholder value

SCOR delivers value

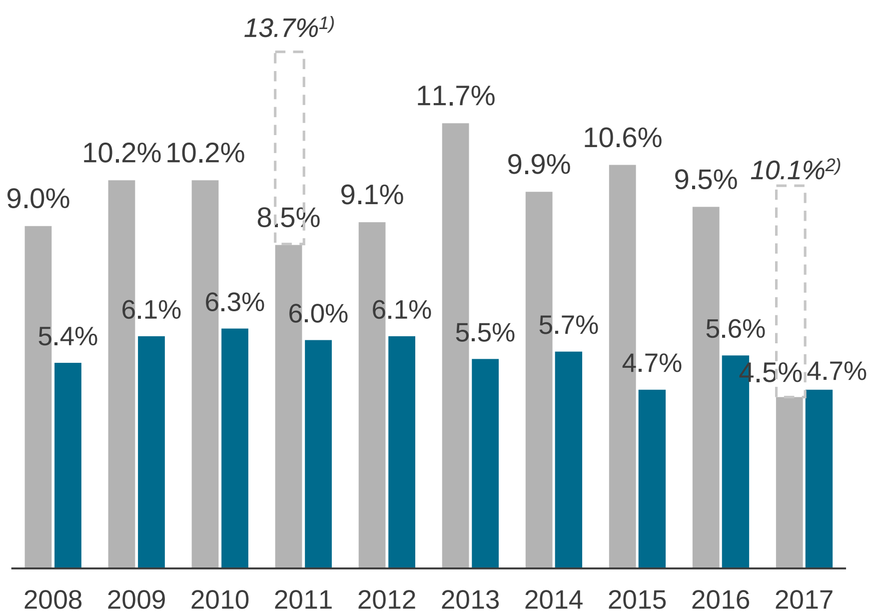
Consistent strategy	• SCOR's execution of "Vision in Action" is on track and the Group successfully delivers on its targets quarter after quarter
Superior risk management	• SCOR practices superior risk management, with the continued obsession to detect and monitor emerging and future risks while capturing business opportunities
Strong diversification	• SCOR leverages a unique balance between Life and P&C underwriting risks to ensure a high diversification benefit
Active capital management	• SCOR maximizes value creation through an active capital management strategy
Go-to market approach	• SCOR benefits from strong local teams with expert knowledge of all markets in which they operate
Nimble organization	• SCOR leverages an agile and flat organization to rapidly seize opportunities from market changes, with efficient decision processes and quick execution
Investment in technology	• SCOR invests in technology to enhance operations and capture market opportunities

SCOR consistently generates strong profitability and attractive return to shareholders despite severe shocks

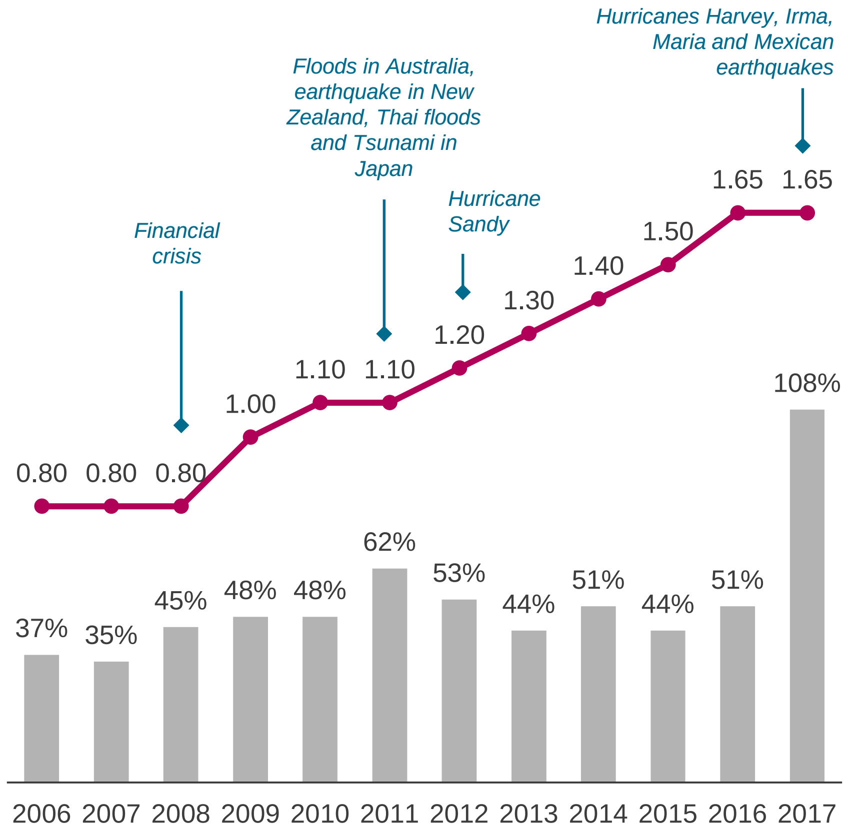
An attractive RoE and dividend yield over the last 10 years

10-year average RoE 9%-10%

10-year average dividend yield 5.6%



EUR 2.6bn dividends paid since 2006 despite severe shocks



1) Normalized RoE for nat cat, reserve release and WTC subrogation
2) Normalised RoE for Q3 2017 nat cat

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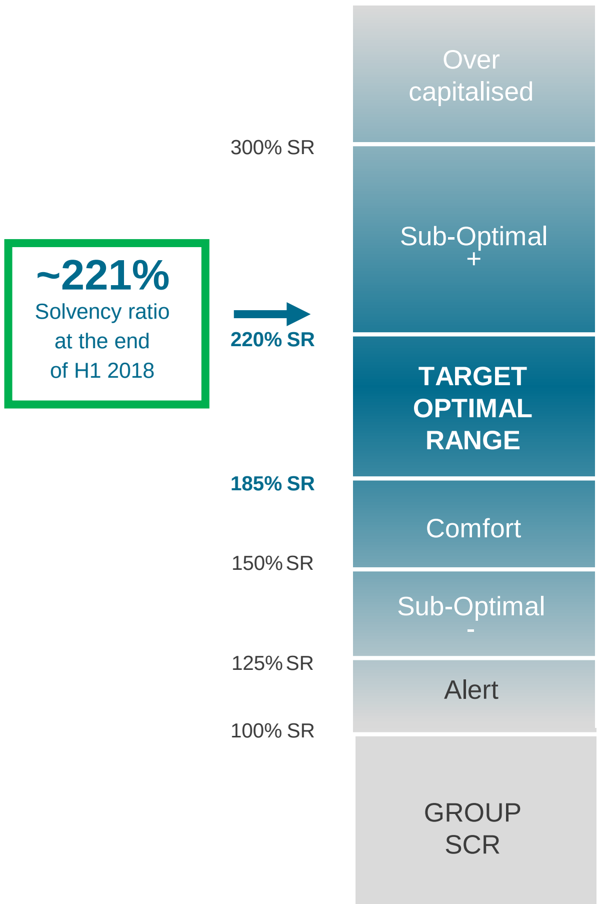
SCOR creates long term value for its shareholders with the total return with dividends reinvested of 266% over the past 10 years

SCOR total return with dividends reinvested – in EUR

Source: Factset as at September 3, 2018

SCOR leverages on its well-established solvency scale to ensure that excess capital is returned to shareholders

SCOR's solvency stands marginally above the optimal range



SCOR's EUR 200 million share buy-back is being executed

- The share buy-back launched in July 2017 for up to EUR 200 million is based on robust underlying fundamentals
- Since its launch, 50% of the current share buy-back program has already been executed
- The current share buy-back program expires at the end of July 2019

The merger of the 3SEs could generate up to EUR 200m benefit

- SCOR seeks to optimize its legal entities' structure under Solvency II by merging SCOR Global P&C SE and SCOR Global Life SE into SCOR SE
- The SE merger is on track and is expected to be completed by March 31, 2019
- The potential benefit could reach up to EUR 200 million of solvency capital and a significant operational simplification

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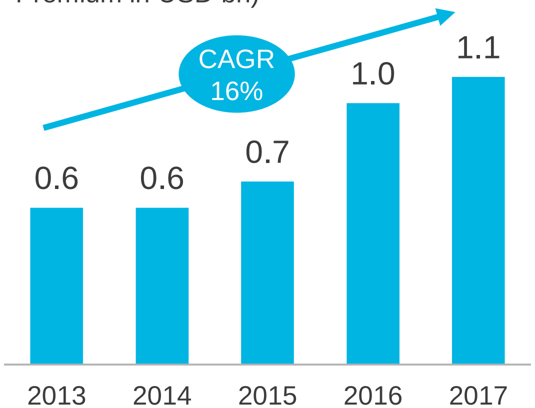
SCOR is uniquely positioned to create additional value in the positive long-term trends that the (re)insurance industry offers

Four positive dynamics are currently benefitting the reinsurance industry	SCOR is ideally positioned to successfully take advantage from these trends
Higher demand for risk cover Protection gap to be filled in both developed and emerging countries	SCOR leverages its recognized Tier 1 franchise to pursue its profitable growth expansion
2018 P&C pricing improving	SCOR builds from a strong base to capitalize on industry trends and maximize the advantage of being a large global (re)insurer
Interest rates cycle reverting	SCOR's invested assets portfolio is well positioned to fully benefit from the rising interest rates cycle
Technologies transforming the (re)insurance ecosystem	SCOR harnesses technological developments to optimize operations and surfs on the efficiency frontier

SCOR powers ahead by leveraging its 3-engine strategy to accelerate its profitable and disciplined growth

Regaining position in U.S. P&C consistent with other markets

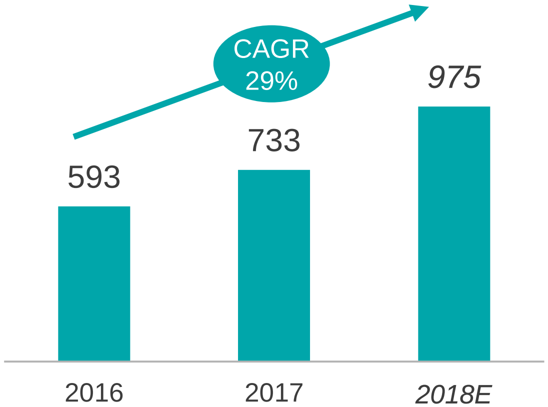
U.S. Treaties and Specialties (Earned Premium in USD bn)[1)]



- Steadily regaining a position in the U.S. (#10) consistent with SCOR's other markets (#4)

Expanding Life footprint in APAC at a fast pace

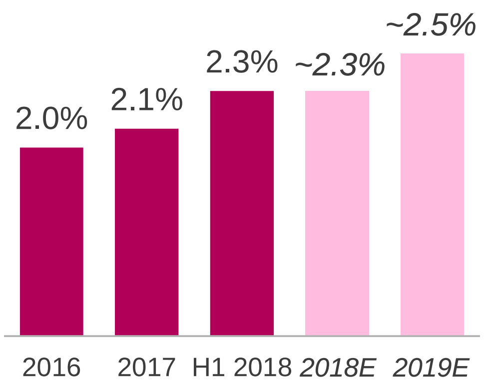
Protection Solution (EUR in bn)



- Since 2016, consistently improving business capability ratings and now ranked #1 as perceived by target clients[2)]

Improving contribution from invested assets portfolio

Income yield development[3)]



- Since 2016, delivering a continuing increase in the income yield

SCOR Global P&C Combined ratio assumptions	SCOR Global Life Technical margins assumptions	SCOR Global Investment RoIA assumptions
~95% - 96%	**~6.8%-7.0%**	**In the upper part of 2.5%-3.2% range, under current market conditions**

Source: IR Day 2018 and 2017
1) Excluding Lloyd's, MGAs, and Alternative Solutions
2) NMG Consulting Asia Pacific Life & Health Reinsurance Study 2017 Business Capability Index - SCOR Target market
3) Under current market conditions

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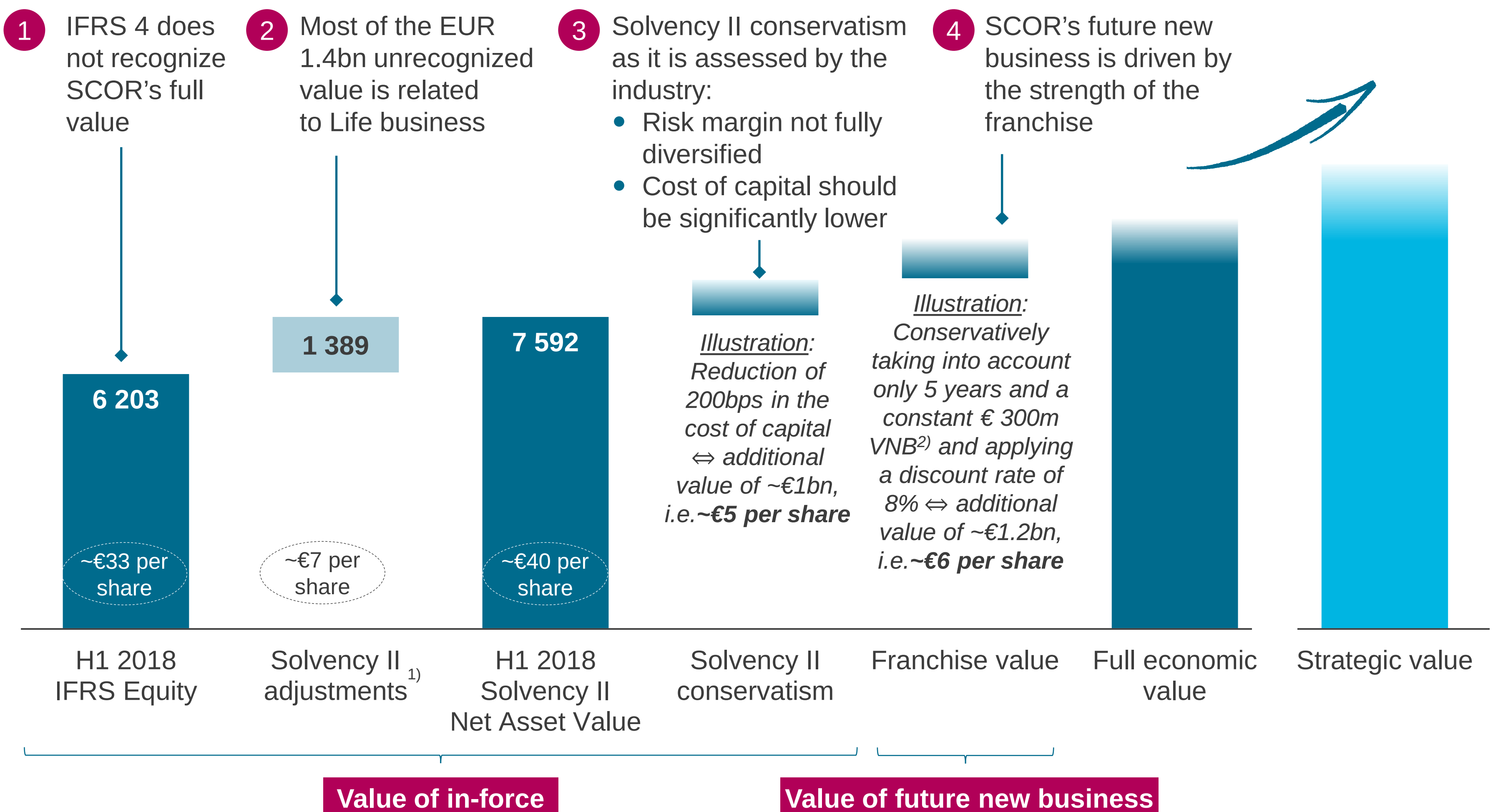
The full economic value of SCOR – and notably of its Life book – is not properly recognized by current accounting standards

IFRS 4 does not reflect SCOR's full economic value but this should be better reflected under IFRS 17



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1) Solvency II adjustments include revaluation of technical balances, risk margin, goodwill removal and others
2) Value of New Business

SCOR is ideally positioned to continue delivering superior shareholder value

SCOR …

…is on track to deliver on its "Vision in Action" strategic plan

…holds considerable unrecognized value

…is set to continue delivering a very attractive and sustainable return

SCOR benefits from a best-in-class rating with all agencies giving a positive assessment of its current financial strength, capitalization and franchise

Best-in-class rating		Strong capitalization	Strong franchise
Sept 19, 2018 Affirmation — AM BEST	aa-[1] Stable outlook	*"SCOR's balance sheet strength is underpinned by its consolidated risk-adjusted capitalisation, […], which remained at the strongest level as at year-end 2017"*	*"SCOR is a top tier global reinsurer, with excellent product and geographical diversification. The group's internationally recognised franchise, long-standing client relationships and technical expertise allow SCOR to effectively manage local and global reinsurance market cycles."*
July 5, 2018 Affirmation — FitchRatings	AA- Stable outlook	*"Very strong business profile within the global reinsurance sector, very strong capitalisation and consistent operating results"*	*"Top-tier reinsurer with the ability to offer a wide variety of reinsurance products around the globe. (…) It has grown materially recently through a combination of acquisitions and organic growth. Consequently, Fitch views the reinsurer as having a very strong business profile.*
Sept 23, 2016 Upgrade — Moody's	Aa3 Stable outlook	*"Consistently good profitability with a very low level of volatility, strong financial flexibility"*	*"SCOR's market position and brand is viewed as very good. SCOR is one of the top five global reinsurers in terms of premiums written"*
Sept 6, 2018 Affirmation — Standard & Poor's	AA- Stable outlook	*"Extremely strong capital adequacy […] Strong financial flexibility, indicated by access to a broad range of sources of capital and liquidity"*	*"Very strong business risk profile", with a "leading franchise in the U.S. Life reinsurance market" and a "strong market position in various significant markets around the world, in both Life and P&C reinsurance"*

1) Long-Term Issuer Credit Ratings (ICR) "aa-", Financial Strength Rating (FSR) of A+ under AM BEST scale

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Please refer to the 2017 reference document filed on February 23, 2018, under number D.18-0072 with the French Autorité des marchés financiers (AMF) posted on SCOR's website www.scor.com (the "Document de Référence"), for a description of certain important factors, risks and uncertainties that may affect the business of the SCOR Group. As a result of the extreme and unprecedented volatility and disruption of the current global financial crisis, SCOR is exposed to significant financial, capital market and other risks, including movements in interest rates, credit spreads, equity prices, and currency movements, changes in rating agency policies or practices, and the lowering or loss of financial strength or other ratings.

The Group's financial information is prepared on the basis of IFRS and interpretations issued and approved by the European Union. This financial information does not constitute a set of financial statements for an interim period as defined by IAS 34 "Interim Financial Reporting".