Q3 2015 Earnings Call

Company Participants

- Roland Vogel
- Ulrich Wallin

Other Participants

- Andrew J. Ritchie
- Andy D. Broadfield
- Edward Morris
- Frank Kopfinger
- In-Yong Hwang
- Kamran Hossain
- Michael Haid
- Thilo Gorlt
- Thomas Fossard
- Vinit Malhotra
- William Hawkins
- Xinmei Wang

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to today's Hannover Re International Conference Call on Interim Results 3/2015. For your information, this call is being recorded. At this time, I would like to hand the call over to your host today, Mr. Ulrich Wallin, Chief Executive Officer. Please go ahead, sir.

Ulrich Wallin {BIO 4863401 <GO>}

Thank you very much indeed. Good morning, ladies and gentlemen, and thank you for joining the Hannover Re's conference call. As usual, I'm joined by our CFO, Roland Vogel, and we are pleased to present to you the figures for the first nine months of 2015.

As you know, we put our strategy, and thus, are having long-term success in a competitive business. The development of our business in the first nine months of this year reflects the strategic model quite well. Our Property & Casualty business has been subject to fierce competition during the entire period. In addition, the continued low interest rate environment puts pressure on the earnings of our investments.

Nevertheless, we were able to increase the already good result of the previous comparable period by another 13% to €786 million. This rather favorable result was driven by continued underwriting profitability of our P&C business and the remarkable increase of our investment income. In addition, the profit from our Life & Health business have also increased.

We are quite pleased with our ability to grow our business both on the P&C, as well as on the Life & Health side. Adjusted for foreign exchange rate, this has resulted in a 10% growth of our gross premium income, which we believe shows that Hannover Re is well positioned to be successful in the current difficult trading environment. The annualized return on equity amounts to 13.7%, which continues to be well above the minimum target despite the fact that the shareholder's equity further increased to €7.7 billion.

This increase was the result of the strong earnings in the first nine months which over compensated the dividend payment, as well as the decrease in the OCI as a result of the spread widening in respect of our corporate bond portfolio.

The book value per share stood at €64.15 at the end of September. The growth of our P&C reinsurance business emanates from a number of larger transactions where, on the one hand, we were able to provide cedents with customized reinsurance solutions and where, on the other hand, we also achieved margins that are above our margin requirements.

Furthermore, our expert teams in our agricultural and ILS department has been very successful in growing their business. This overcompensated the decline in premium income in some very competitive segments of the market, such as the aviation business, some of our continental European business, as well as the offshore energy business.

The EBIT margin stood at 15.7% and the combined ratio at 95.5% for our P&C business, which shows that this business remains to be very profitable. The major losses are significantly higher than those for the same period last year. However, we still remain comfortably within the large loss budget for the first nine months.

In line with our continued conservative reserving policy, we do largely carry the unused large loss budget forward into the fourth quarter. The largest loss we have suffered in the first nine months has been the Tianjin port explosion in China. This is €96 million net for Hannover Re. We continue to see a remarkable low level of loss advisers with respect to this loss so that our reserve is largely our own estimation based on the treaties that we are writing which could be exposed to the event.

Our Life & Health business saw a further increase of the profitability, with the net result increased by almost 7% to €178 million for the period under review. This result has been influenced by a number of positive and negative one-off effects, which fortunately balanced out each other quite well.

Whilst our financial solutions business continues to be very profitable, and we have seen a remarkable improvement in our results from the Australian disability business, on the other hand, we saw negative development of some of our U.S. mortality business where we suffered a single large loss with a negative influence on our results to the tune of €21 million.

In addition, we saw some deterioration of our results from our Paris branch that historically had been profitable. We have, however, good reason to believe that this is just a blip in the performance of our Paris branch and that it will return to the normal level of profitability next year. As we mentioned in our Investors Day, with effect from the fourth quarter of this year, we were able through a particular transaction to reduce the collateral expenses for our U.S. mortality business significantly. Furthermore, we were able to implement some rate increases with respect to some underperforming in-force business. This, of course, should result in improved results of our U.S. mortality business in the periods to come.

The performance our investment is highly satisfactory. Despite the sustained low interest rate environment, the analyzed return on investment under own management is 3.4%. On this positive note, I would like to hand over to Roland, who will explain these figures to you in more detail.

Roland Vogel {BIO 16342285 <GO>}

Yes. Good morning from my side, and thank you, Uli. As usual, I will keep my comment as brief as possible and focus on the results for the first nine months as an update on what should be expected. For year end, however, in a few cases, it does make sense to comment on the development for the standalone third quarter. As already mentioned, we continued to deliver strong premium growth in both segments, even taking into account that roughly half of the growth is the result of the currency exchange rate movements. Net income - net premium earned increased in line with the gross number by also around 10% at unchanged FX rates and the retention stayed - stable at group level.

I will comment on the business segments, as well as on the investments in a few minutes. On the group level, we can see that the other income line is surprisingly positive. This is, as usual, driven by currency effect and already some impact of lower LOC costs. Interest on hybrid capital, slightly below last year's level because the impact from the €500 million bond redemption on June 1 is just starting to become visible in the figures.

For the full-year 2015 and even more so next year, this effect will increase and lead to a reduction in interest payments. We should also benefit from more lower collateral costs as Uli already mentioned. Overall, we are very satisfied with the results for the first nine months with an EBIT margin of 11% and an increase in group net income of 13%.

The noncontrolling interest went down as our German subsidiary, E&S, was affected by especially two storms, namely Niklas and Siegfried. And finally, at 26.5%, the tax rate is at a level we should consider as normal.

On the next slide, if we look at the capital side, you can see the effect of the €500 million perpetual bond redemption in June, and we have already previously stated that €1.5

billion of hybrid capital is now at a level that we feel comfortable with but, on the other hand, provides remarkable headroom and flexibility to increase leverage if need be. The shareholders' equity on the right-hand side of this slide has increased by 2.5%, mainly driven by our strong earnings.

However, the increase by the end of the third quarter is only moderate because of the dividend payment in Q2 as well as the decrease of valuation reserves in our asset base. Still, our capital base is even higher as compared to the beginning of the year which makes the ROE achievement, from my point of view, even more remarkable.

Cash flow continues to be very positive at €1.8 billion in the first nine months of 2015, especially the third quarter standalone shows a remarkable cash flow of almost €1 billion. Thereby, we caught up on the surprisingly low cash flow in Q2. As indicated already then, some early cash outflows obviously cumulated with late inflows which makes the allocation to quarters somewhat volatile.

And this time, Q3 might be a little bit inflated. But, overall, we do again expect the asset base to grow sufficiently to mitigate decreasing yields in the asset portfolio. Assets under own management increased by 4.1% to €37.7 billion. The negative effect from the decreasing valuation reserves of close to €500 million in the first nine months was more than compensated by a positive impact from FX rate and, of course, the positive cash flow.

On the next slide, for the P&C segment, gross premium growth increased by a remarkable 10%. Uli already mentioned the special areas of growth, mainly driven by a number of individual transactions. Overall, rather pleasing that we continue to see solid demand for high-quality reinsurance and services. At 6.7%, the currency-adjusted growth in the net premium earned was a little bit less pronounced and that is mainly due to the success of our ILS department in transferring underwriting risk into the capital markets.

At 7.3% of net premium earned, major losses were still below the budget in the first nine months even though the Atlantic hurricane season has turned out to be very benign. Again, so far, the large loss budget for the Q3 was fully exhausted on a standalone basis, and this was due to the – especially the Tianjin loss and an accumulation of man-made losses and some smaller cat events. However, the underwriting result increased compared to last year and the combined ratio of 95.5% is again on a very good level and below our full-year maximum target of 96%.

In line with our practice employed in the last years, we have kept our large loss expectations within the reserves and that accounts today for roughly €80 million. And apart from that, the run-off of the reserves was, as usual, positive but with no extraordinary ifs worth mentioning.

The confidence level of the reserves should – fairly stable overall. Other income and expenses improved compared to last year, and I've already mentioned that here, currency exchange rates effect have contributed. Altogether with an EBIT margin of more than 15% and net income increasing by 16%, the P&C segment again performed highly satisfactorily against the backdrop of the challenging market environment.

The next slide, P&C results by line of business. This demonstrates that most of the lines of business continued to show sufficient underwriting profitability. On the other hand, it can be seen that margins are getting closer to their respective hurdles and that the cat business with no losses is still a contributor to the overall result.

Continental Europe was impacted by a number of smaller loss events, particularly in Germany, while aviation was also impacted by five large losses that occurred in the first nine months. You can see the impact of the Tianjin losses and the earthquake in Chile was mainly within the worldwide treaty reinsurance segment, although these losses have also impacted other lines of areas, for instance, marine and facultative or the cat segment.

On the next slide, we can go through that one very quickly. As already mentioned, major losses were above last year's level, but still below average, and budget attributable entirely to the very benign first quarter. As mentioned, this means that the unused part of the budget together with the planned budget for Q4 of around €170 million provides us with a comfortable buffer and cushion of more than €250 million for any large losses that might occur in the course of the fourth quarter.

After nine months here on the next slide, 24 major losses made it to the large loss list. This shows that the frequency of large losses increased significantly in the third quarter, although some of these losses actually occurred already in the first half and only made it over the large loss threshold during the third quarter.

The impact from natural catastrophes, rather benign overall with the Chile earthquake being the largest loss with a little bit more than €40 million for our net account and €285 million in total man-made losses on a very high level dominated by Tianjin. Based on our initial estimates and Uli had already mentioned that this event will produce a net loss of €96 million, but there is still significant uncertainty about the overall assessment of that loss.

The top line development of our Life & Health business segment was very favorable with currency-adjusted growth of 10%. Net premium earned increased by 14.3% as we slightly increased our retention here. As in the previous periods, emerging markets especially Asia have been a remarkable driver of that growth, but we also took advantage of opportunities arising from improved market conditions in Australia as well as writing addition longevity transactions mainly from the UK. With an EBIT of €246 million, the overall profitability improved compared to last year, but as Uli mentioned, development were rather buried within our reporting categories. The U.S. mortality business again affected by some incidents within the third quarter. Here, we already mentioned as the one single large claim, which did affect the U.S. mortality portfolio. On top of that and that also already mentioned by Uli, France came in lower than expected.

The EBIT margin for mortality and morbidity at 3% below our 6% target, and that was compensated by the margin five for financial solutions and longevity that stood at 9.4%

and shows the continuing excellent profitability of especially the financial solution business.

Also, the result from the Australian disability business has improved substantially. On a positive note, we have successfully implemented the additional measures to reduce collateral cost, which should help in the future. Net investment income is very positive and still benefits from the one-off effect of the first quarter. And besides the strong ordinary income, also realizations have contributed to some extent. Partly, these were driven by some turnover in the preparation for the change in balance sheet currency at our Irish subsidiaries from the beginning of the next year.

This year or for the first nine months, we had a negative effect from our ModCo derivative in the order of €19 million.

A brief look at the investments, I'm quite satisfied with the results for the first nine months. Ordinary investment income came in at 3.3% on an annualized basis. This result was achieved through the help of the overall increased asset value and increased exposure to real estate and distributions from high yield funds. But, of course, the ordinary result also includes the around €40 million effect from the Life & Health financial solutions termination fee agreement.

Realized gains on moderate level slightly below the corresponding period of the last year. The change in fair value of financial instruments mainly affected by the valuation of our ModCo derivatives. The increase of the impairment line is the result of ordinary depreciation on real estate, actual impairments again on a negligible level.

At the bottom of this slide, you can see that the effect that yields and wider spreads have had on our valuation reserves, the absolute amount decreased by €440 million compared to the end of the last year. However, given that there are still €1.8 billion in unrealized gains and especially viewed from an economic perspective, this decrease or development does not concern us too much.

If you further diversified the allocation of our asset to the individual classes of securities in the third quarter, by moderately investing into a smaller equity portfolio, this now accounts for 1% of the total assets under own management. In addition, we continued to expand our exposure to real estate and increased the proportion of higher yielding bonds somewhat at the expense of the covered bond bucket. At the same time, we increased the liquidity of the overall portfolio by expanding our share of highly rated government bonds.

And that I think concludes my remarks, and I leave the target matrix to you, Ulrich, as usual.

Ulrich Wallin {BIO 4863401 <GO>}

Thank you, Roland. And the target matrix continues to show mostly ticks which is – shows that the first nine months of 2015 were actually developing quite favorable for us. No more said about that, and I will then go to the outlook immediately and this is actually the outlook for the current year.

And as you know, when we have announcing the half year results, we increased our guidance to around €950 million. The third quarter underlined the improved earnings as compared to what we thought we could achieve at the beginning of the year and therefore, we left the outlook or the guidance for 2015 unchanged.

If I look at the individual areas on our Property & Casualty business, you can see that the overall expected profitability is above the cost of capital. In view of our financial strengths and very good positioning, we are still encouraged to see quite a lot of business potential particularly in Asia Pacific as well as North America, but also Latin America.

If you look at the individual segments, North America, as already said, is - we see good growth and profitability. I have to say that the arrows that you see here are not currency adjusted, therefore - I mean they almost all point to the upper right side. On a currency adjusted basis, that would definitely be different on Aviation, where on a currency adjusted basis, the income is actually down.

As I said, North America, also profitability is good. We see growth opportunities there to our very diverse book of business with more than 600 clients. Continental Europe, much more difficult. I mean, the competition into soft market environment means that growth is not really there to any larger extent. Also here, the currency doesn't help because it's largely in euros.

Profitability is also impacted by the soft market. So, we are slightly below as a cost of capital and our expectation at this point in time.

Very contrary to that, Marine, largely in excess of loss account. Despite the Marine losses you saw on the large loss list, it's still very profitable mainly because we still see very favorable rates in the Marine excess of loss account particularly on the worldwide accounts.

This is quite different to Aviation, the rates continue to slide. And if it continues like this, we will have difficulties to find any premium in that line of business. So, that's a negative development and the recent loss, which is not all that large, will not have any major change on that.

If you look at the credit and surety, we are in a very good position there. We are among the market leaders and have improved our market position in 2009, when we increased our involvement and everybody else has been out of the business and that shows and continues to show some good profitability of that business.

UK, London market and Ireland remarkably improved because in previous years, this was somewhat difficult class. We had significant actions on our direct business, particularly on the MGA side and that bears fruit. So things are looking a lot better there now.

Facultative, of course, like in the Worldwide Treaty, the large losses on the man-made side shows some effects. The catastrophe excess of loss, very profitable as our cat and this is of course a little bit of, if I may say, an unfair profitability that the reinsurance market gets at this point in time because the profitability is significantly higher than it would have been if we would have seen the expected losses in this class. And for structured reinsurance, we see good profitable growth opportunity in that area and we expect that to continue.

If I then come to the Life & Health business, we continue to see remarkably good profitability on our financial solutions business, and this is not only due to the fact that we had a positive one-off effect in the first quarter. We will continue to see good profitability there and our teams are very successful in continuously producing new business here.

Longevity continues to be a growth area, even though the business has become a bit more competitive. But I would say here the growth and the capacity that's applied to that business is well met by the growth of the demand for that business.

On the mortality side, we believe that for the entire year, the profitability will increase beyond what we have seen in these nine months. Reasons already mentioned. And morbidity, some improved trend here mainly, as I said, from the Australian DII and TPD business.

Well, that leaves me as usual to the guidance for next year, which we normally give and we report on the nine monthly results. First, you might be surprised why we have an increase in the large loss budget from €690 million to €825 million. Number of reasons here. First and foremost, currency because a lot of the large loss exposure and the expected large losses, of course, in U.S. dollars. And here, of course, I mean the 2015 budget was set up at the end of 2014, then of course the euro was a lot stronger than it is now. So, this is the largest part of the effect.

Then we increased the large loss budget for the man-made losses because we have seen an increased frequency of medium-sized man-made losses, which also has to do with the fact that the increase of our P&C portfolio, of course, are aligned on the large risk have also increased. Now, this is €65 million of said increase.

And then lastly, I mean our market share in the non-cat business is significantly higher than our share of the cat business. And of course, therefore, we write a lot less cat business than is offered to us. But of course, there's many opportunities that are available to us if additional cat exposure coming with them.

That means that once we have not increased our risk appetite for cat, so the absolute capital allocated to the property catastrophe business is unchanged in absolute terms. It's decreased as a percentage of the overall economic capital. But the utilization, we expect that to be higher than it was last year. So, those are the reasons for the increased large loss budget.

Premium. There's a very high premium growth that we have seen in 2015. We expect for 2016 more stable development and maybe even small single-digit reduction of the premium income. One of the reasons there is China where we have surplus relief treaties both on the P&C side that refers to motor business, as well as on the Life & Health business that refers to cash financing business.

Surplus relief effect of these treaties under the C-ROSS solvency regime which is the only solvency regime in China from 2016 onwards is significantly less, and therefore, we expect reduction in that business which, in absolute terms, from a premium point of view, can actually be certainly in excess of €200 million. That will, of course, to some extent mask the underlying continued growth.

Investment returns 2.9%, 10 basis points less than we were announcing a year ago for 2015 and that's of course has to do with the low yield environment.

Net income, we expect to be able to keep that stable. So, the group net income a year ago, we were estimating €875 million. We then increased that to €950 million at half year. We now feel for the coming year, we should be able to keep that on a stable level at - so we, again, have a guidance of around €950 million.

Dividend payout ratio, 35% to 40% is our normal payout ratio that allows us to self-finance our growth ambitions. However, as last year and maybe for 2015, the proviso remains that if the market remains as it is, we will probably continue to manage the growth of the capital with increased dividend payments as compared to the 35% to 40%.

That concludes our remarks on the nine monthly results. And we look forward to your questions. Thank you very much.

Q&A

Operator

Thank you. Okay. The first question in the queue comes from William Hawkins of KBW. Go ahead, sir. Your line is open.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Can you just be a bit clear about what's going on in your French branch of your Life business? I thought at first I could ignore it, but now you've been mentioning it on a couple of quarter. I'm really not quite sure what's going on there. So, can you be slightly clearer about the French Life disappointment?

And then secondly, your other results in the non-life business has been bouncing around because of FX. What is the assumption that you penciled in your €950 million for 2016? So, what should I be putting in as the other result for non-life?

And then last one, I'm sorry, if I may quickly. You've been clear on the large loss budget going up for next year. What does that mean for your expectation of the combined ratio and where are you in that expectation? If you do that 96% for this year, is that a good indication for your expectations for next?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, if I take the question in the reverse order because the first one is the more difficult to answer. Yes, I mean the combined ratio for next year, we expect that to continue to be below 96% despite the large loss budget increase.

On the other income forex effect on the P&C side, we expect for 2016 neutral, as we always do, because we're not expecting positive or negative forex effect there. Therefore, asset includes the expenses for the company as a whole. We expect that number to be negative.

Q - William Hawkins {BIO 1822411 <GO>}

.

A - Ulrich Wallin {BIO 4863401 <GO>}

That would be negative small single-digit, around €20 million. I think that's what it normally is.

Q - William Hawkins {BIO 1822411 <GO>}

Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

Correct me if I'm wrong, Roland, on that.

A - Roland Vogel {BIO 16342285 <GO>}

Well, it might be a little bit higher. It should be around – well, let me just check, but it really should be in the order below €50 million.

A - Ulrich Wallin {BIO 4863401 <GO>}

Okay. On the French branch, I mean, three elements which have resulted in the unusually negative results there because, as I said, I mean this has been a very profitable business year-on-year. The business that we write in the French branch is Life business but it's also Accident & Health business. And we have some treaties on the Accident & Health side where we had some reserve strengthening necessary. This is one part of it.

And then, of course, as we mentioned in the second quarter, we have on the Life side in the French branch, we had some treaty where we renegotiated the terms with our client which led to roughly €10 million negative result for the quarter and of, course, also for the nine months. But then, of course, we expect to fully recover in the coming years and more actually because that was – I mean taking a hit for, I mean, second quarter with a view of generating higher profit in the future.

That's basically it. And then also we write some French-Canadian business in our French branch which we might put through our newly set up Canadian branch. And in that process, we have had some true-ups and put more conservatism in the reserve in order to give the Canadian branch a better start with the results in Canada.

That is what happened there. All of them are really one-offs and that's why we believe that the profitability will be back to normal next year. I mean, the last five years, I would say, the average EBIT that we have generated from that branch has been around €50 million and that's pretty much around where the plan is for next year.

Q - William Hawkins {BIO 1822411 <GO>}

And where are we this year?

A - Ulrich Wallin {BIO 4863401 <GO>}

This year, we will probably be slightly negative overall.

Q - William Hawkins {BIO 1822411 <GO>}

Great.

A - Ulrich Wallin {BIO 4863401 <GO>}

But not drastically negative. But, of course, compared to where we were before, it's actually quite negative.

Q - William Hawkins {BIO 1822411 <GO>}

Yeah. Lovely. Thank you very much.

Operator

Thank you. Our next question comes from Edward Morris of JPMorgan Cazenove. Go ahead, sir. Your line is open.

Q - Edward Morris {BIO 16274236 <GO>}

Hi. Good morning. Thanks for taking the questions. Two, if I may. The first is on capital and capital management. Just interested in how your forecast for stable to small reduction in gross written premium sort of changes the equation there? And whether it might make it possible to return a greater proportion back for a special dividend this year. And also could you just talk about what really are the constraints under consideration, is there a solvency number that you're hoping to stay above or a particular buffer above your S&P capital rating? That'd be helpful.

And the second and slightly related question is on hybrid capital currently at €1.5 billion. You said you're comfortable with it but it could go higher in certain circumstances. Just wondering what the circumstances might be to cause you to increase the hybrid capital? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Thank you. Well, I mean, I would say from an earnings point of view and a solvency ratio point of view under all measurements, there is no restrictions in returning some capital certainly through a special dividend. As Roland explained in detail at our Investors Day, that's also true for the German GAAP result. So, I mean, it is the decision of management to really in the end and of course the advisory board and the AGM how we want to manage the capital but there are no restrictions from a solvency point of view. Hybrid, I would leave that to Roland.

A - Roland Vogel {BIO 16342285 <GO>}

As already mentioned, we have that flexibility upwards. There are two potential things where we could use it. First of all, if - and we were asked for that more than once if there would be an interesting M&A opportunity, we mentioned that we are still interested in life that there would also be interest to do more in London. Not very likely that this is going to happen but if it happens, we would have additional financial resources available for that.

On the other hand, and I think I tried to explain that to the investors, they are for the last year or even that year before that, of course, the use of hybrid and the increase of leverage could optimize the cost of capital and thereby improve the ROE. So, additional ROE pressure here. But that is something which we do not foresee right now, but these would be two potential areas to deploy more hybrid capital - no fixed plan today.

Q - Edward Morris {BIO 16274236 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Xinmei Wang of Morgan Stanley. Go ahead. Your line is open.

Q - Xinmei Wang {BIO 17860767 <GO>}

Hi. Thanks. Thanks for taking my question. I just wanted to ask on the combined ratio in Continental Europe and that coming in - operated below cost of capital. Can you talk a bit about any actions you're taking to improve that? Or is it just a sort of a case of accepting that is a soft market and that ratio is going to tick up? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

No. I mean, we're not just accepting it. I mean that's why you see no growth in that area. I mean, we are looking at segments where the problems arise. I mean, constant segment of negative surprises, there's, for example, the French motor excess of loss business and then we're just writing less of it, if at all.

I mean, then on the large property business in Germany and also in the rest of Europe, large industrial property, we see, I mean, rather disappointing results; low rates, coupled with frequency of medium-sized losses. And also there, I mean, we're just cutting back. And therefore, the mix should improve. I mean, there are some bright spots as well. I mean, if I look at the – I mean, UK motor business, it's pretty good. I mean, some of our business in Eastern Europe is also doing quite well.

So, it's really necessary to constantly prune the business and then change the mix a little bit. And therefore, I mean, it's important that we are not putting ourselves under protection pressure there, which we are clearly not. That's what we really try to do there.

Therefore, I mean, if the combined ratio would increase, it should be but – I mean, there is considerable competitive pressure on that business.

Q - Xinmei Wang {BIO 17860767 <GO>}

Okay. Clear. Thank you very much.

Operator

Thank you. Our next question comes from Thomas Fossard of HSBC. Go ahead, sir. Your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. Three questions. First one will be on the French Life business, on the life side. Could you comment if these negative results or I mean lower margin on Accident & Health is coming from French ceding companies, or I mean this is coming from maybe business you're being written abroad but booked in your French sub.

Second question will be related also to the life side and on the outlook. You provided a strong pipeline for financial solution things. Could you remind us what is driving currently this strong pipeline where obviously you're getting also a quite attractive margin at present time?

And the last question would be related to your assessment of the Tianjin loss. Looking at the numbers provided this morning, obviously, you're coming to issue 1.25% of your shareholders' equity at the end of June, that is 0.75% for Q3 and 0.5% fourth quarter. So the question was, I mean, for your Tianjin loss, have you picked up some compression risk that you may have underestimated on your book? And also, could you tell us a bit more which lines of business of your book has been impacted by this €96 million, the euro net loss? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you very much for those questions, Thomas. Well, I mean, the A&H losses that we have seen in the French branch is largely a French theme. It's not a theme from abroad. And so it is, I mean, rather shorter term business, I would say. So, I mean that's why it's not kind of like the Australian DII, I mean, they've got very long durations. That's not the case here. Therefore, it's a little bit like a non-life correction in loss reserves. Unfortunately, the underlying profitability and margins in the non-life are a little bit higher than Life & Health. Therefore, it's more visible on the Life & Health, I would say.

On the pipeline in the financial solutions in the U.S., I mean, it's various factors. I mean, we had a little bit of a first-mover advantage on that business in 2008 when financing of redundant loss reserves became very expensive due to the financial crisis. We offered tailor-made solutions for our clients which were very attractive to them.

And that, of course, means – because all these deals have to be run by the local authorities and supervisors and as we have quite a lot of experience gained on that. I mean – so the uncertainty, if people come to us, it's relatively high because we already done a large number of them. And there's further demand for those.

And also, I mean, some of these deals come in connection with M&A activity where there is an interest to get more certainty on the future cash flows or to monetize the future cash flows in order to facilitate those kind of M&A transactions.

So, I mean, it's just for us, at this point in time, a very good business. We take very low risk provisions on them. And for that, we get very good margins, some in the year. Return on capital applied to that is extremely favorable. So, that is very positive at this point in time.

And then for the Tianjin loss, I mean, as I said, it's very difficult for me to comment whether we are, I mean, overweight on that loss or not if I compared with my peers. What I can say, I mean, our loss, the largest part of it is property business where we write Chinese property treaties which are largely being ceded on a surplus basis. Our lines on those treaties are, in general, between 3% and 5%. So, you can see that we are not terribly keen on them. And, therefore – I mean the only – in our estimation, we only take a small part of the losses that we expect under those treaties.

The second largest part that we have is, of course, marine where the uncertainty is the highest because we haven't got loss advisors really here. And this is more from international marine treaties, which we write on a non-proportional basis. There, our lines are a lot higher. I mean, like on all the specialty lines, we have higher lines than on the property business in China that have to do with our judgment on the rating quality of that business in China.

So on the marine side, I mean, say on a marine program, say, either from the land market or say also from a Chinese domestic, we were probably right more like 15% to 20%, whilst on the property programs, we write 3% to 5%, and therefore, the second largest we assume under the marine line.

And then, of course, we have some estimations on property business from, say, Japan, Germany, U.S. where we just expect that there will be some knock-on effects and we will see some losses. Needless to say that this is an estimation of our sense that we haven't got advisors there.

But that's how we go about this loss. I mean, this is an exercise which is not top-down. It's bottom-up. The underwriting department's looking at what they have written and then they came up with an estimation. And they also come up with – I mean, best case, most realistic case, and worst case and the reserves that we put up, that's between realistic and worst. So I mean, that's how we go about it. But we will know – hopefully have a clearer picture at the end of the fourth quarter.

Q - Thomas Fossard {BIO 1941215 <GO>}

Maybe one small question maybe for Roland just to come back on the fin solution under Life. I think that at the end of Q, you indicated that the financial solution contributed to €125 million to the EBIT in the first six months. Can you update what this contribution number will be on a nine months basis? Thank you.

A - Roland Vogel {BIO 16342285 <GO>}

I must admit I don't have that. If we do that together – but it is – from the U.S., I think we gave a number, it was combined financial solutions around the world. I have the U.S. number here available which is €110 million, so it should have increased slightly from that number, but I would have to come back to you with a concrete one.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thanks, Roland.

Operator

Okay. Our next question comes from In-Yong Hwang of Goldman Sachs. Go ahead. Your line is open.

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

Hi. Good morning. Two questions from me. One on your German GAAP earnings. Maybe discussed this in quite some detail at the Investor Day but if you look at kind of the equalization reserve and your very helpful disclosure that you're getting €68 million out of it this year, that's a swing of more than €300 million compared to last year.

And given you have a pretty much a good track record paying up most of your disposable profit in the German GAAP as dividends, is that the kind of increase that we should expect from your dividends – total dividends or are you going to keep it roughly in a similar region to where you were last year in terms of dividends?

And second question is a very simple one. On reserve releases in P&C, maybe if you can't give an exact number whether it's roughly in the ballpark of the €50 million quarterly number that you guide to. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, to the dividend level, I mean, of course, it's always – I always hesitant to talk about dividends before the year is over because, as you know, in reinsurance there's always – we always have the ability of having a major cat loss even in the last couple of months of the year. But as I said for the time being, I would say, all things being equal, we would probably be looking for the same level as we have seen in 2015, which means that we would not use up all the flexibility that we will see from the U.S. GAAP earnings this year.

And because – I mean we're, of course, concerned to see single years attractiveness of the dividend, but of course, we also are concerned with the continued and future attractiveness of the earnings. And so, we have to weigh both of those goals and put them in harmony, I would say.

A - Roland Vogel {BIO 16342285 <GO>}

With regard to the reserve releases, I can just briefly confirm that we have seen a positive run-off in the order of the expected, which – and you referred to the €50 million per quarter, €200 million per year – so, we are within that ballpark with no extraordinary effects on the combined ratio from reserve releases.

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

Great. Thank you.

Operator

Thank you. Our next question comes from Andy Broadfield of Barclays. Sir, your line is open.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Hi. Good morning. Just a couple of quick questions, actually. On investment income, it looks to me that you're still extending the barbell approach. Is that a fair conclusion because actually, the real estate business, I don't think actually went up that much this year. But I'd still ask if you can just cut down – conceptually just agree or disagree with that conclusion.

The second is you mentioned based on the net to gross ratio so there has been some success on the ILS side. Does that include the – is that for your own book or is this for your businesses for client so, effectively you're just putting it through to – I guess has this gone into your K program or has this gone into do something else on the ILS side? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, if I start with the ILS side and leave the barbell for Roland. Well, no, this is not for our own books. This is basically tailor-made solutions for investors where we marry up the need of our clients, the ceding company that they are sourcing with a structure that helps the investors to take that risk. Our own risk position on that side is very, very low and we're doing that really for fee income. And that has been quite good.

As you know, it has been publicized in the second quarter and third quarter. We transformed 3.5%, I would say, because one was a smaller one, cat bonds into the year, into the capital market and Texas Wind Pool being the largest. And that actually generated, of course, fee income for us. It also generated growth and ceded premium for us, but it's strictly on a back-to-back basis.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

And does that basis risk on those – I assume you'll be indemnified?

A - Ulrich Wallin {BIO 4863401 <GO>}

We are indemnified – the risks that is there, I mean the structures that we are offering, the investment funds, gives them some leverage which, of course, they are not getting for free. This is due to the structures that this is the way these things are set up. And therefore, I mean, it's attractive for them. It's attractive for us because we get a good fee for it. And as it appears, because I mean our clients like it as well, it's also attractive for the ceding companies.

A - Roland Vogel {BIO 16342285 <GO>}

And with regard to the investment strategy, Andy, you are correct. We are continuing with that investment strategy. If you look at the development of the government bonds here from 21 to 25, I think that would even exaggerate the impact of the strategy a little bit because in preparing also the changes in Ireland, we have parts of monies here or there, so this is always also an impact you have on a balance sheet date. Because usually, it takes – or the expectation would be that it takes a little bit longer. We will continue with new investment according to the strategy, not sales.

So, you see that the government bucket increases. You see that also the non-investment grade increases by a percent. The percent doesn't sound a lot. It still reflects €370 million. In that regard, it is money which has to be moved. The same is true for the investment policy showed what we have and what we are going to do at the occasion of our Investor's Day. Also that will take a while as mentioned if you see the 4% line year, if it is 3.6% or 4.4%, it could already be €350 million additional investments within that. So, it will take awhile. We continue doing that and the number of the govvy development is even a little bit exaggerated because it takes a little bit longer to get that moving.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Okay. And then the government bonds, there's nothing unusual in terms of the trying to find high yielding government bonds out there of EMs or anything?

A - Roland Vogel {BIO 16342285 <GO>}

No.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

No, okay. Thank you very much.

Operator

Thank you. Our next question comes from Kamran Hossain of RBC. Go ahead, sir. Your line is...

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Morning. Two questions. The first one is just on the 2015 guidance. So, you've set the €950 million net income for 2015, but you're already at €786 million for the nine months? Can I just kind of square off, let's say, whether this is – you've been highly conservative on that €950 million number or are there some horrible impacts from, I guess, either VW or the recent kind of Russian plane going down that we should expect in Q4. So, that was the first one.

And the second question, the segment guidance for next year that you were seeing flat combined ratio which I assume because prices have come down that actually were going to some of your reserve buffer to manage through to that flat combined ratio. Could you just give us some idea what the €950 million guidance for 2016 looks like if you don't take that buffer down? And if I'm completely wrong in that assumption, just say no. Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, on the guidance for 2015, of course, it's not a point estimate. I mean, we say it's around €950 million. And this can, of course, be – also as it looks can be a little bit higher. I mean that's not entirely out of the question. No, there are no negative developments so far that we see in the fourth quarter. The plane crash in Russia will unlikely make it to the large loss list, the way we look at it right now.

VW, I mean, we don't think that even if worst comes to the worst and then I would have probably not explained that in great detail because I think I mean as we have no facultative lines in these, I don't think our ceding companies will be terribly keen on me trying to explain liability losses on VW. But no, I mean we don't see that, in any way, shape or form, have an extraordinary negative impact on our result.

The combined ratio for 2016 being flat, I mean, that would, of course, mean that the confidence level movement would be less positive, let's put it that way, than in 2015 because you are very right. I mean the rating quality of the book in 2016 will definitely be worse than the rating quality of our book in 2015. And this is unfortunately the case because we can't walk on water. I mean it's really – I mean it's the fiscal year and of course the fiscal year 2015, we still have the benefit from 2013, which was still a very good year, and 2014. And of course, I mean we're being a lot less pronounced than 2016.

So, yes, I mean if you have the €825 million large losses, which the €950 million assumes, we expect that we will eat into the confidence level to some extent. Not a great deal, but to some extent. I mean at the same time, of course, equally important if that we not make too many mistakes in our underwriting and not creating any negative writes from single large transaction that's why we're very careful with these. But yes, I mean, it will partly be supported by the level of confidence. I mean that's the reason why we build it up so significantly over the last few years, and I think that's very much in line with what we said all along.

Q - Kamran Hossain {BIO 17666412 <GO>}

Just a follow-up on that. Would it be possible to get an idea what the €950 million might look like if you won't be eating into the confidence level, or is that overly complicated for this conference call?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah. I think that's a good way outlet you gave me there. But I will tell you at the end of the – when we publish our 2016 numbers.

A - Roland Vogel {BIO 16342285 <GO>}

Yeah. But Uli, I think that the one indication one could give is it should be within two combined ratio points.

A - Ulrich Wallin {BIO 4863401 <GO>}

That's absolutely true. And of course, it depends also a little bit on the large losses. I mean if nature is nice to us again and we don't have the large losses, of course we don't have to eat in the confidence level. But that's, of course, we cannot assume. I mean we assume the expected losses.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much. I'll follow up in 2016.

Operator

Okay. Our next question comes from Michael Haid of MainFirst Bank. Go ahead. Your line is open.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Michael Haid, MainFirst. Actually, just a follow-up question on the confidence level. Did I understand right, did you increase the confidence level so far in 2015?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, we expect that it has stayed stable.

Q - Michael Haid {BIO 1971310 <GO>}

Okay.

A - Ulrich Wallin {BIO 4863401 <GO>}

Of course, only the full actual analysis would show that because, as I explained previously, I mean, redundant loss reserves are not really tangible asset because they are the result of a calculation. And of course, if you look at the calculation at the end of 2014, it has certain assumptions on paid losses and loss advisers in 2015. And of course, then at the end of 2015, it's maybe a new calculation that takes that into account as - of course and then the actual. And then of course, the actual will also have an effect on the expectation for 2016 and beyond. Therefore, I mean, it's not as tangible as you think. But I mean it can go both ways. But from what we have seen so far in 2015, we expect it to be stable.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. May...

A - Ulrich Wallin {BIO 4863401 <GO>}

Stable means it can be €100 million either way, I should say that.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. And then I have two questions. One is on the Tianjin. The gross loss is €112 million. The net loss is €96 million. Just for curiosity, what retro cover do you have in place which is responsible for the delta because, to my understanding, the K program does not cover any of this difference?

And the other question is equity investment. I've seen you have increased them in the third quarter. That was already indicated at the Investors Day. Is it only on an opportunistic basis or you plan to do more of this increase? And I noticed that you have not booked any in Life & Health any equity investments. Is this a - does this have economic implications or is it just completely discretionary accounting?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, on the Tianjin loss gross to net, it is actually the K facility because the K facility takes all our marine excess of loss portfolio. And the difference, of course, comes from the marine side.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. That's it.

A - Roland Vogel {BIO 16342285 <GO>}

Yes. With regard to the equity portfolio, as already indicated, we had invested that 1 percentage point. Yes, they are longer term. This should be seen as an entry. We feel comfortable it has, of course, up to now, developed nicely, very volatile capital equity markets. So, we do not see that growing now week-by-week. But longer term, we would expect to use other opportunities to re-enter and potentially improve it .Other than that, it is more opportunistically there.

So, if we feel it doesn't make a lot of sense to keep it, we would also sell it. But the plan would be longer term, and longer term here now is again a few years that could increase step-by-step. We did that only for the Hannover Re SE portfolio. Here, out of Hannover, for the Hannover-based Life business, there are not a lot of assets available as such. In that regard, this is not discretionary. It is a reflection of the entity investing. And here as for the German-based Life business, assets are usually funds withheld. In that regard, the Life segment does not own a lot and this is why these were allocated only to the P&C segment.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Thank you very much. Very helpful. Thank you.

Operator

Thank you. Our next question comes from Andrew Ritchie of Autonomous Research. Go ahead, sir. Your line is open.

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

Hi there. Just a quick question on the Life margins by product. I'm looking – there's mortality/morbidity versus financial solutions and longevity. So by the nine months, the mortality/morbidity margin improved quite a lot from the half year. So, does that actually imply despite the French issue and U.S. large loss, the mortality/morbidity still improved Q-on-Q?

And then – or maybe is the French issue impacting the financial solutions/longevity result or did something happen in financial solutions or longevity in Q3 that took the margin down sharply, still well above your target, but it's sharply down Q3 versus the half year? Is there any sort of color on that?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, on the longevity and financial solutions, of course, we had the one-off effect in the first quarter.

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

But even ignoring that, so it was 17% ignoring that one-off effect. At half year, it's now down to 9%.

A - Ulrich Wallin {BIO 4863401 <GO>}

Do you mean in nine months? I was just going to say that of course, the one-off effect that's been – brought it down a little bit. I mean, still, the 9% is largely stemming from the financial solutions. Longevity, in and large, is in line with expectations but, of course, the way we account the margin is a lot lower.

Morbidity and mortality, I mean, the French problem is in morbidity and mortality. It's not in longevity, not at all. And therefore I would say – I mean, as far as the financial solutions go, of course, I mean, the way the quarterly margins evolve can also be a little bit hit and miss. But I mean for the entire year on the longevity together with the financial solutions, I mean, we certainly expect somewhere like a double-digit margin.

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

For the entire – those two products together as well?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes, yes, which, of course, is very attractive on the financial solutions and a little bit more marginal on the longevity. The main reason for that is that the majority of our longevity business are these pension block transactions.

In the beginning of the transactions, risk is very low because, I mean, we have the – and of course, we guarantee the pension payments. So, I mean, now, our loss payments are the actual pension payout for fixed premium.

But of course, in the early years, we expect not many of the pensioners to die. Therefore, the probability of the deviation from the expected payout to the actual payout is very, very slim. And as a result of that, the way we collect the margin is backloaded. And then so, I mean after expenses, in the first few years of those, we only booked, I mean, certainly less than 2% margin on those large deals and put the rest in reserve really.

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

Okay.

A - Ulrich Wallin {BIO 4863401 <GO>}

We feel that's a more prudent way to look at these things.

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

Okay. And just one other question, to the extent you don't use the large loss budget on P&C and obviously, currently €83 million roughly unused, would you let all of that flow through to the bottom line in Q4 or I think, last year, you decided to keep some of it back?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I mean, it really depends on the overall situation that you're finding out. I mean some of it will normally be kept back because I mean the way our reserving works is on an underwriting year basis rather an accident year basis. It then gets translated into accident year. That allows us some flexibility on the newest underwriting year to possibly keep some back, but I mean we have to see on that one.

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

Okay. Great. Thanks very much.

A - Ulrich Wallin {BIO 4863401 <GO>}

And it also depends really on the certainty that we have with the large losses. As I said, at this point in time, I would rather keep some back due to the uncertainties surrounding the Tianjin loss. But maybe and hopefully at the end of the fourth quarter, we have better transparency on that loss.

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

Okay. Thank you.

Operator

Thank you. Our next question comes from Vinit Malhotra of Mediobanca. Go ahead, sir. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good morning. Thank you very much. So, just on the – the running yield was rather strong in this quarter, and we already discussed that. But just on the outlook, are we still looking at that 10 basis points to 15 basis points erosion as a guidance because that what seem to be assumed in this outlook, and further of what we can see is that there is a very strong number every quarter?

And second thing is just on the impact of FX on the nat cat budget being so significant, does it also change the reserve release normal level because reserve also should show effect of the FX? These are the two questions. Thank you.

A - Roland Vogel {BIO 16342285 <GO>}

As with regard to the running yield, Vinit, you're right. And I've explained more than once the math behind it with securities maturing, additional cash flow coming in as the reinvestment yields are still around €1.8 million. We still assume this dilution of some 10-a-little-bit-more basis points. Of course, we try to mitigate and decrease that number by moving the portfolio as had been discussed before with the Barbell real estate, a little bit more than that. But overall and for the full portfolio, that is still the background for the assumption and the new target for the next year.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

The reserve releases, to what extent they are dependent on the currency?

A - Roland Vogel {BIO 16342285 <GO>}

Of course, the overall volume of reserves also goes up and down together with the U.S. dollar especially. In that regard, you could assume that around 40-something percent of our reserves would be U.S. dollars, so a little bit less than half of the reserves are dollar sensitive. And that regard, of course, that gives you a little bit of an idea of the proportion of the run-off of reserves which would also of course be impacted by those numbers.

So, potentially, also, our redundant reserves go up and down together with the U.S. dollar slightly. I would say the large loss budget itself is a little bit more than that because from the natural catastrophe exposures, they should be even a little bit higher in the U.S. dollar than the proportion of the overall portfolio.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you, sir. Thanks.

Operator

Okay. Our next question comes from Frank Kopfinger of Commerzbank. Go ahead. Your line is open.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yeah. Thank you. I have two questions. My first question is on your 2016 volume guidance. I appreciate your comments on the impact of the big China treaties. And I was wondering whether you could comment what your expectations would be effectively on the P&C business excluding this Chinese impact.

And the second question is on the change of the functional currency at your Irish subsidiary. Could you provide some size on the portfolio volume of the investment portfolio that is affected? So, how big is the portfolio there and especially also what used to be the current yield of this portfolio and what is your reinvestment yield there?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah. I mean if I take the one on the P&C side, if we exclude the Chinese development that we are expecting and that has been put into the plan, I would say then we would look at a rather flat development because – I mean there are, of course, areas where we see decreases like Continental Europe for next year and aviation and those kind of classes. But I mean also we have particularly in the emerging markets and here, particularly Asia, some long-term contracts where the premium is increasing year-on-year. And we also see additional demand on the structured reinsurance side. So, I would say, if you exclude that, I would say for P&C flat to a slight growth.

A - Roland Vogel {BIO 16342285 <GO>}

And with regard to the functional currency, the volume which we would have to switch is a little bit more than €1.5 billion. Of course, all the insurance liabilities are already on a matched basis. So, the one thing you will have to change is the capital number on top of that.

For the Irish portfolio, it's mainly Life portfolio. Still, the maturities are not that long. What I could give you now is between 5 years and 10 years, so it is somewhere in the middle. It should be the average maturity of those funds. It is and will be even compared to our already conservative standards for the group portfolio stay rather conservatively.

It is a Life business, very often driven by financial contracts or financing contracts where we need the liquidity short term. So, it is a rather conservative. So, mostly, I think with government bonds and some higher quality corporate credits, around seven years portfolio. And if you look at the benchmarks for such a conservative seven-year maturing portfolio, that would give you an indication of the differences in yield for those good €1.5 billion.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

Okay. And we have a follow-up question from Edward Morris of JPMorgan Cazenove. Go ahead, sir. Your line is open.

Q - Edward Morris {BIO 16274236 <GO>}

Hi. So, just one quick follow-up question on the net combined ratio, a figure that you mentioned below 96%. I'm just trying to sort of run through how that might build up for next year. We were assuming an overall rate decline somewhere in the region about 3% for the book that might be offset by the fact that you can now add to last year as well as each year. It was certainly about a large loss budget which might be – I'm just sort of struggling to see how it stays below 96%. Is it just because the proportion of cat business in the book will increase? Is that what keeps it lower?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I mean, of course, we assume the reduced rating quality, but we still assume that the quality of the book overall is good. I mean we still have a high proportion of our business being non-proportional. And that normally drives better results from a combined ratio point of view compared to the proportional treaties where, of course, the margins – the premium is more but the margins are slimmer, unless you assume a lot of a very volatile book of business through your proportional treaty.

Therefore, I think I mean the mix of business dictates that we have not reductions from all the business that we write. I mean, for example, our German business, what we see in the renewal so far is actually very stable. I mean at least for us and I mean the German business of course in the P&C side, we write that direct and not through brokers. And the same is true on quite a lot of the U.S. business where we are supporting I mean the small- to medium-sized insurance companies. The business is much more stable there.

Therefore, I would say not all the business is affected by the same kind of rate declines. And for us, of course, I mean that we're steering the mix towards – a little bit towards those kind of areas and de-emphasizing where we see these as the highest rate increases or decreases like deviation, for example, or some of the larger ceding company accounts business. And that way, we think that we can keep the combined ratio at below 96% without eating too much into the confidence level.

And I think I should also probably say that I mean we look at our reserving and therefore the combined ratio, I guess, relatively conservative because if you compare our combined ratio to those of our peers, you will feel that our combined ratio is a little bit higher in the good years.

A - Roland Vogel {BIO 16342285 <GO>}

And maybe, Uli, if I add, I think we should not do, from a technical standpoint, up to one mistake and add all the additional large loss buffers as losses. As we mentioned before, this is associated, of course, also with profits. If we use more of our large loss - or the utilization goes up, that will also be associated with premiums.

If, for instance, our risk business now is inflated by currency exchange rates, so a loss of €9 million is expected to be €10 million last year, it has already been €9 million today. So in that regard, this additional large loss budget is associated with respective premium. So, you should not do the mistake and just add €135 million additional losses to the portfolio. That would not be the right technique to look at it.

Q - Edward Morris {BIO 16274236 <GO>}

Yeah. Absolutely, yeah. Okay. That's very clear. Thank you.

Operator

Okay. And we have another follow-up question from Xinmei Wang of Morgan Stanley. Go ahead your line is open.

Q - Xinmei Wang {BIO 17860767 <GO>}

Hi. Thanks for taking this question. It was on the M&A point that you made earlier with respect to opportunities in London and Life. Just interested in your ambitions in Lloyd's that you've talked about that space before. And I'm wondering in your opinion why you aren't seeing any opportunities there. Is it the lack of willing sellers or on valuation? Did you have any commentary on that?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I mean that goes back a little bit to a press conference I gave in Monte Carlo, and there was nothing very interesting to say in Monte Carlo because everything looked quite stable. I got the question and what's our interest is in Lloyd's. And I said, well, I mean we have actually - looking at this for years and we actually bid for one of the syndicates not too long ago. Made out of that that we are interested to invest in Lloyd's and so, we have got a number of opportunities that have been sent to us on that basis.

So, I mean we would have an opportunity to go into Lloyd's. At this point in time, what we have seen has not been sufficiently attractive from a price to expected return basis. So, we are currently not working on any concrete project there. I mean it also has a little bit to do that our assessment is that the business, also the primary business that is traded in Lloyd's is currently subject to a rather soft market. Therefore, we assume that that eventually will show up in the results as well which may suggest that it's currently not the most opportune time to invest into Lloyds.

Q - Xinmei Wang {BIO 17860767 <GO>}

Okay. Great. Thanks very much.

A - Ulrich Wallin {BIO 4863401 <GO>}

Thank you.

Operator

Okay. And the last question in the queue so far is from Thilo Gorlt of SRC Research. Go ahead, sir. Your line is open.

Q - Thilo Gorlt {BIO 3541523 <GO>}

Hello. SRC Research, Thilo Gorlt. I have just two questions. For the group, you mentioned that the level of written premium slightly rose to 87.9% after 87% in the previous year period. What is your strategy or expectation concerning this figure on your group level? And we saw, especially in P&C and Life & Health, the different direction concerning that figure. Can you expect a continuation of this trend in P&C and Life & Health, and what levels you don't want to fall below or exceed in the bottom segment?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, we expect the retention to be, I would say, around the 90% mark also in the future. I mean why has it decreased in the P&C side? That is due to the ILS business where we are transforming an increasing amount of business which means that we write the business so it shows up in the gross premium lines and then we ceded to the capital market and is therefore – it's then in the ceded premium and reduces the net retention.

I mean the risk transfer, reinsurance, retrocession that we are planning for next year is, from a limit point of view, we are planning to buy some higher limits there. But as also there, the market is relatively soft. This will only have a minor effect on the premium ceded.

On the Life & Health side, we made an effort to increase our net retention that particularly refers to also the ING block that we bought because that came with a lot of retrocession which we are allowed to recapture at different times. As the retrocession rates are relatively high, I mean we have recaptured quite a bit of that. Therefore, the retention on the Life & Health side will continue to grow slightly.

Q - Thilo Gorlt {BIO 3541523 <GO>}

Okay. And the second question concerns the investment strategy on the Investors Day in mid-October. You mentioned a quarter of about 4% and the target quarter of 5%. So, is it possible, maybe due to some investments in the third or in the fourth quarter, that we will see a quarter of between 4% and 5% for the full-year 2015 and/or a quarter of about 5% for 2016?

A - Roland Vogel {BIO 16342285 <GO>}

Well. The line was not too good. So, you were talking about the real estate portfolio. Okay, sorry. It is difficult to really plan that. That is a long-term goal. We even have – and I mentioned that we still needed the supervisory board to approve it. The supervisory board met yesterday and it has approved even a little bit more to be invested longer term. There are no plans to be at a certain point at exactly that one balance sheet days because it depends on opportunities. It depends on signing and closing. And in real estate, this is a little bit a longer-term view. So, I have no plans. I would not be surprised if we achieve the 5% by the end of the year and a little bit more than that next year already.

We also have the opportunity to sell another smaller piece of our portfolio within the fourth quarter. So, there will be some movements up and down. We expected to grow continuously and very profitable, and we should see that increasing. It also depends percentage-wise. For instance, on the interest rates and the currency exchange rates because if – as by the end of the first quarter or in April, interest rates go down, the valuation of the overall portfolio goes down. It might be difficult to, percentage-wise, keep up with the pace. From the absolute volumes, it should be increasing continuously.

I think that is all I can say and it will take a while, but we are working on single investments on a weekly basis.

A - Ulrich Wallin {BIO 4863401 <GO>}

But the strategic asset allocation on real estate has been increased.

A - Roland Vogel {BIO 16342285 <GO>}

Right.

Q - Thilo Gorlt {BIO 3541523 <GO>}

Okay.

A - Ulrich Wallin {BIO 4863401 <GO>}

8% now.

A - Roland Vogel {BIO 16342285 <GO>}

Yeah. It's 8% now long term.

A - Ulrich Wallin {BIO 4863401 <GO>}

But that - I mean, it took us quite a while to get to the 4%.

A - Roland Vogel {BIO 16342285 <GO>}

And it will take us a while. And the reason here is that we will definitely try to keep the quality. And if you do that, your universe is even a little bit lower. And we all know that our friendly competitors and all the other asset managers are chasing yield. So, this will remain a very constant, relaxed and a strategy without any pressure.

Q - Thilo Gorlt {BIO 3541523 <GO>}

But your mid-term target is a 5%, as I understand, and your long-term target is 8%. But you can't give us a specific point of - or a specific quarter when you can reach it.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, the strategic target has been raised to 8%. So, if suddenly in the fourth quarter, we would get brilliant opportunities, say, for another €2 billion, we might do that. But very unlikely that that will happen because, I mean, for us, quality is much more important than speed.

Q - Thilo Gorlt {BIO 3541523 <GO>}

Okay.

A - Ulrich Wallin {BIO 4863401 <GO>}

That is correct.

Q - Thilo Gorlt {BIO 3541523 <GO>}

Thank you very much.

Operator

Okay. [Operator Instruction] Okay. Gentlemen, there seems to be no further questions on the line, so I'll hand back to you for the closing comments.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you very much for listening in. Thank you very much for your very interesting questions, and I wish you all a very nice and productive day. Thank you very much.

Operator

This now concludes the call. Thank you all very much for attending. You may now disconnect.