Interim management report

Business development

We are satisfied with the development of our business in the third quarter. Market conditions for our company, as a financially strong reinsurer, remain good. Even though competition is more marked in certain segments and regions, prices in non-life reinsurance are broadly commensurate with the risks. Life and health reinsurance offers us sufficient potential for profitable growth. Both business groups contributed to the good result. The major loss situation in the third quarter was notable for a number of natural catastrophe events, especially in Germany and Canada. The hurricane season in the United States and the Caribbean, on the other hand, has so far passed off without appreciable losses for the (re)insurance industry. All in all, major loss expenditure as at 30 September 2013 was in line with our expectations.

Gross written premium in total business increased by 2.3% as at 30 September 2013 to reach EUR 10.5 billion (previous year: EUR 10.3 billion). At constant exchange rates growth would have amounted to 4.7%. The level of retained premium decreased slightly to 88.9% (89.7%). Net premium climbed 1.8% to EUR 9.1 billion (EUR 9.0 billion). Growth of 4.2% would have been booked for net premium at constant exchange rates.

Our investments developed as anticipated, with the portfolio of assets under own management remaining stable at EUR 31.8 billion (31 December 2012: EUR 31.9 billion). Owing to the sustained low interest rate level, ordinary investment income excluding interest on deposits was as expected lower than in the comparable period at EUR 781.1 million (EUR 822.0 million); the resulting annualised return stood at 3.3% (3.7%). Interest on deposits climbed to EUR 267.6 million (EUR 247.6 million).

The write-downs taken in the period under review were again only very minimal in volume. Given the challenging conditions on capital markets and owing to the elimination of various positive special effects recorded in the previous year, our income from investments under own management fell short of the comparable period: it amounted to EUR 785.6 million (EUR 961.2 million) as at 30 September 2013.

The operating profit (EBIT) as at 30 September 2013 totalling EUR 961.6 million (EUR 1.0 billion) was satisfactory. Group net income was lower than in the comparable period of the previous year, falling by 8.6% to EUR 613.2 million (EUR 670.8 million). Earnings per share came in at EUR 5.08 (EUR 5.56).

The shareholders' equity of Hannover Re contracted to EUR 5.8 billion (31 December 2012: EUR 6.0 billion). The decline was due primarily to the dividend payment and the decrease in hidden reserves owing to movements in market yields. The book value per share amounted to EUR 47.73 (31 December 2012: EUR 50.02). The annualised return on equity reached 13.9% (16.5%).

Non-life reinsurance

The round of treaty renewals in non-life reinsurance as at 1 July 2013 saw increased competitive pressure in some segments even relative to the beginning of the year. US property catastrophe business was particularly heavily impacted. The sustained good results posted by primary insurers as well as additional capacities from the market for catastrophe bonds prompted corresponding rate reductions. The rate level was nevertheless still adequate in most cases. The decrease in margins for US catastrophe covers is of limited relevance to our company, however, since our market share in this segment is disproportionately low. Although some parts of other US property business were also more competitive than in previous renewal rounds this year, we were nevertheless broadly satisfied with the development of rates. In private property business the rate increases were sustained on both the primary and reinsurance sides, hence putting this segment well on track to greater profitability. In commercial property business, too, we obtained moderate rate increases. Our premium volume in US property business grew slightly overall and is now at a historic high.

In casualty business rates improved across all lines on the primary side. This development was not, however, carried over in equal measure to the reinsurance side because clients are carrying more business in their retention on the back of good results.

We are satisfied with the outcome of the treaty renewals as at 1 July 2013 in Australia and New Zealand. The model adjustment made by the catastrophe modelling firm AIR for allied perils that had previously not been adequately factored into the pricing was integrated into the underwriting process and resulted in price mark-ups. In the aftermath of the heavy major losses recorded in 2010 and 2011, the price level last year was thoroughly attractive. Now, however, prices have come under pressure from both new and established market players, and also owing to the extensive absence of losses in the previous year. In natural catastrophe XL business rates declined slightly, although they were still on a level that enabled us to generate technically adequate margins. Casualty lines came under stronger competitive pressure than property lines. We were able to obtain our targeted pricing requirements under most reinsurance programmes. Despite adhering to a selective underwriting policy we successfully enlarged our premium volume.

The gross premium for our non-life reinsurance business group increased by a modest 1.0% relative to the corresponding period of the previous year to reach EUR 6.0 billion (EUR 5.9 billion). At constant exchange rates, especially against the US dollar, growth would have been 2.8%. The level of retained premium retreated only slightly to 89.1% (89.9%). Net premium earned climbed 1.5% to EUR 5.1 billion (EUR 5.0 billion), or 3.3% adjusted for exchange rate effects.

After the second quarter had already seen heavy major losses, the third quarter also brought a number of natural disasters and other large losses. The largest single event, hailstorm "Andreas", stemmed from our domestic market and produced an estimated market loss of at least EUR 2.5 billion. The resulting net strain for Hannover Re is EUR 64.0 million. Total major loss expenditure as at 30 September 2013 stood at EUR 446.7 million. Although this is significantly higher than the figure for the comparable period (EUR 193.0 million), the expenditure is within the bounds of our loss expectancy for the first nine months.

The underwriting result for total non-life reinsurance as at 30 September 2013 climbed to a pleasing EUR 243.4 million (EUR 169.7 million). The combined ratio for the first nine months of the current year was very favourable at 95.0% (96.5%).

The operating profit (EBIT) in non-life reinsurance rose by a pleasing 5.0% to EUR 804.6 million (EUR 766.0 million) as at 30 September 2013. Group net income totalled EUR 534.4 million (EUR 524.8 million), an increase of 1.8%. Earnings per share came in at EUR 4.43 (EUR 4.35).

Key figures for non-life reinsurance

in EUR million	2013					2012	
	1.1.–30.6.	1.7.–30.9.	+/– previous year	1.1.–30.9.	+/– previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	4,097.1	1,859.4	+2.3%	5,956.4	+1.0%	1,817.3	5,897.0
Net premium earned	3,403.9	1,689.3	-1.4%	5,093.2	+1.5%	1,714.1	5,017.5
Underwriting result	183.6	59.9	-15.1%	243.4	+43.4%	70.5	169.7
Net investment income	363.1	214.9	-26.4%	578.0	-17.7%	292.0	702.1
Operating result (EBIT)	549.1	255.5	-23.9%	804.6	+5.0%	335.7	766.0
Group net income	362.1	172.3	-21.5%	534.4	+1.8%	219.3	524.8
Earnings per share in EUR	3.00	1.43	-21.5%	4.43	+1.8%	1.82	4.35
Combined ratio [1]	94.4%	96.3%		95.0%		95.8%	96.5%
EBIT margin [2]	16.1%	15.1%		15.8%		19.6%	15.3%
Retention	90.2%	86.7%		89.1%		89.4%	89.9%

[1] Including expenses on funds withheld and contract deposits
[2] Operating result (EBIT)/net premium earned

Life and health reinsurance

The business environment in international life and health reinsurance was essentially unchanged in the third quarter of 2013. Life insurers, in particular, continue to be faced with low asset returns and hence declining investment income. Along with these difficult conditions on the capital markets – where to a limited extent reinsurance can bring financial relief – the life and health reinsurance industry is especially benefiting in emerging markets such as China and India as well as in South America from a rising insurance density among the growing middle class. Furthermore, in mature markets such as the United States, Germany, France or indeed Scandinavia reinsurance solutions designed to optimise a client's capital structure and solvency are increasingly enjoying brisk demand.

Life and health reinsurance was adversely impacted by Australian disability business in the quarter just ended. This contrasted with positive effects from US mortality business, although these did not entirely offset the losses. We are nevertheless satisfied with the development of the rest of the life and health reinsurance portfolio.

The increasing demand for financially oriented reinsurance products can be felt worldwide. Our customers are showing strong interest in potential solutions for solvency optimisation as well as assistance with new business financing.

Gross written premium in life and health reinsurance amounted to EUR 4.6 billion (EUR 4.4 billion) as at 30 September 2013, an increase of 4.1% relative to the corresponding period of the previous year or as much as 7.4% at constant exchange rates. The retention retreated slightly to 88.5% (89.3%). Net premium earned grew by 2.1% in the period under review to EUR 4.0 billion (EUR 3.9 billion). At constant exchange rates, net premium would have risen by 5.4%.

The operating profit (EBIT) contracted to EUR 143.4 million (EUR 233.3 million) as at 30 September 2013. The EBIT margin for the reporting categories of Mortality and Morbidity, which at 2.8% fell short of the target mark of 6%, reflects the deterioration in the experience of Australian disability business. The Financial Solutions and Longevity categories beat the targeted 2% mark with an EBIT margin of 4.6%. Group net income came in at EUR 136.0 million (EUR 188.6 million), equivalent to earnings per share of EUR 1.13 (EUR 1.56).

Key figures for life and health reinsurance

in EUR million	2013					2012[1]	
	1.1.–30.6.	1.7.–30.9.	+/– previous year	1.1.–30.9.	+/– previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	3,129.7	1,451.9	-8.7%	4,581.6	+4.1%	1,590.5	4,399.3
Net premium earned	2,787.3	1,236.3	-12.9%	4,023.7	+2.1%	1,420.1	3,941.5
Investment income	315.6	144.9	-27.8%	460.5	-5.5%	200.8	487.2
Operating result (EBIT)	111.4	32.0	-58.9%	143.4	-38.5%	77.8	233.3
Net income after tax	83.8	52.1	-13.9%	136.0	-27.9%	60.5	188.6
Earnings per share in EUR	0.70	0.43	-13.9%	1.13	-27.9%	0.50	1.56
Retention	89.6%	86.1%		88.5%		89.4%	89.3%
EBIT margin[2]	4.0%	2.6%		3.6%		5.5%	5.9%

1 Adjusted on the basis of IAS 8
2 Operating result (EBIT)/net premium earned

Investments

While the yield level on US treasury securities and on German, French and UK government bonds remained broadly unchanged for a long period during the first half of the year, fixed-income securities issued by these countries began to see yield increases – sometimes markedly so – from the middle of June onwards, especially in the medium and longer durations. Although these reduced the unrealised gains in our portfolio of government bonds, they also afforded some relief on the reinvestment side in what continued to be a comparatively low interest rate environment. The picture as regards countries with higher risk premiums – presently the focus of so much attention – was a mixed one: while Spanish bonds continued to recover, Portuguese sovereign bonds recorded increases in yields, above all in the medium duration segment. This could also be observed in part with Irish government bonds. Other durations benefited here, however, from yield declines. Italian treasury bonds remained largely unchanged.

Credit spreads in the area of European and US corporate bonds decreased – in some instances appreciably – across most rating classes. On the one hand this has positive implications for unrealised gains, but it also necessitates greater scrutiny of a balanced risk/return profile when it comes to making new investments. Corporate bonds from emerging markets, however, saw a widening of risk premiums in some areas. In total, the unrealised gains on our fixed-income securities decreased to EUR 912.2 million (EUR 1,714.6 million). Our portfolio of assets under own management remained stable at EUR 31.8 billion (EUR 31.9 billion).

Owing to the sustained low level of interest rates, ordinary investment income excluding interest on deposits was lower than in the corresponding period of the previous year at EUR 781.1 million (EUR 822.0 million); this comparatively moderate decrease can be attributed principally to the enlarged average investment portfolio, although the appreciable expansion of the corporate bonds asset class over the past two years is also a factor here. Interest income on funds withheld and contract deposits increased to EUR 267.6 million (EUR 247.6 million).

Impairments of altogether just EUR 13.7 million (EUR 16.3 million) were taken. This includes impairments of EUR 3.5 million (EUR 5.3 million) on alternative investments; no impairments were recognised on fixed-income securities or equities (EUR 0.3 million and EUR 2.2 million respectively). Scheduled depreciation on directly held real estate rose to EUR 10.1 million (EUR 7.9 million), a reflection of our greater involvement in this area. The write-downs contrasted with write-ups of EUR 0.3 million (EUR 0.9 million).

Net investment income

in EUR million	2013					2012	
	1.1.–30.6.	1.7.–30.9.	+/– previous year	1.1.–30.9.	+/– previous year	1.7.–30.9.	1.1.–30.9.
Ordinary investment income	503.6	277.5	-4.3%	781.1	-5.0%	290.0	822.0
Result from participations in associated companies	6.2	3.6	+91.3%	9.8	+84.6%	1.9	5.3
Realised gains/losses	84.5	12.9	-84.4%	97.4	-35.3%	82.6	150.5
Appreciation	0.3	–		0.3	-69.6%	0.3	0.9
Impairments on investments [1]	8.4	5.2	+38.0%	13.7	-16.4%	3.8	16.3
Unrealised gains/losses [2]	(37.5)	18.7	-67.8%	(18.8)	-130.8%	58.1	61.0
Investment expenses	47.2	23.3	+10.8%	70.5	+13.4%	21.0	62.2
Net investment income from assets under own management	**501.4**	**284.1**	**-30.4%**	**785.6**	**-18.3%**	**408.0**	**961.2**
Net investment income from funds withheld	187.5	80.1	-12.3%	267.6	+8.1%	91.3	247.6
Total investment income	**689.0**	**364.2**	**-27.1%**	**1,053.2**	**-12.9%**	**499.3**	**1,208.8**

[1] Including depreciation/impairments on real estate
[2] Portfolio at fair value through profit or loss

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to unrealised gains of EUR 5.2 million (EUR 45.8 million) recognised in investment income. The inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account have produced unrealised losses in the year to date of EUR 27.4 million recognised in investment income, as against unrealised gains of EUR 11.4 million in the previous year. The changes in their fair values are recognised in income as a derivative pursuant to IAS 39. In economic terms we assume a neutral development for these two items over time, and hence the volatility that can occur in specific quarters reveals nothing about the actual business performance. Altogether, the unrealised losses on our assets recognised at fair value through profit or loss amounted to EUR 18.8 million, contrasting with unrealised gains of EUR 61.0 million in the comparable period.

The net balance of gains realised from the sale of securities stood at EUR 97.4 million (EUR 150.5 million); it can be attributed primarily to regrouping within our fixed-income holdings as part of regular portfolio management.

While our net investment income fell short of the previous year owing to the contraction in ordinary income and unrealised gains, and also due to the comparatively low realised gains, and also as a reflection of lower realised gains – we had acted on opportunities in the real estate sector in the comparable period –, it was still pleasing in the face of a capital market climate that remains challenging. It amounted to EUR 785.6 million (EUR 961.2 million) in the period under review, equivalent to an annualised average return (including effects from derivatives) of 3.3% for our portfolio of assets under own management. Excluding the unrealised effects from the ModCo derivatives and our inflation swaps, the annualised figure stands at 3.4% and hence meets our target for the full year.

Risk report

Principles for the handling of opportunities and risks

Our objective is to consolidate and further extend our position as one of the world's leading globally operating reinsurance groups of above-average profitability. With a view to accomplishing this aim we enter into a broad variety of risks which, on the one hand, open up opportunities for profit but, on the other hand, can also have adverse implications for our company. Our goal is to make optimal use of opportunities while at the same time adequately controlling and managing the risks associated with our commercial activities. Through our global orientation and our operations in all lines of reinsurance we achieve extensive risk equalisation. In particular, diversification between our non-life and life and health reinsurance business groups enables us to effectively deploy our capital. As a reinsurance specialist, we also transact primary insurance business in selected niche markets on a complementary basis to our traditional reinsurance activities. Of material significance to all segments are the underwriting results and the investment of the premium payments. The parameters and decisions of the Executive Board with respect to the risk appetite of Hannover Re are fundamental to the acceptance of risks. The risk strategy derived from the corporate strategy constitutes the basis for our handling of opportunities and risks. We act on opportunities only by weighing up the associated risks. The risk strategy and the guidelines derived from it, such as the Framework Guideline on Risk Management and the central system of limits and thresholds, are subject to regular review. In this way, we ensure that our assumptions and hence also our risk management system are kept up-to-date. Operationalisation of our corporate strategy takes place on multiple levels and ultimately leads into guidelines, including for example the underwriting guidelines used by our treaty and regional departments.

Opportunities for Hannover Re are to be anticipated inter alia as a consequence of the impending adoption of risk-based solvency systems, such as Solvency II in Europe. Irrespective of the date of implementation of Solvency II on the European level, risk-based national regulations are already in force and others will likely follow. We have long practised a risk-based and value-based management approach of the type which regulators will call for under Solvency II and we began to make our preparations for the requirements of Solvency II at an early stage. We see Solvency II as an opportunity for the convergence of international regulatory and internal corporate approaches and consider ourselves well-equipped to provide the markets with tailored products. Stronger demand for reinsurance covers can also be expected as a consequence of content-based adjustments to the natural catastrophe simulation models used by our company as well as the vigorous growth recorded in a number of markets. For Hannover Re itself, the minimum capital requirements imposed under Solvency II are unlikely to present an obstacle, since our internal capitalisation targets (confidence level of 99.97%) go well beyond the regulatory requirements (confidence level of 99.5%). Business ideas and opportunities are systematically analysed by our Business Opportunity Management unit with the aim of generating new business and thereby enabling Hannover Re to enjoy continued sustainable growth going forward. This is complemented by initiatives such as our "future radar", a systematic analysis of relevant factors that will drive future success. All activities and decisions are guided not only by profit targets but also increasingly by sustainability considerations. We have defined what we consider to be the most important issues in the context of our sustainability strategy.

Functions within the risk management system

There is an interplay between the individual bodies and functions in our risk management system. Their roles and responsibilities are clearly defined.

Central elements of the risk management system

Body/function	Key risk management tasks
Supervisory Board	• Advising and supervising the Executive Board in its management of the company, inter alia with respect to risk management, on the basis of the Supervisory Board's Rules of Procedure
Executive Board	• Overall responsibility for Group-wide risk management • Responsibility for the proper functioning of risk management • Definition of the risk strategy
Risk Committee	• Operational risk management, monitoring and coordinating body • Implementation and safeguarding of a consistent Group-wide risk management culture
Chief Risk Officer	• Responsibility for holistic risk monitoring across the Group as a whole and the business groups (systematic identification and assessment, control/monitoring and reporting) of all material risks from the Group perspective (technical risks in life/health and non-life reinsurance, market risks, credit risks, operational risks and other risks)
Group Risk Management	• Risk monitoring across the Group as a whole and the business groups of all material risks from the company perspective • Methodological expertise in the development of processes and methods for risk analysis, assessment and management as well as for risk limitation and reporting
Business units [1]	• Risk steering; primary responsibility for risk identification and assessment on the departmental level based on the guidelines of Group Risk Management • Setting up and monitoring of the department's internal control system (ICS)
Internal Auditing	• Process-independent and Group-wide supervision on behalf of the Executive Board

[1] Treaty/regional departments and service departments in the non-life and life and health reinsurance business groups as well as the investments sector

Quantitative and qualitative risk management methods

The qualitative and quantitative elements of our risk management are of crucial importance overall. In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources.

Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. In this context, the internal capital model is our central tool. The internal capital model of Hannover Re is a stochastic enterprise model. Based on predefined probability distributions, a large number of scenarios are generated for technical risks, counterparty defaults, capital market conditions and other business events and their effect on the company's financial situation is determined. The central variable in risk and enterprise management is the economic capital, which is calculated according to market-consistent measurement principles and in many respects corresponds to the business valuation likely to be adopted in future under Solvency II. The internal capital model encompasses all quantifiable risks and splits them into technical risks, market risks, credit risks and operational risks. These risks are carried over to Hannover Re's risk map and further broken down, e. g. into interest rate risks, catastrophe risks and reserving risks. Dependencies exist between these risks, which Hannover Re takes into account in order to adequately establish its target capitalisation. The model enables us to consistently measure and aggregate the individual risks and to analyse the interactions between risks. Last but not least, we are able to verify whether the level of available economic capital exceeds the capital required to operate the business.

Qualitative methods and practices are a fundamental element of our internal risk management and control system as well as of potential future requirements for the Own Risk and Solvency Assessment (ORSA). Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are crucial to the effectiveness of risk management as a whole. Only by giving prompt consideration to risks can the continued existence of Hannover Re be assured. The system that is in place – in common with the corporate and risk strategy – is subject to a constant cycle of planning, action, control and improvement. The Framework Guideline on Risk Management describes the existing elements of the risk management system that has been put in place. It is intended to establish homogeneous standards for risk management. The Framework Guideline defines, among other things, the major tasks, rights and responsibilities, the organisational framework conditions and the risk control process. Principles are also set out governing the evaluation of new products in light of risk considerations as well as risk reporting. Internal risk reporting safeguards systematic and timely communication within the company about all material risks. Risk reporting covers inter alia the defined limits and thresholds, key ratios, expert assessments and a summary presentation of the risk situation. The regular quarterly reporting is supplemented as necessary by immediate internal reporting on material risks and limit oversteps that emerge suddenly. The criteria for this reporting are also specified in the Framework Guideline on Risk Management. Within the central system of limits and thresholds for the material risks, key ratios have been specified for steering and monitoring. Risk steering and monitoring is operationalised through the specification of suitable limits and thresholds for quantitatively measurable material risks. Material risks that cannot be quantified or are difficult to quantify (such as reputational risks) are primarily steered using appropriate processes and practices and are monitored with the aid of qualitative measurement methods, such as expert assessments.

Internal control system

Another key element of the overall system is the Framework Guideline on the Internal Control System (ICS). The purpose of this set of rules is to systematically steer and monitor the execution of our corporate strategy. We therefore always organise our business activities in such a way that they are in conformity with all legal requirements. In accordance with these principles, the Framework Guideline puts in place a consistent understanding of controls as well as a uniform procedure and standards for implementation of the ICS across all organisational units. The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it forms the basis for the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures and controls within the enterprise. It serves, inter alia, to safeguard compliance with guidelines and to reduce risks in the interests of secure execution of corporate strategy. This includes, among other things:

- documentation of the controls within processes, especially in accounting,
- principle of dual control,
- separation of functions and
- technical plausibility checks and access privileges within the IT systems.

In the area of accounting and financial reporting, processes with integrated controls ensure the completeness and accuracy of the financial statement. This ensures that we can identify and minimise the risk of material errors in the financial statement at an early stage. Given that our financial reporting is heavily dependent on IT systems, these systems also need to be subject to controls, e.g. by way of authorisation concepts regulating system access.

Risk landscape of Hannover Re

The risk landscape of Hannover Re encompasses:

- technical risks in non-life and life and health reinsurance,
- market risks,
- credit risks,
- operational risks and
- other risks.

The specific risk characteristics and the principal monitoring and management mechanisms are described in the following sections.

Technical risks in non-life reinsurance

Risk management in non-life reinsurance is geared to the following strategic objectives:

- We maximise our risk capacities in accordance with the parameters of the risk management system and make limited use of retrocessions to reduce volatility and conserve capital.
- We steer the acceptance of risks systematically through our underwriting guidelines. We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers.
- We impose the highest requirements on the processing of product-related data. Excellent data quality, security and integrity are the key hallmarks of our service processes.
- Given that the establishment of inadequate reserves constitutes our greatest risk, we take care to maintain a conservative reserving level.

We make a fundamental distinction between risks that result from business operations of past years (reserving risk) and those stemming from activities in the current or future years (price/premium risk). In the latter case, special importance attaches to the catastrophe risk.

As mentioned above, a significant technical risk is the reserving risk, i.e. the risk of under-reserving losses and the associated strain on the underwriting result. In order to counter this risk we calculate our loss reserves based on our own actuarial estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the IBNR reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on this reserve. The IBNR reserve is calculated on a differentiated basis according to risk categories and regions.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the risks resulting from natural hazards is rounded out by realistic extreme loss scenarios. Within the scope of this process, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. As part of our holistic approach to risk management across business groups, we take into account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action. For the purposes of risk limitation, maximum amounts are also stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by Group Risk Management. The Risk Committee, Executive Board and Non-Life Executive Committee are kept regularly updated on the degree of capacity utilisation.

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components. In addition, Hannover Re's regional and treaty departments prepare regular reports on the progress of their respective renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets. The combined ratio is an important indicator when considering the profitability of reinsurance business.

Development of combined and catastrophe loss ratio

in %	Q1–3 2013	2012	2011	2010	2009	2008	2007	2006	2005[1]	2004[1]	2003[1,2]
Combined ratio (non-life reinsurance)	95.0	95.8	104.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2	96.0
Thereof catastrophe losses[3]	8.8	7.0	16.5	12.3	4.6	10.7	6.3	2.3	26.3	8.3	1.5

1 Including financial reinsurance and specialty insurance
2 Based on US GAAP figures
3 Hannover Re Group's net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)

Technical risks in life and health reinsurance

Risk management in life and health reinsurance is geared to the following strategic objectives:

- In order to be able to reliably meet future expectations arising out of our long-term customer relationships, we strive for a balanced mix of risks. Our risk management is concentrated on material risks, although we give consideration to all risks according to their significance.
- We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers. In our decentralised organisation we manage risks where they arise using a consistent approach in order to obtain an overall view of the risks in life and health reinsurance. Our underwriting guidelines provide underwriters with an appropriate framework for this purpose.

All risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance. Counterparty, lapse and catastrophe risks are also material since we additionally prefinance our cedants' new business acquisition costs.

As in non-life reinsurance, the reserves are essentially calculated according to information provided by our clients and are also determined on the basis of secure biometric actuarial bases. Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of portfolios.

The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of our contracts. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries. The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. The Market Consistent Embedded Value is established on the basis of the principles of the CFO Forum published in October 2009. We published the MCEV for the 2012 financial year on our Internet website at the same time as the report on the first quarter of 2013.

Market risks

We pursue an investment policy in which the primary emphasis is on the stability of the generated return. With this in mind, our portfolio is guided by the principles of broad diversification and a balanced risk/return ratio. The most significant market price risks are share price, interest rate and currency risks.

The short-term loss probability measured as the "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated on the basis of historical data, e.g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR determined in accordance with these principles specifies the decrease in the fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. A multi-factor model is used to calculate the VaR indicators. It is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All asset positions are mapped on the level of individual positions within the multi-factor model; residual risks (e.g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated into the overall calculation. Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events.

Scenarios for changes in the fair value of material asset classes

in EUR million	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices -10%	-3.1	-3.1
	Share prices -20%	-6.1	-6.1
	Share prices +10%	+3.1	+3.1
	Share prices +20%	+6.1	+6.1
Fixed-income securities	Yield increase +50 basis points	-636.8	-503.0
	Yield increase +100 basis points	-1,244.8	-982.9
	Yield decrease -50 basis points	+659.2	+519.6
	Yield decrease -100 basis points	+1,346.0	+1,061.2

Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM). Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives held in the portfolio. We have made such new investments only on a very modest scale as part of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. We spread the risks through systematic diversification.

The portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio.

The credit spread risk should also be mentioned. The credit spread refers to the interest rate differential between a risk-entailing bond and risk-free bond of the same quality. Changes in these risk premiums, which are observable on the market, result – analogously to changes in pure market yields – in changes in the fair values of the corresponding securities.

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. We reduce this risk through extensive matching of currency distributions on the assets and liabilities side. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency coverage in light of relevant collateral conditions – such as different accounting requirements – by regrouping assets. Remaining currency surpluses are systematically quantified and monitored.

Real estate risks result from the possibility of unfavourable changes in the value of real estate held either directly or through fund units. They may be caused by a deterioration in particular qualities of a property or by a general downslide in market values (such as the US real estate crash). Real estate risks continued to grow in importance for our portfolio owing to our continuous involvement in this sector. We spread these risks through broadly diversified investments in high-quality markets of Germany, Europe as a whole and the United States. We use derivative financial instruments only to a very limited extent. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. In 2012 we took out inflation swaps to hedge part of the inflation risks associated with the loss reserves in our technical account. In addition, as in the previous year, a modest portion of our cash flows from the insurance business was hedged using forward exchange transactions. Currency risks were also hedged using FX forwards in cases where currency matching could not be efficiently established.

The contracts are concluded with reliable counterparties and for the most part collateralised on a daily basis so as to avoid credit risks associated with the use of such transactions. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines.

Credit risks

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment.

Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker. We minimise these risks, inter alia, by reviewing all broker relationships with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. This process is supported by a Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business. Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A. M. Best but also internal and external expert assessments (e.g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e.g. following a catastrophe loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Alongside traditional retrocessions in non-life reinsurance we also transfer risks to the capital market. Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

In terms of the Hannover Re Group's major companies, EUR 283.6 million (9.0%) of our accounts receivable from reinsurance business totalling EUR 3,159.5 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.08%.

Credit risks from investments may arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual instruments depending on their effect in each case. We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level. In order to limit the risk of counterparty default we define various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management.

Rating structure of our fixed-income securities [1]

Rating classes	Government bonds		Securities issued by semi-governmental entities [2]		Corporate bonds		Covered bonds/ asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	24.4	1,493.0	54.9	3,715.3	1.6	164.9	63.4	3,163.4
AA	60.4	3,687.8	41.8	2,823.8	14.5	1,530.7	14.9	742.9
A	9.2	561.1	2.5	165.7	48.6	5,112.3	9.5	471.9
BBB	4.9	298.0	0.6	38.5	28.9	3,044.9	7.8	388.9
< BBB	1.1	67.6	0.2	11.8	6.4	671.5	4.4	218.3
Total	**100.0**	**6,107.5**	**100.0**	**6,755.1**	**100.0**	**10,524.3**	**100.0**	**4,985.5**

[1] Securities held through investment funds are recognised pro rata with their corresponding individual ratings
[2] Including government-guaranteed corporate bonds

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 112.3 million on a fair value basis. This corresponds to a proportion of 0.3%. The individual countries account for the following shares: Italy EUR 64.9 million, Spain EUR 27.4 million and Portugal EUR 19.9 million. No impairments had to be taken on these holdings. Our portfolio does not contain any Irish government bonds; nor do we hold any bonds of Greek or Cypriot issuers. The breakdown into individual countries and specific exposures is shown in the following table.

Fair values

in EUR million	Government bonds[1]	Securities issued by semi-governmental entities	Corporate bonds		Covered bonds/ asset-backed securities	Total
			Financial bonds	Industrial bonds		
Greece	–	–	–	–	–	–
Ireland	–	–	5.6	20.9	83.1	109.6
Italy	64.9	–	73.0	114.8	153.7	406.4
Portugal	19.9	–	–	0.7	8.2	28.9
Spain	22.2	5.2	46.6	91.2	158.5	323.7
Total	**107.1**	**5.2**	**125.3**	**227.6**	**403.4**	**868.5**

[1] Including government-guaranteed corporate bonds (risk-oriented approach)

On a fair value basis EUR 3,397.5 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,895.6 million was attributable to banks. The vast majority of these bank bonds (70.9%) are rated "A" or better. Our investment portfolio under own management does not contain any written or issued credit default swaps.

Operational risks

Operational risks refer to the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. Operational risks are monitored primarily by way of appropriate process management. These risk potentials are evaluated inter alia on the basis of expert assessments and by means of scenario analyses. Such evaluations enable us to prioritise operational risks. When it comes to the monitoring of these risks, we attach special emphasis to the following individual risks.

Business process risks are associated with the risk of inadequate or deficient internal processes, e.g. as a consequence of poor data quality. Data quality is a critical success factor, especially in risk management, because all enterprise processes are based on the information made available. The overriding goal of our data quality management is to bring about sustainable improvement and to safeguard data quality, for example by way of regular data quality checks. In addition, as part of our process management, overarching and company-wide processes are continuously optimised and standardised.

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for business activities (e.g. tax, antitrust, embargo, data privacy or regulatory law). Upon suspicion of breaches of the law, our employees and business partners are able to report such suspicions anonymously using our electronic whistleblower system, which can be accessed through our website. These tips are brought to the attention of the Compliance Office, which is thus able to investigate the grounds for suspicion. Responsibilities within the compliance organisation are regulated and documented in a manual. The process is documented in regular compliance reports and complemented by training activities.

We transact primary insurance business that complements our reinsurance activities in selected market niches. In so doing, just as on the reinsurance side, we always work together with partners from the primary sector – such as insurance brokers and underwriting agencies. This gives rise to risks associated with such sales channels, although these are minimised through the careful selection of agencies, mandatory underwriting guidelines and regular checks.

Fraud risks refer to the risk of intentional violations of laws or regulations by members of staff (internal fraud) and/or by externals (external fraud). This risk is reduced by the process-integrated internal control system as well as by the audits conducted by Internal Auditing on a line-independent basis.

The proper functioning and competitiveness of Hannover Re can be attributed in large measure to the expertise and dedication of our staff. In order to minimise personnel risks, we pay special attention to the skills, experience and motivation of our employees and foster these qualities through outstanding personnel development and leadership activities. Regular employee surveys, the monitoring of turnover rates and the holding of exit interviews ensure that such risks are identified at an early stage and scope to take the necessary actions is created.

Information technology risks and information security risks arise, inter alia, out of the risk of the inadequate integrity, confidentiality or availability of systems and information. Losses and damage caused by unauthorised access to IT systems or by computer viruses, for example, pose a serious threat to Hannover Re. Given the broad spectrum of such risks, a diverse range of steering and monitoring measures and organisational standards have been put in place. Among other things, our employees are made more conscious of such security risks through practically oriented tools and training opportunities, e.g. with regard to the handling of personal data.

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the basic framework conditions and – among other measures – we have assembled a crisis team to serve as a temporary body in the event of an emergency. The system is complemented by regular exercises and tests. The partial or complete outsourcing of functions and/or services may give rise to associated risks. Regulatory and binding internal rules serve to minimise such risks. All risks associated with any instance of outsourcing must be identified, evaluated (e.g. by way of a performance assessment) and appropriately steered and controlled.

Other risks

Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks, reputational risks and liquidity risks.

The hallmark of emerging risks is that the content of such risks cannot as yet be reliably assessed – especially on the underwriting side with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management.

Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used in order to pinpoint any necessary measures (e.g. the implementation of contractual exclusions or the development of new reinsurance products). By way of example, the risks arising out of the emergence of large cities and urban conurbations – so-called megacities – are analysed by this working group. The growth of such urban centres goes hand-in-hand with a host of different problems, including a growing demand for food, drinking water, energy and living space. These challenges may also have implications for our treaty portfolio – in the form not only of risks but also opportunities, e.g. through increased demand for reinsurance products. Climate change, nanotechnology, political unrest, amendments to laws and changes in regulatory requirements as well as pandemics may be cited as examples of other emerging risks.

Strategic risks derive from a possible imbalance between the corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets. With the "Strategy Cockpit" the Executive Board and responsible managers have at their disposal a strategy tool that assists them with the planning, elaboration and management of strategic objectives and measures and safeguards their overall perspective on the company and its strategic risks.

Reputational risks refer to the risk that the trust put in our company by clients, shareholders, employees or the public at large may be damaged. This risk has the potential to jeopardise the business foundation of the company. A good corporate reputation is therefore an indispensable prerequisite for our core business as a reinsurer. Loss of reputation may occur, for example, as a consequence of a data mishap or a case of fraud. We use a number of different practices to minimise this risk, including for example our set communication channels, a professional approach to corporate communications, tried and tested processes for defined crisis scenarios as well as our established Code of Conduct. Our rules governing the use of social networks (social media) as well as the principles defined in our sustainability strategy for conducting business in a responsible and sustainable manner round off this set of tools.

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i.e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments. Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – even in times of financial stress. In addition, we manage the liquidity of the portfolio through ongoing monitoring of the liquidity of the instruments contained therein; liquidity is verified on a monthly and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Assessment of the risk situation

The above remarks describe the diverse risk universe within which Hannover Re operates as well as the steps taken to manage and monitor these risks. Individual and especially accumulation risks can potentially have a significant impact on our assets, financial position and net income. Yet consideration solely of the risk aspect does not fit our conception of risk, since it is always the case that we only enter into those risks that go hand-in-hand with opportunities. Our management and monitoring tools as well as our organisational and operational structures ensure that we are able to identify risks in a timely manner and maximise our opportunities. The pivotal element in this regard is our effective system of qualitative and quantitative risk management. We are of the opinion that our risk management system affords us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate. Based on our currently available insights arrived at from a holistic analysis of the risk situation, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a material and lasting effect on our assets, financial position or net income. For additional information on the opportunities and risks associated with our business please see the Group Annual Report 2012.

Outlook

In view of the available market opportunities, our good positioning and the development of business to date, we expect to achieve our goals for the full 2013 financial year. It remains our expectation that total gross premium will grow by around 5%.

In non-life reinsurance we expect the competitive environment to continue, in some areas with corresponding implications for conditions in reinsurance treaties. Nevertheless, the market should still be able to respond to losses with rate increases. With this in mind, we shall stand by our strategy of systematic cycle management combined with rigorous underwriting discipline.

At the same time, though, we see further attractive growth opportunities in non-life reinsurance. Increasing concentrations of values in urban conurbations as well as the adoption of risk-based solvency systems in Europe and Asia are ensuring stable demand for high-quality reinsurance protection. We therefore expect to see risk-appropriate conditions in the upcoming rounds of treaty renewals. The early indications that we took away from the industry gatherings in Monte Carlo, Baden-Baden and the United States, where initial discussions took place regarding the treaty renewals as at 1 January 2014, were correspondingly positive. In Germany, for example, we anticipate rising prices and improved conditions on the back of the accumulation of natural catastrophe events.

For the full 2013 financial year we are looking to grow our gross premium in non-life reinsurance by around 3% at constant exchange rates; the EBIT margin should come in comfortably higher than 10%.

Future developments in international life and health reinsurance will be crucially shaped by progress with the implementation of Solvency II, movements in interest rates around the world and economic growth. Assuming that there is no dramatic shift in the prevailing economic and political circumstances, we expect the remaining three months of the year to offer further promising business potential worldwide. Growing risk awareness and an expanding middle class in emerging markets are fostering rising demand for (re)insurance protection, especially for retirement provision and products designed to protect income and safeguard the financial future of the family. In mature insurance markets such as the United States, Scandinavia, United Kingdom, France and Germany, supervisory and regulatory requirements in the financial sector are driving constant changes. We support our primary insurance clients with tailored reinsurance solutions designed, inter alia, to afford solvency relief, optimise liquidity management and facilitate the more efficient leverage of their capital structure. We have the necessary expertise, know-how and resources, and with our international network we are able to respond to the individual needs of our clients anywhere in the world at any time.

The growth in organic gross premium anticipated for the remainder of 2013 remains unchanged in the range of 5% to 7% after adjustment for exchange rate effects. In terms of the EBIT margin, we are looking to a target of at least 2% in the fourth quarter for the reporting categories of Financial Solutions and Longevity, while an EBIT margin in the order of 6% should be attainable for Mortality and Morbidity business.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates and yield levels – lead to further growth in our asset portfolio. In the area of fixed-income securities we continue to stress the high quality and diversification of our portfolio. With a view to stabilising the return in a stubbornly low interest rate environment we shall maintain the proportion of corporate bonds and further slightly expand our real estate portfolio. We are targeting a return on investment of 3.4% for 2013.

In view of the good overall business conditions in non-life and life / health reinsurance and bearing in mind our strategic orientation, we continue to anticipate Group net income in the order of EUR 800 million for 2013. This is subject to the premise that major losses do not significantly exceed the expected level of EUR 625 million for the full year and also assumes that there are no drastic downturns on capital markets. For 2013, as in recent years, we are again aiming for a dividend payout in the range of 35% to 40% of IFRS Group net income.