Extending our risk intelligence

We address sustainability, political, regulatory and emerging risks in our core business transactions. To do so, we have developed specific tools and know-how.

Sustainability risks
We define sustainability risks as ethical concerns related to potential environmental and socio-economic impacts of our business transactions, and the reputational risks they may entail.

Risk management is at the core of Swiss Re's business model. Controlled risk taking requires a strong risk culture across the organisation, strengthened by comprehensive risk management processes to identify, assess and control the Group's and the Business Units' risk exposures. The core categories of our risk landscape comprise insurance, financial market and credit risks (see 2014 Financial Report, pages 62–68).

Sound risk management is essential for a re/insurer: Tight control of our exposures guarantees that we can be a reliable partner to our clients when they need us. There is an additional dimension to risk management, though: As a responsible company, we need to pay attention to further, non-standard risks we may be exposed to, especially in the longer term.

Sustainability, political, regulatory and emerging risks are particularly relevant in this respect. We have developed instruments and know-how that help us to identify and assess all of them. This allows us to determine those risks we think should be avoided – because of their loss potential, for ethical reasons, or both.

This extended risk awareness is also key to managing our assets responsibly. The risk assessments we make through our Sustainability Risk Framework, in particular, flow directly into our investment decisions.

Our Sustainability Risk Framework

In a market environment, profitable business activities create economic value. Occasionally, however, they may also adversely affect the environment and certain vulnerable groups. If such impacts are ignored, they may pose a threat to societies' long-term sustainable development.

For companies, this situation can cause dilemmas: A specific business transaction may be economically beneficial and perfectly fine from a legal perspective, yet may have significant environmental and social downsides. At Swiss Re, we believe it is important to recognise the existence of such dilemmas and to develop effective responses. Doing so requires a well-defined approach and the willingness to make decisions based on ethical principles.

For more information see
swissre.com/corporate_responsibility/managing_env_risks.html

Dams are an important source of renewable energy, but can potentially also have impacts on the environment and local communities. In our Sustainability Risk Framework we have a policy that specifies the risks we examine before underwriting dam projects.

Our Sustainability Risk Framework is an advanced risk management instrument that has been specifically designed to identify and address such "sustainability risks" in our core business. It is applicable to all of our business transactions, ie re/insurance as well as investments, to the extent that we can influence their various aspects.

The Sustainability Risk Framework consists of:

- Eight policies on sensitive sectors or issues;
- The Sensitive Business Risks (SBR) process – a due diligence tool for assessing individual business transactions;
- Company exclusions;
- Country exclusions beyond mere compliance with international trade controls.

Policies

Currently, the framework comprises policies on eight sectors and issues where we perceive major sustainability risks: the defence industry, oil and gas (including oil sands), mining, dams, animal testing, forestry and logging, nuclear weapons proliferation, plus an overarching human rights and environmental protection policy.

We regularly review these policies to ensure they reflect new developments. In 2013, for example, we made important amendments to our policies covering the defence industry, nuclear weapons proliferation, oil and gas, and forestry and logging. Further details were presented in the 2013 Corporate Responsibility Report.

The key concerns addressed by the eight policies of our Sustainability Risk Framework are listed on the right:

Main concerns in critical sectors

Defence industry
- Particularly cruel weapons that inflict indiscriminate harm to humans and the environment, often after a conflict has ended;
- The provision of certain services by private security companies.

Oil and gas
- Human rights abuses;
- Significant adverse environmental or social impacts, particularly where critical natural habitats, vulnerable groups and/or critical cultural heritages are impacted.

Mining
- Human rights abuses;
- Significant adverse environmental or social impacts, particularly where critical natural habitats, vulnerable groups and/or critical cultural heritages are impacted;
- Poor occupational health & safety record and risk of increasing HIV penetration.

Dams
- Human rights abuses;
- Significant adverse environmental or social impacts, particularly where critical natural habitats, vulnerable groups and/or critical cultural heritages are impacted;
- Non-involvement of relevant stakeholders;
- Non-involvement of affected neighbouring states.

Animal testing
- Unethical and inhumane treatment of animals.

Forestry and logging
- Illegal logging;
- Significant adverse environmental or social impacts, particularly where critical natural habitats, vulnerable groups and/or critical cultural heritages are impacted.

Nuclear weapons proliferation
- Activities associated with nuclear energy or similar in countries that are outside the established framework and international regime of global non-proliferation efforts.

Human rights and environmental protection
- Human rights violations and abuses such as murder, torture, deprivation of liberty, forced labour or harmful child labour;
- Countries that lack an operational, effective and internationally recognised government;
- Companies that are causing ongoing, severe and unmitigated damage to the environment, flora and fauna of a particular place and biodiversity in general, especially in industries and activities that have had a problematic track record in this area in the past.

For more information see
swissre.com/corporate_responsibility/sensitive_risks_process.html

The Sensitive Business Risks process

Each of the eight policies of our Sustainability Risk Framework contains criteria which define precisely when our underwriters and client managers need to refer a transaction to the Sensitive Business Risks (SBR) process. In such a case, our sustainability and other experts carry out a due diligence assessment: they carefully analyse the benefits and downsides of the transaction at hand and decide whether it is acceptable on ethical grounds.

This decision takes the form of a recommendation either to go ahead with the transaction, to go ahead with certain conditions attached or to abstain from it. If there is disagreement about the recommendation, the case can be escalated to the next management level.

The decisions we take as part of the Sustainability Risk Framework are based on internationally recognised ethical principles. Swiss Re is a signatory to the UN Global Compact, which derives its human rights principles from the Universal Declaration of Human Rights, its labour principles from the ILO Declaration on Fundamental Principles and Rights at Work, its environment principles from the Rio Declaration on Environment and Development and its anti-corruption principles from the United Nations Convention against Corruption.

This web of ethical principles helps us to make decisions that are aligned with universal fundamental rights. However, for decisions in a business context this is not sufficient. Further aspects that need to be considered are the social and economic implications of our decisions in their respective cultural contexts. Last but not least, we need to take into account the implications for our business. Balancing these different aspects requires the careful and consistent assessment of transactions and their local effects, often in collaboration and dialogue with external experts and local stakeholders.

Thus our decisions are neither subjective nor entirely objective. In essence, they reflect our recognition of global fundamental rights, of human suffering and our commitment to limiting unwanted negative impacts of our business transactions.

Company exclusions

The policies of our Sustainability Risk Framework specify certain criteria that may lead to the exclusion of a company from both our re/insurance transactions and our investments, to the extent that such an exclusion is permissible (eg by virtue of mandatory law or internal policies) and possible (eg if existing documentation relating to such re/insurance transactions and investments provide for it). These criteria include: involvement in prohibited war material; verifiable complicity in systematic, repeated and severe human rights violations; infliction of repeated, severe and unmitigated damage to the environment; and unregulated proliferation of nuclear weapons.

Country exclusions

Swiss Re also excludes certain countries from its business, beyond compliance with international trade controls (ITCs). The criteria for these country exclusions are a particularly poor human rights record and no prospect of improvement. Our goal is not to directly underwrite risks or make investments in entities that are based in these countries. At the end of 2014, the countries excluded from our business due to human rights reasons and political risks were North Korea, Somalia, Sudan (North only) and Syria. In the case of Myanmar, Sensitive Business Risk referrals are mandatory.

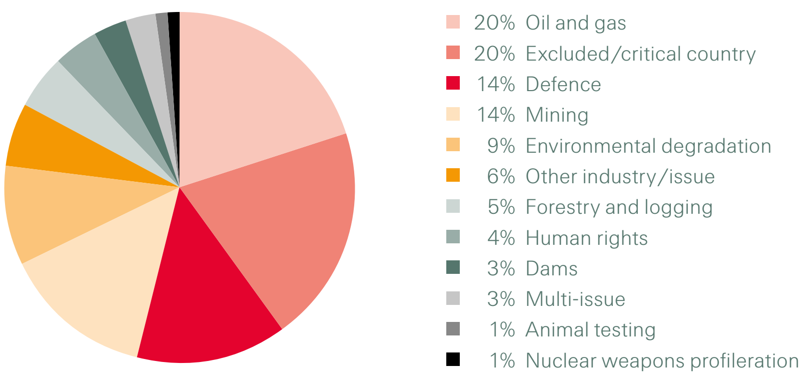
Growth and strengthening of the framework

In 2014, the number of transactions referred to the SBR process rose to 454, more than double the number of the previous year. We issued negative recommendations in 43 cases and positive recommendations with conditions in 60 cases.

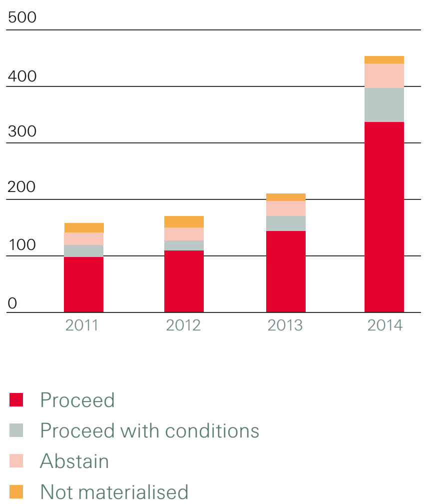
454

Total number of business transactions referred to the Sensitive Business Risks process in 2014
(210 in 2013)

Sensitive Business Risk referrals 2014



Number of Sensitive Business Risk referrals



This strong increase was due to a combination of factors: our continued expansion in high growth markets, where regulation tends to be less stringent, and our continuing efforts to raise awareness of sustainability risks and to provide appropriate training to our underwriting community (see section below).

In view of the steady rise in the number of SBRs, we wanted to establish the approximate percentage of all potentially sensitive transactions that are currently referred to the SBR process. Therefore, we screened all of our business transactions according to four "sensitivity" parameters: countries, country/industry combinations, companies and individual projects. We found that, according to these criteria, around 3 700 of the business transactions we completed in 2014 (in both our Reinsurance and Corporate Solutions Business Units) had to be considered to contain at least some degree of sustainability risk.

Given the total of 454 SBR referrals in 2014, this means that around 12% of all our potentially sensitive transactions were centrally assessed by the sustainability management team at our headquarters. The remaining transactions were examined locally by the responsible business teams, based on the eight policies of our Sustainability Risk Framework.

Creation of an SBR expert network

In response to the steady rise in SBR referrals across all geographical areas, in 2014 we decided to strengthen the Sustainability Risk Framework at our locations by setting up an SBR expert network to provide permanent points of contact. These experts from Risk Management will act as interfaces between the headquarter-based Sustainability Management team and our local underwriting teams. Their responsibilities include awareness raising, organising trainings, facilitating SBR assessments and maintaining contact with regional stakeholders.

Independent internal reviews

In 2014, we started to formally cooperate with our internal Business Risk Review (BRR) unit. A BRR is an independent quality assessment of underwriting and costing activities to review the quality of the technical work carried out and the decisions made, including checking whether mandatory underwriting standards have been adhered to.

During a BRR, our underwriting teams are now automatically asked a number of specific questions about their potential exposure to sustainability risks. The results and recommendations for improvement are reported to the Sustainability Management team, which can then take appropriate action if it detects potential problem areas.

Training

Since we introduced our Sustainability Risk Framework in 2009, we have made considerable efforts to raise awareness of sustainability issues among our underwriters and client managers, and to ensure that they know how to properly apply the framework. Recently, we have focused in particular on high growth markets where we want to expand our business.

In 2014, 306 employees completed our eLearning course on the Sustainability Risk Framework. For 278 new joiners who work in underwriting and with our clients, this training was mandatory.

In addition, we provided training personally or via web-based conference to 115 experienced underwriters and graduates, and gave 16 presentations on the Sustainability Risk Framework, which were attended by 382 people. Through all our personally delivered training and outreach activities, we reached a total of 606 employees in 2014.

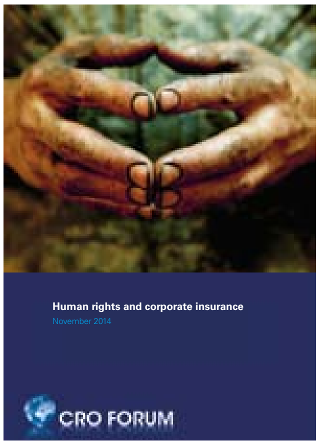
Client and industry interaction

Efforts to address environmental and social risks are obviously more effective when many companies join forces. This is why we seek to further promote sustainability risk management within the re/insurance industry.

We take an active role in several industry organisations that promote sustainable business practices. One of them is the Chief Risk Officer (CRO) Forum (www.thecroforum.org). In 2014, we helped produce its publication on "Human rights and corporate insurance", the fifth in its series on managing environmental, social and governance (ESG) challenges in business transactions.

Human rights and corporate insurance

The purpose of this paper by the CRO Forum is to build an understanding of why the insurance industry has to bring respect for human rights into its risk management framework and how it can address human rights issues in its business relationships with other corporations.



We were also strongly involved in the development of the Principles for Sustainable Insurance (PSI) by the UN Environment Programme Finance Initiative, UN EPFI (www.unepfi.org/psi). We were one of the initiative's original signatories and currently hold its co-chair. Launched in 2012, the PSI address environmental, social and governance issues in the re/insurance industry, spanning risk management, underwriting, product and service development, claims management, sales and marketing, and investment management. Our Public Disclosure of Progress for 2014 is included in this report on page 74.

As the PSI's co-chair in 2014, we contributed to the implementation of its global strategy and work programme for 2014 to 2016, which spans key projects and activities across environmental, social and governance issues. The PSI have witnessed strong growth since their launch in June 2012: In 2014, four more companies joined the initiative, with combined gross premiums of approximately USD 192 billion and USD 3 trillion of assets under management. Thus, there were a total of 43 PSI signatories at the end of 2014, representing approximately USD 766 billion in gross premiums (approximately 17% of the world total) and USD 14 trillion in assets under management.

Political risks

In today's increasingly integrated world we need to be aware of political developments, actions and decisions that can have an adverse impact on our business. Within the Group's risk management organisation, we have a team of specialists who look at a wide range of both commerce- and security-related political risks at global, country and business transaction levels.

These specialists identify, assess and monitor political risks on an ongoing basis, so we understand their implications and can initiate appropriate mitigation measures if required. Particular attention is paid to developments in high growth markets as well as to cross-border issues such as terrorism, energy, multi-national institutions or international trade.

Our knowledge of political risks is also highly relevant for ensuring sustainable business operations in line with environmental, social and governance (ESG) principles: Several of the sectors and issues covered by the eight policies of our Sustainability Risk Framework (see pages 22–27) have a significant political dimension. Implementing these policies, both through SBR assessments and exclusion policies, thus requires a clear understanding of political risks. This is particularly true with regard to human rights violations, the proliferation of armaments into conflict areas or the identification of areas prone to civil unrest.

Furthermore, we seek to raise awareness of political risk within the re/insurance industry and among the broader public, and actively engage in dialogue with clients and other stakeholders. We also distil our ongoing assessments of political risks into several political and sustainability risk ratings at country level, which support our underwriting and investment decisions.

Regulatory risks

Regulatory risks represent the potential impact of changes in the regulatory and supervisory regimes of the countries in which we operate. In 2014, the global regulatory agenda continued to accelerate. Governments and regulators rolled out new policies and conducted numerous consultations and field tests on regulations with a direct impact on the re/insurance sector. Many reform proposals reflect the financial supervision agenda set by the G20, which includes a focus on internationally active re/insurance groups and global systemically important re/insurers.

Swiss Re remained engaged in the regulatory debate throughout 2014, supporting regulatory convergence as well as increased application of economic and risk-based principles. At the same time, we strive to mitigate developments that may adversely affect the re/insurance industry's ability to foster financial and economic stability.

For example, we share the broad concerns of the re/insurance industry regarding the cumulative and cross-sectoral impacts of some of the proposed reforms. Regulatory fragmentation is a key issue, particularly in the context of protectionist measures introduced in some growth markets. Moreover, the introduction of Solvency II in Europe has not fully achieved the goal of regulatory harmonisation.

We also share concerns that the design and implementation of regulatory reforms may increase procyclicality, which could exacerbate the effects of short-term market volatility. In 2014, we participated in consultations with the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the Organisation for Economic Co-operation (OECD), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission on the implications of regulatory reforms, in particular on long-term investments, for example in infrastructure.

Climate change
In view of the strategic importance climate change has for our core business, we closely monitor regulatory developments in this area. Awareness of the topic by governments and regulators has continued to build, leading to an increase in climate-related reporting requirements. In 2014, the regulators of eight US states mandated that insurers domiciled or licensed in those states with USD 100 million or more in direct written premiums must complete a survey on climate change risks. Meanwhile, the UK government has recently introduced new regulations that have required quoted companies to disclose their greenhouse gas emissions in their annual reports from the fourth quarter of 2013.

Emerging risks
We define emerging risks as newly developing or changing risks that are difficult to quantify and whose potential impact on our business is not yet sufficiently taken into account.

Emerging risks

The risk landscape in which re/insurers operate is changing faster today than ever before. New economic, technological, socio-political, regulatory and environmental developments all have the power to change risks or create new ones. Moreover, growing inter-dependencies between these developments can lead to accumulations of risk and create significant knock-on effects. The general business environment is undergoing significant changes, as well: liability and regulatory regimes continue to evolve, stakeholder expectations are strengthening and people's risk perceptions are shifting.

This complex landscape gives rise to "emerging risks": newly developing or changing risks that are difficult to quantify and whose potential impact on our business is not yet sufficiently taken into account.

Detecting and investigating such risks early on forms an important element of our comprehensive approach to risk management. Our aim is to reduce uncertainty and prevent unforeseen losses, while identifying new business opportunities and raising awareness within the Group and across the industry. Therefore, we try to understand how risks are changing, assess their impact and seek to recognise potential links between them.

Our SONAR framework
With SONAR ("systematic observation of notions associated with risk"), we have a Group-wide framework which has been specifically designed to manage emerging risks. Firmly embedded in the Group's risk management organisation, SONAR allows us to identify and assess these risks in a timely manner and to factor them into our decisions.

SONAR uses an interactive, web 2.0-based platform, which enables all our employees to share risk notions quickly and easily and to stay up-to-date on new developments. In 2014, 127 risk notions and discussions were fed into the SONAR process, drawing on all main areas of the emerging risk landscape. While many of these early signals will never actually turn into emerging risks, others may well do so. As it is impossible to anticipate which signals will fall into which category, all of them warrant equal attention.

Thus, our emerging risk specialists assessed all these risk notions for their potential impact on our business and subsequently carried out more in-depth investigations of selected topics, for example of electronic cigarettes (see page 29). To share some of our key insights with external audiences, in 2014 we published the second edition of our comprehensive Swiss Re SONAR report (see page 30).

The emerging risks we have assessed in more detail and featured in our Corporate Responsibility Reports in recent years include: electromagnetic fields, critical infrastructure, carbon nanotubes, smart grids, cyber attacks, 3D printing and new forms of mobility. Of these, infrastructure and new forms of mobility – or, more specifically, autonomous cars – have indeed emerged as significant topics for our business, creating risks as well as new opportunities. Corresponding follow-up activities are described on pages 39 and 41, respectively.

127

Total of risk notions and discussions fed into the SONAR process in 2014

For more information see
swissre.com/about_us/managing_risks/emerging_risks.html

Electronic cigarettes – curse or blessing?

Electronic cigarettes (e-cigarettes) imitate smoking by technical means without actually burning tobacco. They are battery-powered electronic devices designed to inhale vaporised liquids. These "e-liquids" are based on a solution of propylene glycol and/or glycerine, which is mixed with concentrated flavours and, optionally, with a variable amount of nicotine.

E-cigarettes were first introduced at the start of the millennium and have made inroads into the traditional tobacco smoking market at an exponential rate in recent years. The devices are mainly sold over the internet, but are also available over the counter in tobacco stores, pharmacies and supermarkets.

While the e-cigarette business is growing rapidly, knowledge about the potential health effects is lagging behind. E-cigarettes and similar devices such as e-shishas or e-pipes are commonly marketed as healthier alternatives to conventional tobacco smoking. However, the long-term effects of inhaling e-cigarette vapour are not yet fully understood. Furthermore, it is not yet clear how e-cigarettes will affect the smoking behaviour of the public: Will the dominant trend be for conventional smokers to switch to e-cigarettes, thus generally improving public health? Or will non-smokers start using e-cigarettes, with potentially adverse effects on public health?

Regulation is also lagging behind. After several years of almost completely unregulated rapid growth, the e-cigarette business will likely face more stringent regulation in the coming years, as regulators and law makers in many major markets review their positions . This can also be expected to affect the public's perception of e-cigarettes and the associated risks.

Given the high degree of uncertainty regarding health effects, consumer perception and regulation, a cautionary approach towards e-cigarettes seems justified. All related developments should be closely monitored and regularly reviewed to ensure that the underlying risk exposure is adequately assessed.

Strategic risk initiatives
Identifying and addressing emerging risks can be challenging: The novelty and interconnectedness of such developments make it difficult to determine when a particular risk notion must be considered an emerging risk. Timing is thus of crucial importance: If measures to exclude a particular risk are taken too early, we can offer our clients less insurance protection; if measures are taken too late, we may end up with increased loss potential.

Given these challenges, we believe it is essential to foster risk dialogue with various partners. By sharing perceptions and assessments, all parties can gain a better understanding of potential emerging risks. In 2014, we contributed to the following strategic initiatives:

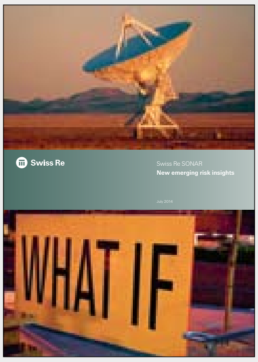
WEF Global Risks Report (GRR)
Since its first edition in 2006, Swiss Re has been a strategic partner to the GRR, the flagship publication of the World Economic Forum (WEF). In 2014, we authored an entire chapter under the heading of "Generation Lost?". It highlights the challenges facing the "millennials" against the background of high youth unemployment, rising costs of education and the burden of an ageing population.
www.swissre.com/about_us/managing_risks/Global_Risks_Report_2014.html

CRO Forum Emerging Risk Initiative (CRO ERI)
The CRO ERI was launched in 2005 to raise awareness of major emerging risks relevant to society and the re/insurance industry. In 2014, Swiss Re chaired the Emerging Risk Initiative for the second time.
www.thecroforum.org/emerging-risk-initiative-2/

International Risk Governance Council (IRGC)
The IRGC is an independent organisation whose purpose is to help understand and manage global risks that impact human health and safety, the environment, the economy and society at large.
www.irgc.org/

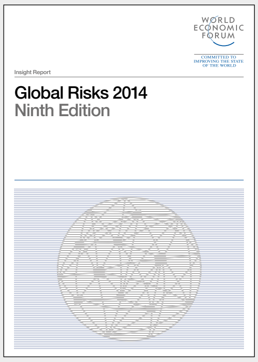
As a partner of these strategic risk initiatives, we contributed to two reports on relevant risk developments in 2014 (see below).

Swiss Re publication



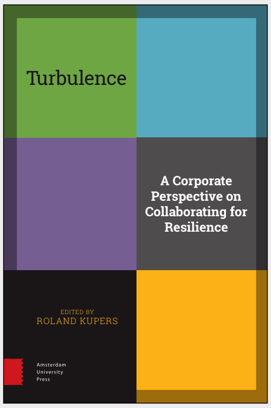
Swiss Re SONAR: New emerging risk insights
The Swiss Re SONAR report features emerging risk themes that have the potential to impact the insurance industry in the future. These topics were mainly derived from our SONAR process and were assessed by our emerging risk management experts.
media.swissre.com/documents/SONAR_2014.pdf

Publications with partner organisations



Global Risks 2014, Ninth Edition, provides a high-level overview of 31 selected global risks, based on a survey with over 700 experts from industry, government, academia and civil society around the world. It highlights how global risks are interconnected and have a systemic impact. The report aims to improve efforts by the public and the private sector to map, monitor, manage and mitigate global risks, thus helping to build resilience to them.
www3.weforum.org/docs/WEF_GlobalRisks_Report_2014.pdf

The **CRO Forum's position paper on "Pushing the limits"** deals with new dimensions in managing risks arising from large, complex and rapidly realised projects in construction, engineering, logistics, transportation and medicine. Risk management needs to keep pace with these developments to ensure that tomorrow's world remains as safe as today's.
media.swissre.com/documents/CRO_Forum_Pushing+the+limits.pdf



Turbulence: A Corporate Perspective on Collaborating for Resilience
This 188-page publication presents the tools and concepts developed by the members of the Resilience Action Initiative to foster resilience in an increasingly turbulent world. Swiss Re contributed a full chapter focusing on enterprise resilience.

The Resilience Action Initiative
In 2013 and 2014 we partnered with other large, globally active companies in the Resilience Action Initiative (RAI). The premise of the initiative was that ever-greater demands on food, water and energy systems – in the context of climate change – will make the world a much more turbulent place in future. Putting a strong focus on practical action, the Resilience Action Initiative argued that our socio-economic systems will have to become more resilient to such turbulences – and then sought to explore how multi-national companies can help to strengthen the adaptive capacity of their own operations as well as the communities they interact with and depend on.

Building on our substantial experience in helping communities to strengthen their risk resilience, our sustainability and emerging risk specialists developed a novel concept of enterprise resilience. This defines three levels of resilience:

- "structural", focusing on the company's own systemic nature;
- "integrative", emphasising the company's complex interconnections with its environment;
- "transformative", highlighting the company's ability to develop over time.

For each of these levels, the concept specifies a set of "resilience lenses", which companies can employ to assess their current resilience against potential turbulences and identify appropriate adaptation measures.

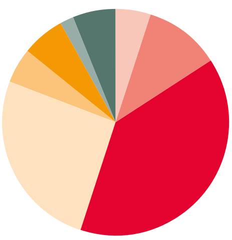
Responsible investment

Asset-liability management (ALM) is the cornerstone of our investment philosophy. Premiums generated by our underwriting activities are invested in assets whose cash flows match the durations and currencies of our re/insurance liabilities, to meet future claims and benefits. As a result, we have an overweight of higher-quality fixed income investments with stable long-term returns. At the end of 2014, such investments accounted for 72% of our total assets under management[1].

Swiss Re is committed to investing its assets responsibly through a controlled and structured investment process, which integrates environmental, social and governance (ESG) criteria. We believe that considering these factors can have a positive impact on the long-term financial performance of our investment portfolio. Thus, we apply sustainability-related risk information consistently across our entire investment portfolio.

We also remain engaged on long-term investment themes, and particularly on infrastructure as an asset class: Re/insurance companies are well suited to bridging the emerging infrastructure financing gap due to the long-term nature of their underlying business; however, the right pre-conditions have to be set. Swiss Re recognises this and contributes to ongoing policy dialogue on a global level. For instance, we recently issued a joint publication with the Institute of International Finance (IIF), "Infrastructure Investing. It matters." (see page 43) and support the World Bank's recently established Global Infrastructure Facility as an advisor (see page 39).

Investment mix
as of 31 December 2014
(Total: USD 125.4 bn; assets for own account only, excluding unit-linked and with-profit)



5%	Cash and cash equivalents
11 %	Short-term investments
39%	Government bonds incl. agency
26%	Corporate bonds
5%	Securitised products
6%	Equities*
2%	Mortgages and other loans
6%	Other

* Listed equities, hedge fund equities, private equity and Principal Investments

1 Asset classes considered consist of government bonds (incl. agency), corporate bonds, securitised products, and mortgages and other loans.

Responsible investment governance
Our asset management has a well-defined framework, which considers ESG criteria consistent with the Group Code of Conduct and commitment to sustainability. This commitment is further outlined in the Group Asset Management Responsible Investment Policy, which describes our approach and principles in relation to sustainability in the management of Swiss Re's investments, as well as the roles and responsibilities to ensure the integration of ESG considerations. This is complemented by the Swiss Re Voting Policy, which provides guiding principles that apply to all our voting activities. With this approach, we ensure a comprehensive commitment to responsible investment in our day-to-day asset management activities.

Overall responsibility for sustainable investing lies with the Group Chief Investment Officer, who is advised by the Asset Management Executive Team. Furthermore, an ESG Advisory Group, formed with representatives from all investment units and risk management, oversees and monitors the progress of our responsible investment activities.

In 2007 we signed the UN Principles for Responsible Investment (PRI) and in 2012 the Principles for Sustainable Insurance (PSI), thereby formally endorsing our commitment to corporate responsibility. The PRI and PSI are taken into account in Swiss Re's comprehensive responsible investment framework.

All PRI signatories are required to provide in-depth reporting on their responsible investment activities. The reports are available on the PRI website at www.unpri.org/areas-of-work/reporting-and-assessment/reporting-outputs/individual-2013-14/

Overarching approach
Swiss Re is a long-term investor. Therefore, it follows that we take a long-term view on the risk factors that may have an adverse impact on our investment portfolio.

At the core of our approach to tackling ESG related risks in investments is the Sustainability Risk Framework (see pages 22–27). This framework enables us to identify and analyse potential ESG risks within an investment and to ensure we are aligned with our governance structure.

The framework consists of eight policies on sensitive topics: the defence industry, oil and gas (including oil sands), mining, dams, animal testing, forestry and logging, nuclear weapons proliferation, and an overarching human rights and environmental protection policy. Each policy contains a number of predefined criteria and qualitative standards that may lead to the exclusion of a company or a country from our investment scope.

Swiss Re's Asset Management unit strictly applies these criteria to the vast majority of our investment assets, excluding companies and countries if they do not meet the predefined criteria and qualitative standards.

Specific approaches per asset class
In addition to the overarching approach described above, we have identified some key investment areas where we apply further, specific ESG criteria to cater for the different risk characteristics of responsible investment. These key investment areas include rates products, credit products, equities and real estate:

Rates products

Rates products[2] constitute the largest asset class in our investment portfolio, with a share of 55% at the end of 2014. With 39% of total assets under management, government bonds (incl. agency) are the largest holding within rates products.

At a country level, we have implemented political risk and sustainability assessments to guide on responsible investment decisions and to guarantee the quality of our government bond portfolio in this respect. Our rates products portfolio is screened against political country risk and sustainability rating considerations on a semi-annual basis. Furthermore, the rating measures are used to define investment mandates for our portfolio managers.

Political Country Risk Rating

The Political Country Risk Rating comprehensively measures the political risk in a country, which is defined as events of a political, economic or social nature that harm business operations or adversely affect the business climate. The overall country score is derived from multiple external and internal data sets and Swiss Re's expert assessment.

Sustainability Rating

The Sustainability Rating, a derivative of the Political Country Risk Rating, measures the overall social, environmental and human rights situation in a country, and supports Swiss Re's alignment with relevant United Nations principles.

Credit products, equities and hedge funds

At the end of 2014, close to 40% of our investment portfolio was externally managed. This portfolio is mainly comprised of credit products, equities and hedge funds.

Approximately 90% of Swiss Re's externally managed assets are managed by PRI signatories themselves. All of them have contractual provisions with Swiss Re, specific to responsible investments.

We work closely with the managers to ensure they consider ESG aspects in their investment processes. Before external managers are appointed, Swiss Re performs thorough due diligence to confirm their compliance with our responsible investment principles. This includes ESG considerations in investment decisions and monitoring, as well as a review of the managers' commitment to responsible investment. After being mandated, the managers' individual performances are monitored in line with our Responsible Investment Policy, and they are required to report regularly on their responsible investment activities.

For more systematic and regular monitoring of the actual integration of ESG factors into our externally managed portfolio, we have engaged the services of a leading ESG research company. We apply the ratings provided by them to our investment portfolio to assess the quality of the portfolio and gain further insight into ESG risk exposures.

Real estate

Our investment portfolio consists of direct investments in properties, principally in Switzerland and in Germany. Comprising buildings for both residential and commercial use, the total value of the portfolio was USD 2.5 billion at the end of 2014.

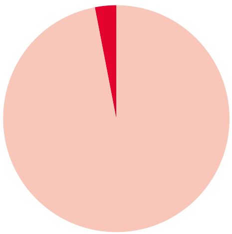
For these real estate investments we apply ambitious sustainability standards. For projects in Switzerland, the applicable criteria are defined in the Energy Mission Statement of Swiss Re. This stipulates that all new buildings need to conform to the MINERGIE® standard (www.minergie.ch), a Swiss quality label specifying high levels of energy efficiency and superior user comfort. When an existing building in the portfolio is due for renovation, this standard is applied whenever it is feasible from an architectural, technical and financial point of view.

By the end of 2014, the combined value of our MINERGIE®-certified buildings had reached USD 0.4 billion, or 19.5% of our Swiss portfolio of direct real estate investments. The total energy consumption surface in accordance with the MINERGIE® standard was 82 497 m^2 at the end of 2014. In addition, more than 56 000 m^2 had been sold on to third parties in previous years.

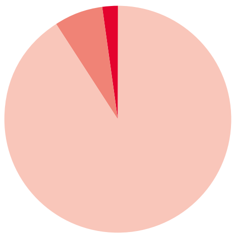
In 2014, construction of a new property, built to the MINERGIE-ECO® standard, was completed: In addition to environmental specifications, this residential complex with 40 flats also meets health criteria and demands on building materials. Furthermore, construction of a new building with 16 flats which will meet the MINERGIE® standard is currently underway; it is expected to be completed in 2016.

2 Rates products consist of cash, short-term investments, government bonds (incl. agency), and derivatives thereof.

Voting activities in 2014



Voting behaviour in 2014



Voting

As an asset owner, and in particular as a shareholder, we recognise our rights and responsibilities as an integral part of our commitment to responsible investment.

We believe that ESG considerations, and especially good corporate governance and transparency towards shareholders, are key drivers for sustainable value creation. Therefore, we actively exercise our rights to enhance portfolio value.

In the case of internally managed assets, we use our influence as a responsible shareholder by directly exercising our voting rights, and with externally managed portfolios, by facilitating the relevant portfolio managers to execute our proxy votes and related engagement activities.

In line with our voting framework, we review the voting policies of external managers during due diligence processes to confirm compliance with our own policy. In addition, external managers are required to report on voting activities conducted on Swiss Re's behalf, including providing an explanation of any votes against management.

In 2014, we exercised our voting rights on 97% of our listed equity portfolio. We voted on 4 171 ballots through our external managers, and we voted in favour of the respective management resolution in 3 817 cases (91%), against it in 280 cases (7%) and abstained from voting in 74 cases (2%).

In addition to shares in listed companies, investments in our equity portfolio include equity exchange-traded-funds (ETFs). The fund managers cast votes on these ETFs for all investors in accordance with the fund managers' own voting policies and processes.

Due to our large- and mid-cap company focus and the moderate total size of our equity exposure, we generally hold a very small portion of total issued share capital. This means Swiss Re rarely controls the outcome of a vote.