

## 14 Variable interest entities

The Group enters into arrangements with variable interest entities (VIEs) in the normal course of business. The involvement ranges from being a passive investor to designing, structuring and managing the VIEs. The variable interests held by the Group arise primarily as a result of the Group's involvement in certain investment vehicles, which meet the definition of a VIE.

When analysing whether the entity is a VIE, the Group mainly assesses if (1) the equity is sufficient to finance the entity's activities without additional subordinated financial support, (2) the equity holders have the right to make significant decisions affecting the entity's operations and (3) the holders of the voting rights substantively participate in the gains and losses of the entity.

When one of these criteria is not met, the entity is considered a VIE and is assessed for consolidation under the VIE section of the Consolidation Topic.

The party that has a controlling financial interest is called a primary beneficiary and consolidates the VIE. The party is deemed to have a controlling financial interest if it has both:

- the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and
- the obligation to absorb the entity's losses that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

For all its variable interests in VIEs, the Group assesses whether it has a controlling financial interest in these entities and, thus, is the primary beneficiary. The Group identifies the activities that most significantly impact the entity's performance and determines whether the Group has the power to direct those activities. In conducting the analysis, the Group considers the purpose, the design and the risks that the entity was designed to create and pass through to its variable interest holders. Additionally, the Group assesses if it has the obligation to absorb losses or if it has the right to receive benefits of the VIE that could potentially be significant to the entity. If both criteria are met, the Group has a controlling financial interest in the VIE and consolidates the entity.

The Group monitors changes to the facts and circumstances of the existing involvement with legal entities to determine whether they require reconsideration of the entity's designation as a VIE or voting interest entity. For VIEs, the Group regularly reassesses the primary beneficiary determination.

### Investment vehicles

The Group's variable interests in investment partnerships arise through ownership of the limited partner interests. Many investment partnerships are VIEs because the limited partners as a group lack kick-out or participating rights. The Group does not hold the general partner interest in the limited partnerships and therefore does not direct investment activities of the entity. Therefore, the Group lacks power over the relevant activities of the vehicles and, consequently, does not qualify as the primary beneficiary. The Group is exposed to losses when the values of the investments held by the investment vehicles decrease. The Group's maximum exposure to loss equals the Group's share of the investment.

The Group is a passive investor in structured securitisation vehicles issuing residential and commercial mortgage-backed securities (RMBS and CMBS, respectively) and other asset-backed securities (ABS). The Group's investments in RMBS, CMBS and other ABS are passive in nature and do not obligate the Group to provide any financial or other support to the issuer entities. By design, RMBS, CMBS and ABS securitisation entities are not adequately capitalised and therefore considered VIEs. The Group is not the primary beneficiary, because it does not have power to direct most significant activities. These investments are accounted for as available-for-sale as described in the investment note and not included in the tables below.

The Group invests in an investment vehicle that is consolidated by Swiss Reinsurance Company. The investment vehicle is a VIE because it is structured as an umbrella company comprised of multiple sub-funds.

The Group did not provide financial or other support to any VIEs during 2018 that it was not previously contractually required to provide.

### Non-consolidated VIEs

The following table shows the total assets on the Group's balance sheet related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December:

USD millions	2017	2018
Equity securities available-for-sale	32	
Equity securities at fair value through earnings		27
Other invested assets	1 937	1 951
<b>Total assets</b>	<b>1 969</b>	<b>1 978</b>

The following table shows the Group's assets and maximum exposure to loss related to VIEs in which the Group held a variable interest but was not the primary beneficiary as of 31 December:

USD millions	Total assets	2017 Maximum exposure to loss <sup>1</sup>	Total assets	2018 Maximum exposure to loss <sup>1</sup>
Investment vehicles	1 969	1 969	1 978	1 978
<b>Total</b>	<b>1 969</b>	<b>1 969</b>	<b>1 978</b>	<b>1 978</b>

<sup>1</sup> Maximum exposure to loss is the loss the Group would absorb from a variable interest in a VIE in the event that all of the assets of the VIE are deemed worthless.