



Verification of the Sustainability Quality of the Sustainability Bond by Raiffeisen Schweiz Genossenschaft

05 April 2019

Aim and Scope of this Second Party Opinion

Raiffeisen Schweiz Genossenschaft commissioned ISS-oekom to assist with its Sustainability Bond by assessing the sustainable added value of an asset pool. The assessment of the assets was conducted using the criteria and indicators of the Sustainability Bond KPIs developed by ISS-oekom.

ISS-oekom's mandate included the following services:

- Definition of Sustainability Bond KPIs ("ISS-oekom Sustainability Bond KPIs") containing a clear description of eligible asset categories and the social and environmental criteria assigned to each category for evaluating the sustainability-related performance of the assets (re-) financed through the proceeds of the bond.
- Analysis of the alignment of the Sustainability Bond to be issued against ICMA's Sustainability Bond Principles and Green Bond Principles.
- Evaluation of compliance of the Sustainability Bond with the ISS-oekom Sustainability Bond KPIs.
- Review and classification of Raiffeisen Schweiz Genossenschaft's sustainability performance on the basis of the ISS-oekom Corporate Rating

Overall Evaluation of the Sustainability Bond

ISS-oekom's overall evaluation of the Sustainability Bond by Raiffeisen Schweiz Genossenschaft is positive:

- Raiffeisen Schweiz Genossenschaft has defined a formal concept for its Sustainability Bond regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Sustainability Bond Principles as well as the Green Bond Principles (Part I of this Second Party Opinion).
- The overall sustainability quality in terms of sustainability benefits and risk avoidance and minimisation is good. (Part II of this Second Party Opinion).
- The issuer itself shows a good sustainability performance (Part III of this Second Party Opinion).

The buildings included in the asset pool are, according to TEP Energy, an independent research and advisory company mandated by the issuer, among the top 15% of Swiss buildings regarding final energy consumption and CO₂ emissions which aligns with the requirement threshold of the Climate Bond Standard of the Climate Bonds Initiative (CBI).

The Sustainability Bond, according to the Framework and in alignment with Switzerland's Implementation of its Agenda 2030 for a sustainable development¹, is linked to following SDGs:

- SDG 7: Affordable and clean energy
- SDG 11: Sustainable cities and communities
- SDG 13: Climate action

Certain aspects could still add to the overall quality of the asset pool: more specific selection or performance criteria would be recommended for the financed social housing and housing cooperatives, in particular regarding materials used for construction and water measures.

¹ https://www.eda.admin.ch/dam/agenda2030/de/documents/laenderbericht-der-schweiz-2018_DE.pdf

Raiffeisen Schweiz Genossenschaft has provided ISS-oekom with information describing eligibility criteria for the assets to be included in its Sustainability Bond, the processes of selecting eligible assets, the management of proceeds and the future reporting to investors. Details are given in the following.

1) Use of Proceeds

Raiffeisen Schweiz Genossenschaft intends to allocate the net proceeds of the Sustainability Bond towards loans to social housing developers. The buildings will be energy efficient and generate low CO₂ emissions. They will also meet recognized energy standards and certifications such as Minergie. The buildings will be rented on favorable terms and use heat pumps, district heating and other wood residues as energy sources.

The homeowners may include a small amount of space for commercial use next to their living spaces. Other types of financed assets are, for example, accompanied living and retirement homes. Typically, these include housing cooperatives that are democratically organized, and exempt from sudden contract termination. The focus lies on residential apartments.

2) Process for Project Evaluation and Selection

Loans to social housing developers granted by Raiffeisen Schweiz Genossenschaft and branches are audited by Raiffeisen Switzerland. The following criteria are used:

- Energy sources:
 - Space heating and hot water are generated through heat pump, wood, pellets or district heating (provided that the composition of energy resources used for district heating is better than average for CO₂ emissions).
- Energy certifications (using the above-mentioned energy sources): usually Minergie, Minergie-P, Minergie-A, GEAK A (for new buildings) or GEAK B (in existing buildings) or 2000 Watts.
- Charitable status:
 - Public benefit: a statement of non-profit status, non-profit orientation in the statutes or another appropriate document.
 - Affordable housing: a commitment to cost rent or rent below market price in the statutes or another appropriate document.
- Legal form: usually housing cooperatives, also considered for financing are foundations or public limited companies with charitable objectives.
- Controversy level: assets for which no controversies have been reported.
- Public transport: Bus, tram, train within 1km walking distance.

Moreover, the issuer strives to have an asset pool within the top 15% regarding final energy consumption and CO₂ emissions compared to the Swiss building stock.

3) Management of Proceeds

Raiffeisen Switzerland keeps a list of loans granted by Raiffeisen Schweiz Genossenschaft and branches to social housing developers that are energy-efficient and emit low greenhouse gas emissions. The central bank of Raiffeisen Schweiz Genossenschaft either grants the local Raiffeisen banks a new loan, or allocates existing loans to a Sustainability Bond credit pool. The local Raiffeisen banks draw loans from the central bank of Raiffeisen Schweiz Genossenschaft until the bond matures. Loans of Raiffeisen Switzerland branches, which are booked on the balance sheet of Raiffeisen Schweiz Genossenschaft, are also allocated to the loan pool.

The proceeds of the Sustainability Bond are used by Raiffeisen Schweiz Genossenschaft exclusively to finance or refinance the Sustainability Bond credit pool.

If a loan from the social housing developers is repaid early, the corresponding amount will initially be held in cash by the central bank of Raiffeisen Schweiz Genossenschaft. If it is not possible in the foreseeable future to allocate that amount to the financing of a new social housing developer, the amount will be invested in a green bond or a sustainability bond of another issuer.

4) Reporting

The Sustainability Bond Framework of Raiffeisen Schweiz Genossenschaft will be published on the website of Raiffeisen Schweiz Genossenschaft, together with the Second Party Opinion of ISS-oekom and the report "Performance Kreditpool".

The report sets out the performance of the initial credit pool, in particular on the basis of the following indicators:

- Estimated number of buildings financed by the proceeds
- Percentage of certified buildings and type of certification
- Final energy demand
- CO₂ emissions

If the performance of the credit pool changes, the report will be updated, at the latest within one year.

1) ISS-oekom Sustainability Bond KPIs

The ISS-oekom Sustainability Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Raiffeisen Schweiz Genossenschaft's Sustainability Bond. It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the Sustainability Bond can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the Sustainability Bond and which can also be used for reporting. Details on the individual criteria and indicators for the categories can be found in Annex 1 „ISS-oekom Sustainability Bond KPIs“.

2) Evaluation of the Assets Financed by the Sustainability Bond**Method**

ISS-oekom has evaluated whether the assets included in the Sustainability Bond match the categories and criteria listed in the ISS-oekom Sustainability Bond KPIs. The evaluation was carried out using information and documents provided to ISS-oekom on a confidential basis by Raiffeisen Schweiz Genossenschaft (e.g. information on credit guidelines). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by Raiffeisen Schweiz Genossenschaft.

Findings

A. Social housing and housing cooperatives

✓ **Prerequisite for social housing and housing cooperatives: All projects are non-profit-oriented housing organisations.**

1. Standards for social housing and housing cooperatives

- ✓ 100% of the assets are assigned to cooperatives which are, according to their statutes, democratically organized.
- ✓ 100% of the assets are assigned to cooperatives which conclude, according to their statutes, unlimited lease contracts and favor life-long residence.
- ✓ 100% of the assets are assigned to cooperatives that charge, according to their statutes, a cost-induced or favourable rent that is not profit-oriented.
- No information is available regarding the rent levels of the cooperatives in comparison to the average rent level.

2. Site selection

- ✓ None of the assets are located in protected areas and sites of high environmental value.
- ✓ 100% of the assets are located within a maximum of 1 km from one or more modalities of public transport.

3. Construction standards

- ✓ 100% of assets provide for high labour and health and safety standards (e.g. ILO core conventions).
- No information is available on assets that provide for sustainable procurement regarding building materials (e.g. recycled materials, third-party certification of wood based materials).

4. Water use minimisation in buildings

- No information is available on assets that provide for measures to reduce water consumption (e.g. water metering, high-efficiency fixtures and fittings, rainwater harvesting).

5. Safety of building users

- ✓ 100% of assets ensure operational safety (e.g. emergency exits, fire sprinklers, fire alarm systems).

6. Energy efficiency

- ✓ For 100% of assets, good energy efficiency standards are in place (e.g. heating energy demand below 50 kWh/m²a). According to the issuer, the building portfolio is in the top 15% of buildings in Switzerland in terms of final energy consumption and CO₂ emissions.

Controversies

According to the issuer, no controversies affect the financed assets. Due to the limited information available, ISS-oekom was not able to perform its own controversy check.

Part III – Assessment of Raiffeisen Schweiz Genossenschaft’s Sustainability Perfor-

In the ISS-oekom Corporate Rating with a rating scale from A+ (excellent) to D- (poor), Raiffeisen Schweiz Genossenschaft was awarded a score of C-.

As of 05.04.2019, this rating puts Raiffeisen Schweiz Genossenschaft in place 32 out of 99 companies rated by ISS-oekom in the Financials/Public & Regional Banks.

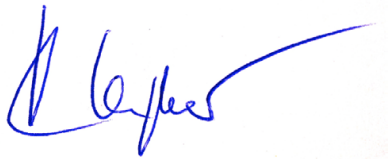
In this sector, ISS-oekom has identified the following issues as the key challenges facing companies in term of sustainability management:

- Sustainability impacts of lending and other financial services/products
- Customer and product responsibility
- Sustainable investment criteria
- Labour standards and working conditions
- Business ethics

In four of these key issues, Raiffeisen Schweiz Genossenschaft achieved a rating that was above the average for the sector. The issuer under-performed in “Customer and product responsibility”.

The company has a minor controversy level.

Details on Raiffeisen Schweiz Genossenschaft’s rating can be found in Annex 2 “Raiffeisen Schweiz Genossenschaft rating results”.



ISS-oekom

Munich, 05 April 2019

Disclaimer

1. ISS-oekom uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
2. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS-oekom in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
3. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond, but refers exclusively to the social and environmental criteria mentioned above.
4. We would point out that this SPO, in particular the images, text and graphics contained therein, and the layout and company logo of ISS-oekom are protected under copyright and trademark law. Any use thereof shall require the express prior written consent of ISS-oekom. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

About ISS-oekom

ISS-oekom is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries with regard to their environmental and social performance. ISS-oekom has extensive experience as a partner to institutional investors and financial service providers, identifying issuers of securities and bonds which are distinguished by their responsible management of social and environmental issues. More than 100 asset managers and asset owners routinely draw on the rating agency's research in their investment decision-making. ISS-oekom's analyses therefore currently influence the management of assets valued at over 600 billion euros.

As part of our Green Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria. We verify the compliance with the criteria in the selection of projects and draw up an independent second party opinion so that investors are as well informed as possible about the quality of the loan from a sustainability point of view.

Contact: ISS-oekom, Goethestraße 28, 80336 Munich, Germany, tel: +49 / (0) 89 / 54 41 84-90, e-mail: info@oekom-research.com

Annexes

- Annex 1: ISS-oekom Sustainability Bond KPIs
- Annex 2: ISS-oekom Corporate Rating of Raiffeisen Schweiz Genossenschaft

Annex 1: ISS-oekom Sustainability Bond KPIs

ISS-oekom Sustainability Bond KPIs

The ISS-oekom Sustainability Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Raiffeisen Schweiz Genossenschaft's Sustainability Bond. It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the Sustainability Bond can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the Sustainability Bond and which can be used for comprehensive reporting.

Use of Proceeds

A. Social housing and housing cooperatives

Sustainability Criteria and Quantitative Indicators for Use of Proceeds

Social housing and housing cooperatives

Prerequisite for social housing and housing cooperatives: All projects are non-profit-oriented housing organisations.

1. Standards for social housing and housing cooperatives

- Percentage of assets assigned to cooperatives which are democratically organized.
- Percentage of assets for which rents are lower than the local average rent level.
- Percentage of assets for which tenant rights include lifelong right of residence.

2. Site selection

- Percentage of assets for which a policy on responsible site selection is in place (e.g. brownfield development, exclusion of protected areas and sites of high environmental value).
- Percentage of assets located within a maximum of 1 km from one or more modalities of public transport.

3. Construction standards

- Percentage of assets that provide for high labour and health and safety standards (e.g. ILO core conventions).

- Percentage of assets that provide for sustainable procurement regarding building materials (e.g. recycled materials, third-party certification of wood based materials).

4. Water use minimisation in buildings

- Percentage of assets that provide for measures to reduce water consumption (e.g. water metering, high-efficiency fixtures and fittings, rainwater harvesting).

5. Safety of building users

- Percentage of assets that ensure operational safety (e.g. emergency exits, fire sprinklers, fire alarm systems).

6. Energy efficiency

- Percentage of assets for which good energy efficiency standards are in place (e.g. heating energy demand below 50 kWh/m²a).

Controversies

- Description of controversial projects (e.g. location in biodiversity areas, insufficient community involvement, labour rights violations, accidents, adverse biodiversity impacts).

ISS-oekom Corporate Rating

Raiffeisen Schweiz Genossenschaft

Industry	Financials/Public & Regional Banks	Status	Not Prime
Country	Switzerland	Rating	C-
ISIN	CH0320712604	Prime Threshold	C



The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively.

Industry Leaders

Company name (in alphabetical order)	Country	Grade
Deutsche Kreditbank AG	DE	B-
La Banque Postale S.A.	FR	B-
Landesbank Baden-Württemberg	DE	C+

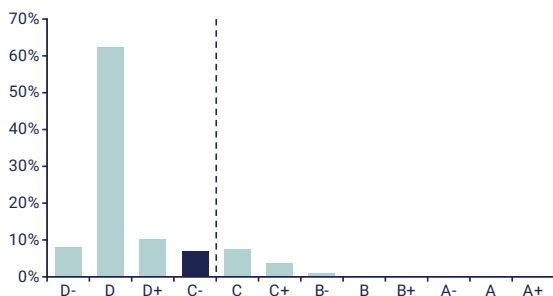
Legend: ■ Industry ■ Company --- Prime

Key Issue Performance

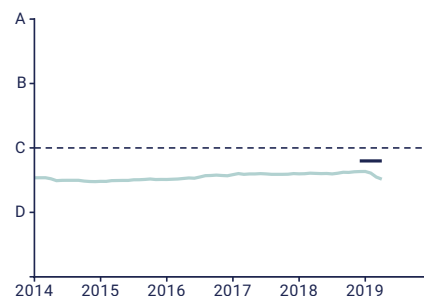


Distribution of Ratings

186 companies in the industry

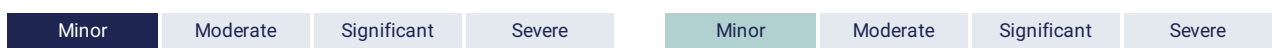


Rating History



Controversy Monitor

Company		Industry	
Controversy Score	-1	Maximum Controversy Score	-16
Controversy Level	Minor	Controversy Risk	Minor



Raiffeisen Schweiz Genossenschaft

Analyst Opinion

Annette Gregori
Sector specialist



Sustainability Opportunities

Raiffeisen Schweiz Genossenschaft, its subsidiaries as well as the independent Raiffeisen banks (combined the Raiffeisen Group) provide banking products and services to private individuals and corporate clients in Switzerland. The company enables its clients to make socially responsible investment decisions and offers loans promoting energy efficiency. In addition, the company offers products related to microfinance. However, these products and initiatives so far do not constitute the major business for the company and there is no evidence of e.g. measures to ensure equal access to financial markets.

Sustainability Risks

For financial companies, the most relevant sustainability issues are the systematic integration of environmental and social aspects into relevant business areas as well as the responsible treatment of clients and employees. In its lending business, Raiffeisen Schweiz Genossenschaft, its subsidiaries as well as the independent Raiffeisen banks (combined the Raiffeisen Group) consider certain environmental aspects for the mortgage business, which constitutes the major share of the group's lending business. In addition, the group conducts risk assessments covering some relevant environmental and social aspects for its other lending business. Furthermore, the company has implemented an information security management system to protect client data. Yet, there is no evidence of a comprehensive strategy addressing all relevant issues for the financial industry, e.g. strict integration of sustainable aspects in core business areas or client-related topics such as responsible sales practices. Raiffeisen Group has taken some good measures to ensure employee-well being. Furthermore, the majority of employees are located in Switzerland, where high legal standards with regard to e.g. responsible redundancy processes exist. Finally, the company has established compliance guidelines and has taken several measures to ensure compliance. Yet, it remains unclear whether further measures such as whistleblower protection rules are implemented.

Governance Opinion

Raiffeisen Schweiz Genossenschaft is based on co-operative principles and is owned by the independent Raiffeisen banks (as at December 2017). Together with these banks, Raiffeisen Schweiz Genossenschaft and its subsidiaries form the Raiffeisen Group. The effective supervision of management is ensured as all members of the board of directors, including the chairman, are considered independent. This also holds for relevant board committees in charge of audit, remuneration and nomination (also as at December 2017). Executive compensation is publicly disclosed for members of the executive management team as a whole and sub-divided according to fixed amounts and variable performance-related components.

Independent board committees are in charge of addressing sustainability issues but sustainability performance objectives are apparently not integrated into the variable remuneration of members of the executive management team. As concerns business ethics, Raiffeisen Group has established compliance guidelines covering almost all relevant aspects including corruption. In addition, the company has taken several measures to ensure compliance, e.g. compliance training and relevant reporting mechanism. Yet, it remains unclear whether further measures such as whistleblower protection rules are implemented.