

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Bond Framework

The Swiss Confederation
07 July 2022

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Green Bonds
Relevant standards	<ul style="list-style-type: none">• ICMA Green Bond Principles (June 2021)
Scope of verification	<ul style="list-style-type: none">• The Swiss Confederation Green Bond Framework (as of 13.06.2022)• The Swiss Confederation Eligibility Criteria (as of 13.06.2022)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as there is no material change to the Framework

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SCOPE OF WORK

The Swiss Confederation (“the Issuer”) commissioned ISS ESG to assist with its Green Bonds by assessing three core elements to determine the sustainability quality of the instrument:

1. The Swiss Confederation’s Green Bond Framework (13.06.2022 version) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP).
2. The Eligibility Criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 1).
3. Green Bonds link to the Swiss Confederation’s sustainability strategy – drawing on the Swiss Confederation’s overall sustainability profile and issuance-specific Use of Proceeds categories.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
<p>Part 1:</p> <p>Alignment with GBP</p>	<p>The issuer has defined a formal concept for its Green Bonds regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Bond Principles as administrated by the ICMA.</p>	<p>Aligned</p>
<p>Part 2:</p> <p>Sustainability quality of the Eligibility Criteria</p>	<p>The Green Bonds will (re-)finance eligible asset categories which include: Clean Transportation, Agriculture, Forest management, Natural landscapes and Biodiversity, Green Buildings and Energy efficiency, Renewable Energy, International Cooperation and Research, Innovation and Awareness Raising.</p> <p>Clean Transportation, Green Buildings, Energy efficiency, Agriculture, Forest management, Biodiversity, Renewable Energy and International Cooperation use of proceeds categories have a significant contribution to SDGs 7 'Affordable and clean energy', 11 'Sustainable Cities and Communities' and 13 'Climate action', 14 'Life below water', 15 'Life on land' and 17 'Partnerships for the goals'. Climate Change Adaptation and Research Innovation use of proceeds categories have a limited contribution to SDGs 7 'Affordable and clean energy' and 13 'Climate action'</p> <p>The remaining use of proceeds categories improve the operational impacts of Switzerland and mitigate potential negative externalities of its sectors on SDGs 7 'Affordable and clean energy' and SDG 13 'Climate action'.</p> <p>The environmental and social risks associated with those use of proceeds categories are well managed.</p>	<p>Positive</p>
<p>Part 3:</p> <p>Green Bonds link to issuer's sustainability strategy</p>	<p>According to the ISS ESG Country Rating published on 18.04.2022, the issuer shows a good sustainability performance. ISS ESG notes that Switzerland sources above 10% of its total primary energy supply from nuclear power. It is noted that the construction of new nuclear power plants has been prohibited by law in Switzerland since 2018. In addition, the Swiss Green Bond framework excludes expenditures in the area of nuclear energy.</p> <p>The Use of Proceeds financed through these Green Bonds are consistent with the issuer's sustainability strategy and material ESG topics for the issuer. The rationale for issuing Green Bonds is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>

¹ ISS ESG's evaluation is based on the Swiss Confederation Green Bond Framework (June 2022 version), and on the ISS ESG Country Rating applicable at the SPO delivery date (updated on 18.04.2022).

ISS ESG SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES

This section describes ISS ESG's assessment of the alignment of the Swiss Confederation's Green Bond Framework (dated 13.06.2022) with the Green Bond Principles.

GREEN BOND PRINCIPLES	ALIGNMENT	ISS ESG'S OPINION
1. Use of Proceeds	✓	<p>ISS ESG considers the Use of Proceeds description provided by the Swiss Confederation's Green Bond Framework as aligned with the Green Bond Principles.</p> <p>The Issuer's green categories align with the project categories as proposed by the Green Bond Principles and criteria are defined in a clear and transparent manner. Environmental benefits are described.</p> <p>The Issuer defines exclusion criteria for harmful project categories, in line with best market practice. Besides, the Issuer defines a look-back period of maximum one budget year preceding the bond issuance, in line with best market practices.</p>
2. Process for Project Evaluation and Selection	✓	<p>ISS ESG considers the Process for Project Evaluation and Selection description provided by the Swiss Confederation's Green Bond Framework as aligned with the Green Bond Principles.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed by the Green Bond Working Group through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>In addition, the Issuer clearly defines responsibilities, involving various stakeholders in this process, for project evaluation and selection, in line with best market practices.</p>
3. Management of Proceeds	✓	<p>ISS ESG finds that the Management of Proceeds proposed by the Swiss Confederation's Green Bond Framework as aligned with the Green Bond Principles.</p> <p>The proceeds collected are equal to the amount allocated to eligible projects, with no exceptions. The proceeds are</p>

		<p>tracked by the Federal Finance Administration in an appropriate manner and attested in a formal internal process. Moreover, the issuer discloses the temporary investment instruments for unallocated proceeds and confirms that temporary investments will have no exposure to areas included in their exclusion list.</p> <p>The issuer has set an allocation period of maximum one year since the allocation of the eligible expenditures is based on the previous budget, in line with best market practices</p>
<p>4. Reporting</p>	<p>✓</p>	<p>ISS ESG finds that the allocation and impact reporting proposed by the Swiss Confederation’s Green Bond Framework as aligned with the Green Bond Principles.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The Swiss Confederation explains the level of expected reporting and the type of information that will be reported. Moreover, the Issuer commits to report annually, until the proceeds have been fully allocated and the impact report will be available publicly until bond maturity.</p> <p>The Swiss Confederation also defines the scope and magnitude of its impact reporting, in line with the market best practices.</p>

PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN BONDS TO THE UN SDGs

Sovereigns can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible actors, working to minimize negative externalities in their operations along the entire value chain. The aim of this section is to assess the SDG impact of the UoP categories financed by the issuer in two different ways, depending on whether the proceeds are used to (re)finance:

- specific products/services,
- improvements of operational performance.

1. Products and services

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on 5-point scale (see Annex 1 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution
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Each of the Green Bond's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Clean Transportation <i>Expenditures related to railway, road and freight transportation with zero tailpipe CO₂ emissions²</i>	Significant Contribution³	  
Clean Transportation <i>Expenditures related to light duty vehicles with zero tailpipe CO₂ emissions (until 2025)</i>	Significant Contribution³	

² Infrastructure and vehicles dedicated to the transport of fossil fuels are excluded.

³ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs. This is due to the fact that the issuer has based its selection criteria on the Substantial Contribution Criteria of the Technical Screening Criteria of the EU Taxonomy Delegated Act on Climate Change Mitigation (June 2021). Assets compliance with EU taxonomy is not evaluated under the SPO.

<p><i>with tailpipe emission intensity below 50gCO₂/km)</i></p>	<p>Limited Contribution</p>	
<p>Clean Transportation <i>Expenditures related to active mobility infrastructure, dedicated to pedestrians and bicycles</i></p>	<p>Significant Contribution</p>	
	<p>Limited contribution</p>	
<p>Green Buildings <i>Certified with DGNB</i></p>	<p>Significant contribution</p>	
<p>Green Buildings <i>Certified with Minergie (P, A and Eco) or Standard for Sustainable Building Switzerland⁴ (SNBS)</i></p> <p><i>Certified with GEAK⁴ (at least class B for new construction and class C for existing buildings)</i></p>	<p>Limited contribution</p>	
	<p>Significant contribution³</p>	
<p>Green Buildings <i>Major renovations which lead to a reduction of primary energy demand (PED) of at least 30 %</i></p>	<p>Limited contribution</p>	
	<p>Limited contribution⁶</p>	
<p>Green Buildings <i>Buildings built after 1 January 2016, in absence of energy certificates⁵</i></p>	<p>Significant contribution³</p>	
	<p>Significant contribution</p>	 
<p>Energy efficiency <i>Expenditures related to innovation and development of Unspecified Energy Storage</i></p>	<p>Limited contribution</p>	 

⁴ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs.

⁵ As per a logical equivalence analysis provided by the issuer, adopting a year of construction from 1 st January 2016, allows the inclusion of the appropriate building with an energy label equal to A or B. Besides residential buildings built after 1st January 2016 (in absence of EPC) can be considered to belong to the top 15% of the most carbon-efficient buildings in Switzerland.

⁶ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an Issuer's product and service portfolio on the SDGs.

<p>Energy efficiency <i>Expenditures related to LED's for Lighting</i></p>	<p>Limited Contribution</p>	 
<p>Renewable Energy <i>Expenditures related to renewable energy facilities, technologies, processes and innovation:</i></p> <ul style="list-style-type: none"> • Solar • Onshore/offshore wind • Geothermal if life-cycle GHG emissions are lower than 100gCO2e/kWh, • Small-scale (<10MW) hydropower if complies with either of the following criteria: i. the life-cycle GHG emissions are lower than 100gCO2e/kWh, ii. is a run-of-river plant and does not have an artificial reservoir, or iii. the power density of the facility is above 5 W/m2) 	<p>Significant contribution</p>	 
<p>Renewable Energy <i>Expenditures related to renewable energy facilities, technologies, processes and innovation: Medium to large scale (>10MW) hydropower if complies with either of following criteria: i. the life-cycle GHG emissions are lower than 100gCO2e/kWh, ii. is a run-of-river plant and does not have an artificial reservoir, or iii. the power density of the facility is above 5 W/m2)</i></p>	<p>Limited Contribution</p>	 
<p>Agriculture <i>Expenditures related to sustainable agriculture in line with national or EU legislation, including subsidies for organic farming and expenditures related to innovation</i></p>	<p>Significant contribution</p>	
<p>Forest management <i>Expenditures related to forest management in line with national or cantonal legislation, including subsidies to promote sustainable forest management and forest biodiversity</i></p>	<p>Significant contribution⁷</p>	
<p>Biodiversity <i>Expenditures related to the protection and restoration of biodiversity and ecosystems</i></p>	<p>Significant contribution</p>	 
<p>Climate Change Adaptation <i>Expenditures for the management of extreme weather events and to the reduction of their impact through actions to mitigate the effects of droughts and floods</i></p>	<p>Limited contribution⁸</p>	

⁷ Expenditures follow the Swiss law on forests, the law on nature and cultural heritage and the related program agreement. They are designated to forest biodiversity preservation and management.

⁸ This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an Issuer's product and service portfolio on the SDGs. The insight on the project level in the scope of the current SPO allows taking into account more granular information on the project level.

<p>International Cooperation <i>Expenditures aimed at supporting developing and emerging countries in their transition towards a more environmentally friendly economy⁹</i></p>	<p>Significant Contribution¹⁰</p>	
<p>Research, innovation and awareness raising <i>Expenditures related to enabling research to promote renewable energy and energy efficiency</i></p>	<p>Limited contribution¹⁰</p>	
		 

2. Improvements of operational performance (processes)

The below assessment aims at qualifying the direction of change (or “operational impact improvement”) resulting from the operational performance projects (re)financed by the UoP categories, as well as related UN SDGs impacted. The assessment displays how the UoP categories are mitigating the exposure to the negative externalities relevant to the eligible expenditure.

The Swiss Confederation finances operations/processes in a variety of third-party sectors. For clarity, ISS ESG does not display the exposure to negative externalities linked to the sectors of the operations/processes financed.

The table below aims at displaying the direction of change resulting from the operational performance improvement projects. The outcome displayed does not correspond to an absolute or net assessment of the operational performance.

USE OF PROCEEDS (Processes)	OPERATIONAL IMPACT IMPROVEMENT ¹⁰	SUSTAINABLE DEVELOPMENT GOALS
<p>Energy efficiency <i>Improved infrastructure and improvement of energy efficiency in terms of thermal isolation of buildings</i></p>	<p>✓</p>	 
<p>Energy efficiency <i>Improved infrastructure and improvement of energy efficiency in terms of heating and ventilation¹¹</i></p>	<p>✓</p>	 
<p>Research, innovation and awareness raising <i>Expenditures related to assessment of sustainability, substance flows and environmental impact of agriculture and highlighting opportunities for improvement</i></p>	<p>✓</p>	

⁹ This includes contributions to international funds for climate and environmental topics, as well as international partnerships to support the climate transition. Targeted funds include the Global Environment Facility, the Least Developed Countries Fund, the Special Climate Change Fund and the Green Climate Fund.

¹⁰ Limited information is available on the scale of the improvement as no threshold is provided. ISS ESG only displays the direction of change.

¹¹ Improved infrastructure and improvement of energy efficiency in terms of heating and ventilation are planned and executed in line with Minergie standards or equivalent.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

Eligible categories include Clean Transportation, Agriculture, forestry, natural landscapes and biodiversity, Green Buildings and energy efficiency, Renewable Energy, International Cooperation, and Research innovation and awareness raising.

The table below presents the findings of an ISS ESG assessment of the Eligibility Criteria against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Environmental and social risks relevant for all green project categories

Biodiversity

- ✓ For any type of eligible expenditure, comprehensive and specific environmental standards apply according to national (federal and regional level) legislation and standards. The Federal Act on the Protection of Nature and Cultural heritage is applied across all the cantons and ensures the protection of the Swiss Confederation's heritage landscapes and sites, the promotion of the conservation of biological diversity and conservation of indigenous flora and fauna among others. In addition, many specific federal and regional regulations exist for the protection of specific areas such as the Federal Act on Fisheries and the Federal Act on Hunting and the protection of Wild Mammals and Birds.
- ✓ An Environmental Impact Assessment (EIA) is carried out for projects that require it in line with national laws.

Circular Economy / Waste Management

- ✓ The Swiss Confederation's legal Framework includes articles ensuring the end-of-life commissioning and recycling are applied to assets financed under this Framework, including measures for the prevention, reduction, recovery, and safe treatment and disposal of waste. Indeed, the Swiss Confederation's Ordinance on the Avoidance and Disposal of Waste states that the cantons shall ensure that the recoverable parts of municipal waste are if possible collected separately and recycled and that the proprietors of waste from businesses with 250 or more full-time employment positions must as far as possible and reasonable collect and recycle the recoverable parts of their waste that are similar in their composition to municipal waste.
- ✓ The Swiss Confederation's legal Framework ensures that hazardous waste is monitored and treated appropriately and that processes are in place to prevent pollution. A comprehensive set of measures is specified in the Ordinance on the remediation of polluted sites mentioning that polluted sites are remediated if they lead to harmful impact or nuisances or if there is a specific risk that such impacts will occur, the Ordinance on the avoidance and the disposal of waste and the Federal Act on the Protection of the Environment which regulates the circulation of the environmentally hazardous substances.

Labour, Health & Safety

- ✓ For any type of eligible expenditure, health and safety for employees, contractors, operators, are ensured according to national legislation and standards.

- ✓ All expenditures are disbursed in Switzerland, a country where high standards regarding labor rights are in place (e.g. ILO Core Conventions). All eligible funds in the international cooperation category are channelled through multilateral climate funds who apply safeguards in line with the ILO Convention and beyond.

Dialogue with local communities

- ✓ The Swiss Confederation's legal Framework includes in its Art. 147 of the Federal Constitution, its Consultation Act and its Consultation Ordinance a procedure to ensure that community dialogue features as an integral part of the federal projects. Indeed, the consultation procedure is the phase of the preliminary legislative procedure in which federal projects are examined for their factual correctness, suitability for execution and acceptance. For this purpose, the cantons, the parties represented in the Federal Assembly, the umbrella organizations of the municipalities, cities and mountain regions, the umbrella organizations of the business community, as well as other interested parties may comment on all bills and other relevant political projects. Even those who are not invited to the consultation procedure may comment on a bill.

Users safety – Product

- ✓ The Swiss Confederation Federal Act on Product Safety is intended to ensure the safety of products and anyone who places a product in the Swiss market must be able to prove it meets the essential safety and health requirements. In addition, the Swiss council for accident prevention (BfU) conducts research and provides advice so that fewer serious accidents happen in Switzerland – on the roads, at home, during leisure time and sports activities.

Mitigation of potential controversies

- ✓ The Swiss Confederation Green Bond Working Group is responsible to identify potential ESG controversies for expenditures, that were deemed eligible. This is the case, for example, if a legal basis has been changed, earmarking has been newly introduced or removed, or if market standards have changed. In such a case, the working group consults with the offices of the federal administration concerned to decide whether the classification needs to be changed.

Environmental and social risks relevant for specific green project categories

User safety – Infrastructure

- ✓ For all relevant eligible expenditures, measures are currently in place to ensure user safety for public infrastructure. For example, the construction product's regulation defines cantonal building standards and regulations in order to meet the basic safety requirements for construction work, while the Noise abatement ordinance is intended to protect against harmful and disturbing noise.

Agriculture, forestry, natural landscapes and biodiversity

Water Management

- ✓ The Swiss Confederation Federal Act on the Protection of Waters covers water withdrawal regulation, supply and treatment as well as water discharge, and maintenance of the water quality.

Environmental Impact of Agriculture

- ✓ The Swiss Confederation's share of organic agriculture as a share of total agricultural land is high (approx. 15% of total utilized agricultural area) and has increased in recent years. The use of fertilizers is at a medium level and has remained stable in recent years. Besides, the Swiss Confederation Federal Agricultural Act ensures that subsidies are made on conditions that a proof of ecological performance can be provided, including a balanced use of fertilizers, an adequate proportion of land set aside for biodiversity and appropriate soil protection among other conditions.

Environmental Impact of Forestry

- ✓ The Swiss legal framework provides for various laws and measures covering soil and biodiversity management, natural habitat and wildlife protection or fire management. Among others, this includes the Federal Act and Ordinance on Forests (SR 921.0, SR 921.01), as well as ordinances on the reduction of risks related to the use of certain dangerous substances (SR 916.20) or concerning biodiversity management.

Green Buildings

Sustainable procurement

- ✓ The Swiss government has put forward various instructions ("Weisungen") and recommendations with respect to the sustainability of buildings that are within the portfolio of the Swiss Federal Office for Buildings and Logistics. This includes guidance for all Building and Real Estate entities ("Bau- und Liegenschaftsorgane des Bundes, BLO) of the Swiss Confederation with respect to the sustainable procurement of building materials as well as a careful use of natural resources such as raw materials, water, and soil.

Research, innovation and awareness raising

Stringency of selection criteria

- ✓ For all financed expenditures relevant to this UoP category, there are specific instructions ("Vollzugsweisungen") in place that address the eligibility of the research project. All projects need to align with Switzerland's security of energy supply. They further need to have the potential to reduce energy consumption or greenhouse gas emissions in the medium or long term, substitute non-renewable energy or support the expansion of renewable energy. The legal basis for all relevant expenditures are outlined in the Swiss Energy Act Article 47-51.

International cooperation

Environmental safeguards

- ✓ All expenditures are subject to Swiss legislation on Environmental protection (Umweltschutzgesetz, Art. 53), federal law on international Development cooperation and humanitarian aid (SR 974.0 Art. 9, Abs. 1), as well as the OECD DAC Standards, and

more specifically the RIO Markers, which are applied to determine whether a project qualifies as green.

In addition, all multilateral climate funds that receive funding under this Framework have their own safeguard policies that are stated to go well beyond international minimal safeguards policies.

Governance safeguards

- ✓ All multilateral climate funds that receive funding under this Framework have put in place measures to reduce the risk of corruption and money laundering in the context of international cooperation. For the Green Climate Fund, this includes policies concerning prohibited practices, anti-money laundering (AML) and countering the financing of terrorism (CTF). The Global Environmental Facility also includes minimum fiduciary standards which cover AML and CTF. Finally, the Adaptation Fund applies Fiduciary Risk Management Standards that cover anti-corruption measures.

Social safeguards

- ✓ The multilateral climate funds, Green Climate Funds, Global Environment facilities and Adaptation funds have all Environmental and Social Safeguards in place. The funds and their implementing partners all adhere to ILO's labour standards as a minimum.

Exclusion of sectors and activities that have a detrimental impact on environment or society

- ✓ The issuer specifically excludes the allocation of proceeds to two specific sectors, being nuclear power (fission) and the exploration, manufacturing and transport of fossil fuels

PART III: GREEN BONDS LINK TO SWITZERLAND'S SUSTAINABILITY STRATEGY

A. COUNTRY'S EXPOSURE TO ESG RISKS

This section aims to provide macro-country level ESG risks and offers additional context to the issuance assessed in the present report. It leverages ISS ESG Country Rating methodology as well as relevant external sources such as United Nations Development Programme, Transparency International and Institute for Economics & Peace.

Issuer overview

Switzerland is located in Western Europe. The issuer is a confederation with strong regional subjects, the cantons, classified as a high income country by the World Bank. The issuer has an estimated population of 8.4 million inhabitants as of 2020, with 74% of its population living in urban areas, and a level of greenhouse gas emissions per capita of 5.30 as of 2019, which have decreased in recent years.

Additional information relating to the issuer, based on international indices:

INDEX	RANK, AS OF DATE
Human Development Index ¹²	2, in 2020
Corruption Perception Index ¹³	7, in 2021
Global Peace Index ¹⁴	11, in 2022

ESG risks associated with the issuer and sovereign issuers

Leveraging ISS ESG's Country Rating methodology, ISS ESG assessed the current sustainability performance of the issuer to be good. Please note that the consistency between the issuance subject to this report and the issuer's sustainability strategy is further detailed in Part III.B of the report.

Key challenges faced by sovereign issuers in terms of sustainability management are displayed in the table below. Please note, this is not an issuer-specific assessment.

ESG KEY ISSUES FOR SOVEREIGN ISSUERS	
Political system and governance	Natural resources
Human Rights and fundamental freedoms	Climate change and energy
Social conditions	Product and consumption

¹² Source: <https://hdr.undp.org/en/countries/profiles>

¹³ Source: <https://www.transparency.org/en/cpi/2021/index>

¹⁴ Source: <https://www.visionofhumanity.org/maps/#/>

Exposure to controversial areas

At the date of publication, the Issuer is exposed to the following areas which may be considered controversial by investors:

SOVEREIGN CONTROVERSIAL AREAS	DESCRIPTION
Nuclear power	> 10% of total primary energy supply (TPES), no decision on abandoning nuclear power but a moratorium on NP plants

B. CONSISTENCY OF GREEN BONDS WITH SWITZERLAND SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

The Federal Council adopted the long-term climate strategy for Switzerland on 27 January 2021 and has approved the submission of the strategy to the UN Climate Change Secretariat. Switzerland has thus fulfilled one of the terms of the Paris Agreement (Art. 4.19). Switzerland's strategy shows how it can attain the goal of net-zero greenhouse gas emissions by 2050¹⁵.

The starting point for the long-term climate strategy is the net zero emissions target for 2050 that the Federal Council set in August 2019. The strategy delineating how to get to net-zero, formulates ten basic strategic principles that will shape Swiss climate policy in the coming years and presents climate goals and emission pathways for various sectors including buildings, industry, transport, agricultural and food, financial markets, synthetic gases, aviation as well as the waste industry:

1. Switzerland will take advantage of the opportunities presented by a systematic transition to net zero.
2. Switzerland will assume its climate policy responsibility.
3. Priority will be given to reducing domestic emissions.
4. Emissions will be reduced across entire value chains.
5. All energy sources will be used effectively taking into account of their optimal usage potential.
6. The Swiss Confederation and the cantons will gear their planning activities to net zero in all climate-relevant areas.
7. The transition to net zero will be carried out in a socially acceptable way.
8. The transition to net zero will be achieved in an economically viable way.
9. The transition to net zero will also improve environmental quality.
10. The Long-Term Climate Strategy is based on openness to all types of technology.

The strategy sets the following targets for individual sectors, to be achieved by 2050:

- **Buildings:** The building stock no longer generates greenhouse gas emissions.
- **Industry:** Greenhouse gas emissions from the industrial sector are reduced by at least 90 percent compared to 1990 levels.
- **Transport:** With few exceptions, land transport no longer generates greenhouse gas emissions.

¹⁵ Long-term Climate Strategy to 2050: <https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/emission-reduction/reduction-targets/2050-target/climate-strategy-2050.html>

- **Air transport:** International air transport from Switzerland, as far as possible, no longer causes any net climate-impacting emissions. This means that fossil CO₂ emissions are net zero, and the remaining climate impacts continue to decrease or are offset by other measures.
- **Agriculture:** Thanks to the promotion of sustainable food systems, the greenhouse gas footprint of food decreases in line with the net-zero target without shifting greenhouse gas emissions abroad. Greenhouse gas emissions from domestic agricultural production are reduced by at least 40% compared to 1990. At least 50% of Switzerland's food needs are met by domestic production.
- **Financial market:** In line with the target in the Paris Agreement, Switzerland's financial flows follow a pathway towards low greenhouse gas emissions and climate-resilient development.

The long-term climate strategy shows that Switzerland can reduce its greenhouse gas emissions by 2050 by around 90 per cent of 1990 levels. The remaining emissions must be balanced with negative emissions technologies (NETs)¹⁶.

Switzerland aims to implement its reduction targets mainly through its CO₂ Act¹⁷. Among other instruments, this Act includes a CO₂ levy on fossil-based heating. A significant part of the proceeds can be earmarked for the so-called buildings program to promote CO₂-mitigating measures such as energy-efficient renovations or renewable energies. The rest is redistributed to the population and businesses as lump sum payments.

Rationale for issuance

Sustainability in the financial sector is becoming increasingly important, both nationally and internationally. Financing the transition requires significant investments and the participation of the private sector is crucial. For the Swiss financial center, sustainability in the financial sector presents a considerable opportunity. The government **primarily acts as mediator and facilitator in this context, cultivating an intensive dialogue with the financial industry** and interested third parties to shape policies that are conducive to the growth in sustainable finance.

- The importance of sustainable financial investments has risen sharply across the financial industry and the Swiss Confederation has recognized the opportunities created by sustainable finance early on, with numerous initiatives: On 24 June 2020, the Federal Council adopted a report and guidelines on sustainability in the financial sector and in November 2022¹⁸, it decided on concrete measures that focus on greater comparable transparency and the integrity of sustainability claims made in the financial market. They include mandating larger Swiss companies in all sectors to implement the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).
- Since 2017, the Federal Office for the Environment (FOEN) and the State Secretariat for International Finance (SIF) have encouraged Swiss financial institutions to participate in voluntary and free tests of their portfolios' alignment with the objective to reduce its greenhouse gas emissions to net zero using the Paris Agreement Capital Transition Assessment (PACTA) methodology. A new test is scheduled for 2022, following previous

¹⁶ Negative Emissions Technologies: <https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/emission-reduction/negative-emissions-technologies.html#:~:text=181015484>

¹⁷ Federal Act on the Reduction of CO₂ Emissions (CO₂ Act): <https://www.fedlex.admin.ch/eli/cc/2012/855/en>

¹⁸ <https://www.sif.admin.ch/sif/en/home/finanzmarktpolitik/sustainable-finance.html>

assessments in 2017 and 2020, 179 banks, asset managers, pension funds and insurance companies participating and testing the climate compatibility of their global equity, bond and real estate/mortgage portfolios accounted for 80% of Swiss equity and bond holdings, as well as three-quarters of the Swiss mortgage portfolio.

- In order to accelerate the green transition, external costs of environmental and climate damage from economic activities in the real economy need to be internalised. Switzerland continues to advocate at the international level that greenhouse gas emissions should be appropriately priced.
- In line with international progress, sustainable finance efforts to date have particularly focused on climate change. Progressively, the Swiss Confederation intends to expand sustainable finance efforts to other Sustainable Development Goals.

To bolster Switzerland's commitment to sustainability, the Federal Council has decided to issue Green Confederation Bonds in November 2021¹⁹. The Federal Council also aims to further increase transparency about public green expenditure and its impact. Given that parliament ultimately needs to approve any type of expenditure, sovereign green bonds do not lead to more environmental projects and spending. Nonetheless, the Green Confederation Bond is expected to have numerous benefits, such as strengthening the application of international Green Bond standards in Switzerland, providing investors with an additional sustainable asset class, and encouraging the issuance of further Green Bonds by private and public players. This in turn will enhance the competitiveness of the Swiss financial center in sustainable finance and could also lead to more investments and projects with a positive environmental impact over time.

Contribution of Use of Proceeds categories to sustainability objectives and key ESG industry challenges

ISS ESG mapped the Use of Proceeds categories financed under this Green Bonds with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Country Rating methodology. Key ESG challenges are key issues that are highly relevant for sovereign or sub-sovereign to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings industry. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG CHALLENGES FOR SOVEREIGN	CONTRIBUTION
Clean Transportation	✓	✓	Contribution to a material objective
Agriculture, forest management, natural landscapes and biodiversity	✓	✓	Contribution to a material objective

¹⁹ Confederation to lay foundations for green bonds: <https://www.efv.admin.ch/efv/en/home/aktuell/a/greenbonds.html>

Green Buildings & energy efficiency	✓	✓	Contribution to a material objective
Renewable Energy	✓	✓	Contribution to a material objective
International Cooperation	✓	✓	Contribution to a material objective
Research, innovation and awareness raising	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through these Green Bonds are consistent with the issuer's sustainability strategy and material ESG topics for sovereign. The rationale for issuing Green Bonds is clearly described by the issuer.*

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1. Validity of the SPO: As long as there is no material change to the Framework.
2. ISS ESG 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 standardized procedures to ensure consistent quality of responsibility research worldwide. In addition, we provide Second Party Opinion (SPO) on bonds based on data provided by the issuer.
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ANNEX 1: Methodology

ISS ESG Green KPIs

The ISS ESG Green 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 the Swiss Confederation’s Green Bonds.

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 assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by the Swiss Confederation (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which the Swiss Confederation’s Green Bonds contributes to related SDGs.

ANNEX 2: ISS ESG Country Rating Methodology

The following pages contain methodology description of the ISS ESG Country Rating.

Methodology - Overview

The ESG Country Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for many years.

ESG Country Rating – The ESG Country Rating universe comprises 179 countries, as well as Hong Kong and the European Union, representing 100 per cent of global sovereign debt (as of January 2022). The assessment of a country's sustainability performance is based on approximately 100 environmental, social and governance criteria with equal weight assigned to the social and environmental dimension. All criteria are individually weighted and evaluated and the results are aggregated to yield an overall score (rating). The selection of criteria is derived from ISS ESG's understanding of sustainability and reflects various global challenges that are embodied in the Sustainable Development Goals. Criteria are selected according to their relevance (materiality) and the quality of data regarding availability, up-to-dateness and consistency for all the countries rated.

Country controversies – In addition to the rating, ISS ESG conducts a comprehensive analysis of relevant controversies. Thereby, our clients have the possibility to consider, either separately or in addition to the rating, circumstances in areas they view as especially critical. The country controversy assessment is either directly derived from information provided by credible and acknowledged external sources, such as indices or blacklists, or it is based on the country's performance in the respective rating section. In the latter cases, underperformance in a specific set of indicators constitutes a controversy. Some controversy issues are delineated on different levels of severity.

Country leaders - List (in alphabetical order) of the top three countries from the ESG Country Rating universe at the time of generation of this report.

Criteria design – The rating comprises both qualitative and quantitative criteria. For instance, the safeguarding of fundamental freedoms by a country's government is mostly assessed in qualitative terms, while a country's consumption of resources is quantified. Qualitative criteria are evaluated against absolute targets and/or best practices, the assessment of quantitative indicators is based on thresholds. Those either reflect normative considerations and/or relative performance in a given area. In order to ensure their validity, some quantitative indicators are normalized against eligible denominators. To assess the quality of government policy in a specific area, we use indicators measuring input, such as spending on education as a proportion of GDP, as well as criteria measuring output, such as female participation in education.

Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Country Rating ranks from 1 (best – country's rating is in the first decile within the country universe) to 10 (lowest – country's rating is in the tenth decile within the country universe). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of countries cannot be evenly divided by ten, the surplus countries are distributed from the top (1. decile) to the bottom. If there are Country Ratings with identical absolute scores that would span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Country Ratings in the decile below.

Distribution of Ratings - Overview of the distribution of the ratings of all countries that are included in the ESG Country Rating universe (country portrayed in this report: dark blue).

Rating Scale – countries are rated on a twelve-point scale from A+ to D-:

A+: the country shows excellent performance

D-: the country shows poor performance

Overview of the range of scores achieved in the ESG Country Rating universe (light blue) and indication of the grade of the country evaluated in this report (dark blue).

Sources of Information - The sources we draw on include international institutions such as the World Bank, the International Energy Agency (IEA) and the World Health Organisation (WHO), as well as respected non-governmental organisations such as Amnesty International, Transparency International and the Stockholm International Peace Research Institute (SIPRI). A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold – Countries are categorised as Prime if they achieve/exceed the minimum sustainability performance requirements (Prime threshold) defined by ISS ESG for the Country Rating.

Update cycle - The vast majority of rating criteria is updated annually, only single indicators receive event-driven updates. The exact timing is determined by the publication dates of major sources of information.

ANNEX 3: Quality management processes

SCOPE

The Swiss Confederation commissioned ISS ESG to compile a Green Bonds SPO. The Second Party Opinion process includes verifying whether the Green Bond Framework aligns with the Green Bond Principles and to assess the sustainability credentials of its Green Bonds, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA's Green Bond Principles (June 2021)
- ISS ESG Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

ISSUER'S RESPONSIBILITY

The Swiss Confederation's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management

ISS ESG's VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Bonds to be issued by the Swiss Confederation based on ISS ESG methodology and in line with the ICMA Green Bond Principles.

The engagement with the Swiss Confederation took place in April 2022 to June 2022.

ISS ESG's BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) 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 assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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