



RAIFFEISEN

Preface



Guy Lachappelle, Chairman of the Board of Directors of Raiffeisen Switzerland



Heinz Huber, Chairman of the Executive Board of Raiffeisen Switzerland

Last year was challenging for the Raiffeisen Group in a number of ways. The criminal proceedings against Dr Pierin Vincenz, the former Chairman of the Executive Board, and the FINMA enforcement procedure against Raiffeisen Switzerland drew a lot of attention. Both proceedings adversely affected the entire Group's reputation – and set off a process of renewal. We look back on an intense but operationally highly successful year.

However, 2018 was also a year of new beginnings. Raiffeisen Switzerland laid a solid foundation for its future trajectory by conducting an independent investigation, unbundling ownership structures and overhauling the Executive Board.

Dealing with the past: An independent investigation led by Prof. Dr Bruno Gehrig was launched and completed in 2018. The investigation uncovered deficiencies in the acquisition and management of shareholdings as part of the diversification strategy, particularly from 2012 to 2015. To correct past mistakes and address the increasingly complex challenges of the banking business at the same time, the Board of Directors of Raiffeisen Switzerland launched a comprehensive set of measures, including the promotion of a strong culture of responsibility, improved management and control, and optimised governance. Raiffeisen Switzerland also devoted tremendous effort to implementing various initiatives that will correct the corporate governance deficiencies identified by FINMA.

Extensive unbundling: By rigorously pursuing this strategy, Raiffeisen aims to simplify ownership structures and reduce potential conflicts of interest.

Growth in Raiffeisen's investment activities has accelerated significantly in recent years. The Raiffeisen Group has proven that it can effectively expand investment activities on its own, which is why Raiffeisen decided to realign the Investment Clients business segment and sell Notenstein La Roche Private Bank Ltd to Bank Vontobel Ltd. The sale was completed on 2 July 2018.

Board overhauls: Raiffeisen Switzerland overhauled the Board of Directors and initiated the overhaul process in the Executive Board. At their meeting on 16 June 2018, the

delegates of Raiffeisen Switzerland initiated the overhaul of the Board of Directors by electing two new members. At the extraordinary Delegate Meeting on 10 November 2018, four new members were elected, as was Guy Lachappelle as the new Chairman of the Board of Directors of Raiffeisen Switzerland. The new Board of Directors appointed Heinz Huber as the new Chairman of the Executive Board. He assumed his post on 7 January 2019.

In the fourth quarter, an analysis of the current situation was conducted with the owners – paving the way for better teamwork within the Group. The Group's reform efforts were combined into the joint "Reform 21" programme, which is being developed in a participatory process between the Raiffeisen banks and Raiffeisen Switzerland.

Raiffeisen's cooperative culture has always been characterised by intensive dialogue – both within the Group and with our clients and other stakeholders.

Reaching out to clients in the community has more benefits than just allowing us to provide financial advice in every situation in life – it also creates trust. The numbers speak volumes: Clients remained loyal to the Raiffeisen banks in the past year. Customer deposits continued to grow in 2018.

The mortgage business is also performing strongly and proving to be highly successful and solid. The Raiffeisen banks' very good operating profit is overshadowed solely by one-time effects at Raiffeisen Switzerland. The sustained profitability and above-average equity ratio of the Raiffeisen Group have been maintained. Raiffeisen remains a very well-capitalised bank. Additional security for our clients is provided by the Raiffeisen business model, business policy and the cooperative members' ability to participate in the decision-making process.

Another milestone in ensuring the Group's future viability was attained in 2018: Since early January 2019, all 246 Raiffeisen banks have been operating on a modern IT platform. The new core banking system has laid the foundation for an agile and client-friendly banking experience at the Raiffeisen Group.

We have a strong desire to change. Indeed, our Group must constantly evolve and adapt to fluid market conditions if we want to successfully manage our Group and enrich Switzerland's banking industry with our cooperative model in future.

Let us broaden dialogue, making it binding. Dialogue, conducted on equal terms with a valued partner, is what turns a good bank into a preferred bank.

Local entrepreneurship, comprehensive services and, above all, client intimacy – these traits are what have made Raiffeisen great. Our past shows us the way to the future.



Guy Lachappelle
Chairman of the Board of Directors
of Raiffeisen Switzerland



Heinz Huber
Chairman of the Executive Board of
Raiffeisen Switzerland

Financial report

Raiffeisen Switzerland 2018

Business performance of Raiffeisen Switzerland

For Raiffeisen Switzerland, 2018 was a year of reappraisal and new beginnings. Raiffeisen Switzerland has laid the foundation for further development with an independent investigation and personnel changes to the Board of Directors and Executive Board. The introduction of the new core banking system has greatly simplified the Group's IT landscape and created an important basis for efficiency gains and future digitisation projects. With the sale of Notenstein La Roche Private Bank Ltd to Bank Vontobel Ltd, Raiffeisen Switzerland has almost concluded the disentangling of the corporate structures. The sale generated CHF 35.2 million in profit all told. However, above all the criminal proceedings against the former Chairman of the Executive Board of Raiffeisen Switzerland, Dr Pierin Vincenz, and the FINMA enforcement proceedings against Raiffeisen Switzerland attracted attention in 2018.

Raiffeisen Switzerland posted a net profit of CHF 42.5 million in the year under review. Profits were on a par with the previous year's level. However, CHF 250.2 million had to be released from the reserves for general banking risks in the current year. Numerous value adjustments and provisions were recognised in connection with retesting of participations for impairment and the planned purchase of ARIZON Sourcing Ltd. These extraordinary items totalling CHF 292 million were reflected in various income statement items. The switch to a more conservative valuation method at the KMU Capital Group led to value adjustments and provisions of around CHF 149 million. Of these, CHF 117.8 million are included in credit loss expense, CHF 6 million in equity participations and CHF 25 million in other provisions. An adjustment in value of CHF 54.1 million was posted in connection with the participation position in Leonteq Ltd. The book value of this participation was adjusted because the market value was lower on the valuation cut-off date than in the previous year. Other value adjustments and provisions of around CHF 27.1 million relate to adjustments to the valuations of diverse participations in particular because the consequent switch-over to a net asset value method was made. Provisions recognised in connection with the purchase of ARIZON Sourcing Ltd amount to around CHF 69 million.

Total assets decreased CHF 6 billion to CHF 47.6 billion, mainly due to the migration to the new banking system. With regard to the conversion, interbank positions were closed out as much as possible over the end of the year in order to simplify the migration. There were other substantial shifts within the balance sheet, largely due to changes in liquidity.

Income statement

Income from ordinary banking activity

The gross result from interest operations increased CHF 29.3 million (+23.2%) to CHF 155.4 million. Net interest income in the corporate clients, leasing and retail business increased. Treasury generated CHF 43.2 million in net income, an increase over the previous year due to lower liquidity maintenance costs. Changes in value adjustments for default risks and losses from interest operations increased CHF 124.7 million to CHF 126.5 million (note 14). The value adjustments were primarily caused by the above-mentioned extraordinary items related to participations. Value adjustments related to KMU Capital Group AG in particular added up to CHF 117.8 million. A large value adjustment for the capital goods leasing business was also recognised. The net result from interest operations was CHF 28.9 million, or CHF 95.4 million less than the previous year.

The result from commission business and services (note 23) rose CHF 8 million year-on-year to CHF 110.5 million. Much of the increase was attributable to improvements in income from securities trading and investment activities (+CHF 3.9 million), income from payment transfers (+CHF 4.2 million) and commission income from lending activities (+CHF 2.9 million). Income went up as a result of higher volumes in collective investments and new pricing arrangements with business partners. In contrast, commission expense rose CHF 2.1 million to CHF 46.4 million due to the higher volumes.

The result from trading activities stood at CHF 78.1 million, or CHF 1.4 million less than the year before (note 24). Trading activities continued to be dominated by low-interest policies at European central banks (ECB, BoE, SNB) in 2018. The 2018 trading year will go down in the history books as a prime example of investors "acting on their emotions". It will also stand out as a highly unusual year in which essentially all liquid asset classes decreased in value. Growth prospects and world politics started out the year in good shape. Global equity markets responded by posting significant gains. However, sentiment reversed completely in the fourth quarter. The unresolved trade war between the US and China slowed down the real economy and adversely affected corporate profits.

The other result from ordinary activities decreased slightly year-on-year, shedding CHF 9.5 million (-2.1%) to CHF 436.3 million. Significant changes included a CHF 9.9 million decline in income from ARIZON Sourcing Ltd to CHF 62.7 million. As a consequence of the sale of Notenstein La Roche Ltd, income from services reduced from CHF 9.3 to CHF 17.7 million. The income for collective and strategic services that Raiffeisen Switzerland provided to the Raiffeisen banks decreased nearly 30% from the previous year to CHF 41.7 million. The focus on the RAINBOW programme led to a reduction in the costs for project activities of Raiffeisen Switzerland that could be billed to the Raiffeisen banks. Other income, in contrast, rose CHF 31.3 million to CHF 87 million.

Other ordinary expenses of CHF 42.9 million mainly include costs for producing printed material for the Raiffeisen banks as well as expenditure on purchasing IT infrastructure for the Raiffeisen banks. The increase of CHF 8.7 million (+25.3%) is primarily attributable to the development of the core banking system.

Operating expenses

Personnel expenses (note 26) amounted to CHF 383.8 million (+0.7%), or essentially the same as the previous financial year. The number of people employed by Raiffeisen Switzerland stood at 2,123 full-time positions at the end of the current year. This represents an increase of 11 positions over the previous year.

General and administrative expenses rose CHF 39.6 million year-on-year (+15.6%) to CHF 294.3 million. One of the largest drivers of this rise was the increase of CHF 37.2 million in IT costs to CHF 124.5 million, which was directly related to the migration to the new core banking system. Advertising expenses remained stable year-on-year while legal costs and consulting fees declined CHF 3.1 million to CHF 48.6 million. The consulting fees in connection with projects decreased whereas the amount for legal advice rose. Other general and administrative expenses remained unchanged from the year before.

Value adjustments on fixed assets

Depreciation of tangible fixed assets declined CHF 4.2 million to CHF 23.3 million. In the current year, extraordinary write-downs on tangible fixed assets remained low at CHF 2.3 million.

Changes in provisions and other value adjustments, and losses

This item was affected particularly strongly by extraordinary factors. After reporting a CHF 0.1 million reduction in expenses in the previous year, net new provisions, other value adjustments and losses totalled CHF 112 million in 2018. Three factors are responsible for this enormous increase. First, provisions exceeding CHF 21 million were recognised to cover reorganisation costs associated with the sale of Notenstein La Roche Private Bank Ltd. In the case of other provisions, in particular the uncertainties in the legal disputes in the context of "Investnet" resulted in an increase of CHF 25 million affecting net income. Furthermore, provisions for other business risks of CHF 69 million and CHF 3.7 million for restructuring were recognised due to the approved purchase of ARIZON Sourcing Ltd in the 2018 financial year.

Extraordinary income, changes in reserves for general banking risks and taxes

The extraordinary income of CHF 46.2 million (note 28) was partly the result of the sale of Notenstein La Roche Private Bank Ltd. It also included liquidation gains from the sale of tangible fixed assets amounting to CHF 11 million. CHF 250.2 million was released from the reserves for general banking risks. Tax expenses in the reporting year stood at CHF 2.5 million.

Net profit

Net profit amounted to CHF 42.5 million, which, as mentioned earlier, was on par with the previous year's level despite the extraordinary items. This was due to the release of reserves for general banking risks.

Balance sheet

Raiffeisen Switzerland's total assets decreased CHF 6 billion. Part of this decrease stemmed from an actively managed reduction in total assets due to the migration to the new core banking system. Another part related to the adoption of book balance accounting for amounts due to and from other banks in accordance with financial reporting rules. Amounts due to and from other banks per se (i.e. on a current balance basis) have hardly changed at all.

Amounts due to/from Raiffeisen banks

The Raiffeisen banks hold assets at Raiffeisen Switzerland in order to comply with statutory liquidity requirements. At the end of 2018, Raiffeisen Switzerland's net amounts due to Raiffeisen banks stood at CHF 12.3 billion (previous year: CHF 12.9 billion). This total decreased due to the Raiffeisen banks' greater demand for funds for their mortgage business

Amounts due to/from other banks

Amounts due from other banks decreased CHF 6.4 billion year-on-year to CHF 1.8 billion. Amounts due to other banks declined CHF 7.3 billion to CHF 6.4 billion. This drop was due to the application of book balance accounting. On a current balance basis, amounts due and liabilities from other banks changed very little year-on-year.

Amounts due/liabilities from securities financing transactions

Liabilities from securities financing transactions increased CHF 1.2 billion to CHF 2.9 billion. These are repo transactions in which money is borrowed against collateral. The purpose of these transactions is to manage sight deposits held with the SNB. Amounts due from securities financing transactions were CHF 5 million.

Loans to clients

Loans to clients rose by a total of CHF 1.9 billion (+15.4%) to CHF 14.2 billion in the current year. Raiffeisen Switzerland's branches increased their lending volume CHF 505.6 million (+4.9%) to CHF 10.8 billion. These loans also included short-term Central Bank loans to institutional clients, loans to larger corporate clients, as well as the capital goods leasing business.

Trading portfolio assets

Trading portfolio net assets shrank CHF 234 million to CHF 1 billion (note 3).

Financial investments

Securities holdings in financial investments, mainly investment-grade bonds, were managed in accordance with statutory liquidity requirements and internal liquidity targets. The book value rose CHF 252 million to CHF 6.6 billion.

Participations

The value of participations (note 6) decreased CHF 632 million to CHF 423.8 million in the current year. The most significant change of CHF 622.5 million stemmed from the sale of Notenstein La Roche Private Bank to Bank Vontobel. An adjustment in value of around CHF 54.1 million was posted in connection with the participation position in Leonteq Ltd. This is a book value adjustment as a result of a lower market value compared with the previous year. Further value adjustments of around CHF 27.1 million are attributable to valuation adjustments on other investments. All the other participations that did not already use the net asset value method for their valuations switched over to the net asset value method. There was an increase in the investment holdings because Raiffeisen Switzerland participated in the capital increase of Leonteq Ltd and acquired an equity stake in Leonteq Ltd previously held by Notenstein La Roche Privat Bank Ltd. The 100% stake in Business Broker Ltd previously held by RUZ was transferred to Raiffeisen Switzerland in order to simplify shareholding structures.

Tangible fixed assets

The changes in tangible fixed assets are shown in note 7.1. The book value rose CHF 37.5 million to CHF 232.8 million. The increase was attributable to the newly renovated bank building in St.Gallen and the capitalisation of the licence fee of Avaloq Group AG.

Intangible assets

The changes in intangible assets are shown in note 8.

Client deposits

Client deposits rose CHF 379 million to CHF 11.4 billion. Branches reported an increase of CHF 37.2 million. At the same time, deposits from corporate clients went up CHF 317.7 million.

Bond issues and central mortgage institution loans

Bond issues and central mortgage institution loans increased CHF 0.2 billion to CHF 7 billion in the current year. Raiffeisen Switzerland bonds remained unchanged at CHF 3.3 billion. Raiffeisen Switzerland's subordinated bonds accounted for CHF 1.5 billion of this total. Bond components of structured products issued by Raiffeisen Switzerland amounted to CHF 1.7 billion. Holdings of central mortgage institution loans increased CHF 0.1 billion to CHF 2 billion in the current year.

Provisions

The demerger strategy and the extraordinary items associated with it had a large impact on provisions (note 14). Reorganisation provisions went up CHF 21.2 million, chiefly due to the sale of Notenstein La Roche Private Bank Ltd. Other provisions increased by CHF 25 million, in particular due to the uncertainties regarding legal disputes in the "Investnet" context. In addition, provisions for other business risks amounting to CHF 69 million were recognised as a result of the purchase of Arizon Sourcing AG agreed in 2018.

Reserves for general banking risks

CHF 250.2 million was released from the reserves for general banking risks in the current year. The release of reserves for general banking risks is related to the special factors mentioned above. The remaining balance of CHF 9.3 million is taxed (note 14).

Equity capital

Cooperative capital stood unchanged at CHF 1.7 billion at the end of December 2018. Equity capital fell from CHF 2.2 billion to CHF 1.9 billion due to the release of reserves for general banking risks.

Off-balance-sheet transactions

Total contingent liabilities (note 20) declined CHF 182 million to CHF 3 billion in the current year. The contract volume for derivative financial instruments (note 4) decreased CHF 34.8 billion to CHF 113.5 billion. Hedging transactions for the banking book decreased CHF 0.9 billion to CHF 38.2 billion. The positive replacement values amounted to CHF 1.3 billion (previous year: CHF 1.6 billion), while the negative replacement values amounted to CHF 1.5 billion (previous year: CHF 1.6 billion).

Remuneration report

The remuneration report is included in the annual report for the Raiffeisen Group.

Raiffeisen Switzerland balance sheet

as at 31 December 2018

in 1,000 CHF	Current year	Previous year	Change	Change in %	Note
Assets					
Liquid assets	17,993,258	18,819,203	-825,945	-4.4	17
Amounts due from Raiffeisen banks	3,023,050	2,655,902	367,148	13.8	10, 17
Amounts due from other banks	1,815,732	8,214,912	-6,399,180	-77.9	10, 17
Amounts due from securities financing transactions	4,920	51,371	-46,451	-90.4	1, 17
Amounts due from clients	3,490,328	2,441,407	1,048,921	43.0	2, 17
Mortgage loans	10,719,248	9,870,963	848,285	8.6	2, 10, 17
Trading portfolio assets	1,027,521	1,325,870	-298,349	-22.5	3, 17
Positive replacement values of derivative financial instruments	1,310,767	1,632,217	-321,450	-19.7	4, 17
Financial investments	6,560,872	6,308,591	252,281	4.0	5, 10, 17
Accrued income and prepaid expenses	227,896	228,036	-140	-0.1	
Participations	423,809	1,055,938	-632,129	-59.9	6
Tangible fixed assets	232,866	195,321	37,545	19.2	7
Intangible assets	4,234	6,653	-2,419	-36.4	8
Other assets	754,607	788,398	-33,791	-4.3	9
Total assets	47,589,108	53,594,781	-6,005,673	-11.2	
Total subordinated receivables	-	-	-	-	
of which subject to mandatory conversion and/or debt waiver	-	-	-	-	
Liabilities					
Amounts due to Raiffeisen banks	15,366,151	15,528,573	-162,422	-1.0	17
Amounts due to other banks	6,410,927	13,676,261	-7,265,334	-53.1	17
Liabilities from securities financing transactions	2,925,136	1,757,968	1,167,168	66.4	1, 17
Amounts due in respect of customer deposits	11,423,677	11,044,803	378,874	3.4	17
Trading portfolio liabilities	69,530	133,799	-64,269	-48.0	3, 17
Negative replacement values of derivative financial instruments	1,535,839	1,610,794	-74,955	-4.7	4, 17
Cash Bonds	30,563	61,758	-31,195	-50.5	17
Bond issues and central mortgage institution loans	7,021,981	6,836,274	185,707	2.7	12, 13, 17
Accrued expenses and deferred income	310,936	289,993	20,943	7.2	
Other liabilities	436,675	458,400	-21,725	-4.7	9
Provisions	128,373	16,685	111,688	669.4	14
Reserves for general banking risks	9,297	259,450	-250,153	-96.4	14
Cooperative capital	1,700,000	1,700,000	-	-	15
Statutory retained earnings reserve	177,523	173,183	4,340	2.5	
Profit	42,500	46,840	-4,340	-9.3	
Total equity capital	1,929,320	2,179,473	-250,153	-11.5	
Total liabilities	47,589,108	53,594,781	-6,005,673	-11.2	
Total subordinated cash bonds	1,518,637	1,684,697	-166,060	-9.9	
of which subject to mandatory conversion and/or debt waiver	983,119	1,149,178	-166,059	-14.5	
Off-balance-sheet transactions					
Contingent liabilities	3,024,904	3,206,955	-182,051	-5.7	2, 20
Irrevocable commitments	2,464,883	2,207,045	257,838	11.7	2
Obligations to pay up shares and make further contributions	15,345	19,985	-4,640	-23.2	2

Raiffeisen Switzerland income statement

2018

in 1,000 CHF	Current year	Previous year	Change	Change in %	Note
Interest and discount income	303,687	320,123	-16,436	-5.1	22
Interest and dividend income from financial investments	43,735	48,337	-4,602	-9.5	22
Interest expense	-192,056	-242,372	50,316	-20.8	22
Gross result from interest operations	155,366	126,088	29,278	23.2	
Changes in value adjustments for default risks and losses from interest operations	-126,465	-1,782	-124,683	6,996.8	14
Subtotal net result from interest operations	28,901	124,306	-95,405	-76.8	
Commission income securities trading and investment business	77,588	73,690	3,898	5.3	23
Commission income from lending business	16,267	13,395	2,872	21.4	23
Commission income other services	63,010	59,711	3,299	5.5	23
Commission expense	-46,362	-44,286	-2,076	4.7	23
Net income from commission business and service transactions	110,503	102,510	7,993	7.8	
Net trading income	78,138	79,522	-1,384	-1.7	24
Result from the disposal of financial investments	2,607	20,525	-17,918	-87.3	
Income from participations	71,510	52,322	19,188	36.7	
Result from real estate	3,884	3,668	216	5.9	
Other ordinary income	401,193	403,513	-2,320	-0.6	25
Other ordinary expenses	-42,905	-34,243	-8,662	25.3	
Other ordinary profit	436,289	445,785	-9,496	-2.1	
Operating income	653,831	752,123	-98,292	-13.1	
Personnel expenses	-383,815	-381,111	-2,704	0.7	26
General and administrative expenses	-294,285	-254,653	-39,632	15.6	27
Operating expenses	-678,100	-635,764	-42,336	6.7	
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-109,154	-74,775	-34,379	46.0	6, 7, 8
Changes to provisions and other value adjustments, and losses	-117,910	-4,352	-113,558	n.a.	14
Operating result	-251,333	37,232	-288,565	-775.0	
Extraordinary income	46,180	116,316	-70,136	-60.3	28
Extraordinary expenses	-1	-673	672	-99.9	28
Changes in reserves for general banking risks	250,153	-101,000	351,153	n.a.	14
Taxes	-2,500	-5,035	2,535	-50.3	29
Profit	42,500	46,840	-4,340	-9.3	

Proposed distribution of available profit addressed to the Ordinary Delegate Meeting of 15 June 2019 in Crans-Montana

in 1,000 CHF	Current year	Previous year	Change	Change in %
Appropriation of profit				
Profit	42,500	46,840	-4,340	-9.3
Profit brought forward	-	-	-	-
Available profit	42,500	46,840	-4,340	-9.3
Appropriation of profit				
– Allocation to statutory retained earnings reserve	-	4,340	-4,340	-100.0
– Interest on cooperative capital	42,500	42,500	-	-
Total appropriation of profit	42,500	46,840	-4,340	-9.3

Statement of changes in equity

2018

in 1,000 CHF	Cooperative capital	Statutory retained earnings reserve ¹	Reserves for general banking risks	Profit	Total
Equity capital at the beginning of the current year	1,700,000	173,183	259,450	46,840	2,179,473
Capital increase	-	-	-	-	-
Allocations to statutory retained earnings reserve	-	4,340	-	-4,340	-
Transfers from reserves for general banking risks	-	-	-250,153	-	-250,153
Interest on the cooperative capital	-	-	-	-42,500	-42,500
Profit	-	-	-	42,500	42,500
Equity capital at the end of the current year	1,700,000	177,523	9,297	42,500	1,929,320

1 Statutory retained earnings are not distributable.

Notes to the annual financial statements

Trading name, legal form, registered office

Under the name

- Raiffeisen Schweiz Genossenschaft
- Raiffeisen Suisse société coopérative
- Raiffeisen Svizzera società cooperativa
- Raiffeisen Svizra associaziun
- Raiffeisen Switzerland Cooperative

there exists an association of cooperative banks with a limited duty to pay in further capital pursuant to Art. 921 et seq. of the Swiss Code of Obligations ("OR"). Raiffeisen Switzerland Cooperative (hereinafter "Raiffeisen Switzerland") is the association of Raiffeisen banks in Switzerland. Raiffeisen Switzerland is domiciled in St.Gallen.

Risk management

The risks of the Raiffeisen banks and Raiffeisen Switzerland are closely tied together.

Risk policy

Risk management systems are based on statutory provisions and the regulations governing risk policy for the Raiffeisen Group ("risk policy" for short). The risk policy is reviewed and updated annually. Raiffeisen Switzerland views entering into risks as one of its core competences. Risks are only entered into with full knowledge of their extent and dynamics, and only when the requirements in terms of systems, staff resources and expertise are met. The risk policy aims to limit the negative impact of risks on earnings and protect Raiffeisen Switzerland against high exceptional losses while safeguarding and strengthening its good reputation. Raiffeisen Switzerland's risk management is organised using the three-lines-of-defence model: risks are managed by the responsible risk-managing business units (first line). The Risk & Compliance department is responsible for compliance with and enforcement of risk policy and regulatory requirements (second line). Internal Auditing ensures the independent review of the risk management framework (third line).

Risk control

Raiffeisen Switzerland controls the key risk categories using special processes and overall limits. Risks that are difficult to quantify are limited by qualitative stipulations. Risk control is completed by independent monitoring of the risk profile.

The Risk & Compliance department is responsible for the independent monitoring of risk. This primarily involves monitoring compliance with the limits stipulated by the Board of Directors and the Executive Board. The Risk & Compliance department also evaluates the risk situation on a regular basis as part of the reporting process.

Risk management process

The risk management process is valid for all risk categories, namely for credit, market and operational risks. It incorporates the following elements:

- Risk identification
- Risk measurement and assessment
- Risk management
- Risk monitoring and reporting

The aim of risk management is to

- ensure that effective controls are in place at all levels and to guarantee that any risks entered into are in line with accepted levels of risk tolerance;
- create the conditions for entering into and systematically managing risks in a deliberate, targeted and controlled manner; and
- make the best possible use of risk appetite, i.e. ensure that risks are only entered into if they offer suitable return potential.

Credit risk

Credit risks are defined in the risk policy as the risk of losses caused by clients or other counterparties failing to fulfil or render contractual payments as anticipated. Credit risks are inherent in loans, irrevocable credit commitments, contingent liabilities and trading products such as OTC derivative contracts. Risks also accrue from taking on long-term equity exposures that may involve losses when the issuer defaults.

Raiffeisen Switzerland identifies, assesses, manages and monitors the following risk types in the lending activities:

- Counterparty risk
- Collateral risk
- Concentration risk
- Country risk

Counterparty risks accrue from the potential default of a debtor or counterparty. A debtor or counterparty is considered to be in default when receivables are overdue or at risk.

Collateral risks accrue from impairments in the value of collateral.

Concentration risks in credit portfolios arise from the uneven distribution of credit receivables from individual borrowers or in individual coverage categories, industries or geographic areas.

Country risk is the risk of losses caused by country-specific events.

Retail banking in Switzerland is Raiffeisen Switzerland's core business. The main component of this business is financing for loans secured by security interests in land. In order to broaden the earnings base, spread risks more widely and cover client needs more comprehensively, Raiffeisen Switzerland aims to deepen its client relationships in the areas of housing, wealth and entrepreneurship based on its broad client base. In particular, it plans to cultivate the investment and corporate client business more intensively.

The branches primarily incur counterparty, collateral and concentration risks. The Raiffeisen Switzerland branches are part of the Branches & Regions department and extend credit to private and corporate clients.

In general, the Corporate Clients department is the instance that grants larger loans to corporate clients. When the credit being increased or newly extended exceeds CHF 150 million on a risk-weighted basis, the Head of Group Risk Controlling (Head GRC) also issues an assessment.

The Group-wide responsibilities of the Central Bank Department involve managing both domestic and international counterparty risks. These risks occur in transactions such as wholesale funding in the money and capital markets, as well as the hedging of currency, fluctuating interest rate and proprietary trading risks. The Central Bank department may only conduct international transactions when country-specific limits have been approved and established.

Pursuant to the Articles of Association, commitments abroad may not exceed 5% of the consolidated Raiffeisen Group balance sheet total.

Internal and external ratings are used as a basis for approving and monitoring business with other commercial banks. Off-balance-sheet transactions, such as derivative financial instruments, are converted to their respective credit equivalent. Raiffeisen Switzerland has concluded a Swiss master agreement for OTC derivative instruments with most of the Central Bank counterparties whose OTC transactions are not cleared centrally, as well as a credit support appendix for variation margins. Credit support is exchanged by transferring the margin requirement, which is calculated daily. These OTC commitments are managed and monitored on a net basis.

Raiffeisen Switzerland invests in other companies as part of strategic cooperation partnerships.

Creditworthiness and solvency are assessed on the basis of compulsory standards at Raiffeisen Switzerland. Sufficient creditworthiness and the ability to maintain payments must be proven before any loan is approved. Loans to private individuals, legal entities and investment property financing are classified according to internally developed rating models and subject to risk monitoring based on the resulting classification. Clients' creditworthiness is defined based on eleven risk categories and two default categories.

This system has proved its worth as a means of dealing with the essential elements of credit risk management, i.e. risk-adjusted pricing, portfolio management, identification and provisions. Specialist teams at Raiffeisen Switzerland are available to provide assistance for more complex financing arrangements and the management of recovery positions.

Extensive internal rules define the methods, procedures and responsibilities for valuing loan collateral, particularly for determining market values and collateral values. These rules are constantly reviewed and updated to reflect changes in regulatory requirements and market conditions. When security interests in land are put up as collateral, the bank values them using generally accepted estimation methods that are adapted to the property type. This includes hedonic models, income approaches and expert estimates. The models used and the individual valuations themselves are regularly reviewed. The maximum lending amount for any property loan secured by security interests in land varies depending on the realisability of the collateral and is affected by the type of use.

Raiffeisen analyses loan positions for default risk at regular intervals and/or in response to certain events and recognises value adjustments and/or loan loss provisions as needed. The bank considers loans to be impaired when it becomes unlikely that debtors will be able to meet their future obligations or the intrinsic value of the loan no longer exists, but at the very latest when the contractual principal, interest or commission payments are more than 90 days overdue. Provisions are recognised for the full amount of the interest and commission payments.

Raiffeisen Switzerland monitors, controls and manages risk concentrations within the Group, especially for individual counterparties, groups of affiliated counterparties, sectors

and collateral. The process of identifying and consolidating affiliated counterparties is largely automated across the entire Raiffeisen Group. Raiffeisen Switzerland monitors the credit portfolio on a Group-wide basis, evaluating the portfolio structure and ensuring proper credit portfolio reporting. An annual credit portfolio report provides responsible decision-makers with information on the economic environment, the structure of the credit portfolio and developments during the period under review. The report contains an assessment of credit portfolio risk and identifies any need for action.

Monitoring the portfolio structure involves analysing the distribution of the portfolio according to a range of structural characteristics, including, without limitation, category of borrower, type of loan, size of loan, counterparty rating, sector, collateral, geographical features and value adjustments. The Executive Board and the Board of Directors of Raiffeisen Switzerland receive a quarterly risk report detailing the risk situation, risk exposure, limit utilisation and changes in exception-to-policy loans. In addition to standard credit portfolio reporting, Group Risk Controlling also conducts ad hoc risk analyses where required. Monitoring and reporting form the basis for portfolio-controlling measures with the main focus being on controlling new business via lending policy.

Effective tools have been implemented to proactively avoid concentrations within the entire Raiffeisen Group. Sector-specific limits have been established. Measures are defined and taken if these limits are reached or exceeded.

Cluster risks are monitored centrally by the Risk & Compliance department. As at 31 December 2018, Raiffeisen Switzerland had two reportable cluster risks (including Group companies) with cumulative (net) risk-weighted commitments of CHF 1.2 billion. These amounted to 39.9% of eligible capital resources.

The credit volume of Raiffeisen Switzerland's ten largest borrowers (excluding interbank business and public-sector entities) as at 31 December 2018 was CHF 1.1 billion.

Market risk

Risk associated with fluctuating interest rates: Since interest rates for assets and liabilities are locked in for different periods, fluctuations in market interest rates can have a considerable impact on Raiffeisen Switzerland's profit and loss. Value at risk is calculated along with interest rate sensitivity in various interest rate shock scenarios in order to assess the assumed interest rate risk on the net present value of the equity capital. The impact on profitability is assessed using dynamic income simulations. To measure mark-to-market risk, a gap analysis is performed using all balance-sheet and off-balance-sheet items along with their contractually fixed maturities. Loans and deposits with non-fixed maturities and capital commitment periods are modelled on the basis of historical data and forward-looking scenarios. No specific assumptions are made for premature loan repayments because early repayment penalties are generally charged. Risk associated with fluctuating interest rates is managed on a decentralised basis in the responsible business units. Interest rate risks are hedged using established instruments. The Central Bank department is the binding counterparty concerning wholesale funding and hedging transactions for the entire Group. The responsible members of staff are required to adhere strictly to the limits set by the Board of Directors. The Risk & Compliance department monitors compliance with interest risk limits and prepares the associated quarterly reports, while also assessing the Raiffeisen Group's risk situation. Monitoring and reporting is conducted more frequently for individual units.

Other market risk: Since assets in a foreign currency are generally refinanced in the same currency, foreign currency risks are largely avoided.

The financial investment portfolio is managed by the Central Bank department. Financial investments are part of the cash reserves of the Raiffeisen Group and are largely high-grade fixed-income securities that meet statutory liquidity requirements. The Risk & Compliance department monitors the interest rate and foreign currency risks of financial investments.

Trading activities at the Central Bank department include interest rates, currencies, equities and banknotes/precious metals. Trading must strictly adhere to the value-at-risk, sensitivity and loss limits set by the Board of Directors and the Executive Board, which the Risk & Compliance department monitors on a daily basis. In addition, the Risk & Compliance department conducts daily plausibility checks on the income achieved from trading and conducts daily reviews of the valuation parameters used to produce profit and loss figures for trading.

Reporting on compliance with value-at-risk, sensitivity, position and loss limits and the assessment of the risk situation by the Risk & Compliance department is primarily conducted via the following reports:

- Daily trading limit report to the responsible Executive Board members of Raiffeisen Switzerland
- Weekly market and liquidity risk report for Raiffeisen Switzerland, presented to responsible Executive Board members of Raiffeisen Switzerland
- Monthly risk report to the Executive Board of Raiffeisen Switzerland
- Quarterly risk report to the Board of Directors of Raiffeisen Switzerland

The Risk & Compliance department communicates breaches of market risk limits set by the Board of Directors and Executive Board on an ad hoc basis within the scope of the respective risk reports.

Liquidity risk

Liquidity risks are managed by the Treasury (Central Bank department) in accordance with applicable laws, regulations and commercial criteria and are monitored by the Risk & Compliance department. Risk management involves, among other things, simulating liquidity inflows and outflows over different time horizons using various Group-wide scenarios. These scenarios include the impact of liquidity shocks that are specific to Raiffeisen or affect the market as a whole.

Monitoring is based on statutory minimum requirements and risk indicators based on the above scenario analyses.

Operational risk

At Raiffeisen, operational risks mean the danger of losses arising as a result of the unsuitability or failure of internal procedures, people or systems, or as a result of external events. They also include risks relating to cyber attacks and information security in general. This includes not only the financial impacts, but also the reputational and compliance consequences.

Operational risk tolerance is defined using value-at-risk limits or stop-loss limits and frequencies of occurrence. Risk tolerance is approved annually by the Board of Directors of Raiffeisen Switzerland. The Risk & Compliance department monitors compliance with risk tolerance. If one of the defined limits or a threshold is exceeded, suitable action is defined and taken.

Each functional department of Raiffeisen Switzerland is responsible for identifying, assessing, managing and monitoring operational risk arising from its own activities. The Risk & Compliance department is responsible for maintaining the Group-wide register of operational risks and for analysing and evaluating operational risk data. Risk identification is supported by the capture and analysis of operational events. The Risk & Compliance department is also in charge of the concepts, methods and instruments used to manage operational risks, and it monitors the risk situation. In specific risk assessments, operational risks are identified, categorised by cause and impact, and evaluated according to the frequency of occurrence and the extent of losses. The risk register is updated dynamically. Risk reduction measures are defined and their implementation is monitored by the line units. Emergency and catastrophe planning measures for mission-critical processes are in place.

The results of the risk assessments, key risk indicators (KRIs), significant internal operational risk events and relevant external events are reported quarterly to both the Executive Board and the Board of Directors of Raiffeisen Switzerland. Value-at-risk limit violations are escalated to the Board of Directors.

In addition to the standard risk management process, the Risk & Compliance department conducts ad hoc risk analyses where required, analyses any loss events that arise and maintains close links with other organisational units that, as a result of their function, come into contact with information on operational risks within the Raiffeisen Group.

The Risk & Compliance department also reports to the Executive Board and the Audit and Risk Committees of Raiffeisen Switzerland on major compliance risks quarterly and on legal risks semi-annually.

These risks, together with an updated compliance risk profile and the plan of action on risk derived from it in accordance with FINMA Circular 2017/1, are submitted to the Board of Directors of Raiffeisen Switzerland once a year.

Outsourcing

Raiffeisen Switzerland has outsourced the operation of the data communication network to Swisscom (Switzerland) Ltd. Bank Vontobel AG provides global custody and global execution services under a master agreement concerning the provision of securities services. Swiss Post Solutions AG handles the scanning and post-processing of paper-based payments, while the printing and shipping of bank vouchers have been outsourced to Trendcommerce AG. ARIZON Sourcing Ltd, provides payment and securities operations services for the Raiffeisen Group. The platform for the online identification of new and current customers via Videostream is operated by Inventx AG.

In relation to its activities as an issuer of structured products, Raiffeisen Switzerland concluded an outsourcing agreement with Leonteq Securities Ltd. When Raiffeisen investment products are issued, Leonteq Securities Ltd performs duties in connection with structuring, processing, documenting and distributing the instruments. Leonteq Securities Ltd also manages the derivative risks and deals with the life-cycle management of the products.

SIX Terravis administers the mortgage certificates register on a fiduciary basis. The operation of the digital solution for private document storage was outsourced to DSwiss Ltd.

The previous e-invoice function in Raiffeisen e-banking was replaced by the new eBill portal in November 2018. The portal is operated by SIX Paynet Ltd but is still accessed via Raiffeisen e-banking.

Regulatory provisions

On 24 June 2015, FINMA, the Swiss Financial Market Supervisory Authority, issued a decision defining special requirements relating to the systemic importance of the Raiffeisen Group and Raiffeisen Switzerland. As an individual bank, Raiffeisen Switzerland remains exempt from the disclosure requirements. The consolidated information that must be disclosed pursuant to FINMA Circular 2016/1 can be viewed on the Raiffeisen website (www.raiffeisen.ch) or in the Raiffeisen Group's annual report.

The Raiffeisen Group has opted for the following approaches for calculating capital adequacy requirements:

Credit risk

Raiffeisen uses the international standardised approach (SA-BIS) to calculate the capital adequacy requirements for credit risks.

External issuer/issue ratings from three FINMA-recognised rating agencies are used for central governments and central banks, public-sector entities, banks and securities dealers, as well as companies.

Issuer/issue ratings from an export insurance agency are used for central governments; however, rating agency ratings take precedence over ratings issued by the export insurance agency.

No changes were made to the rating agencies or export insurance agencies used in the current year.

Positions for which external ratings are used are found chiefly under the following balance sheet items:

- Amounts due from banks
- Amounts due from customers and mortgage loans
- Financial investments
- Positive replacement value

Raiffeisen started the FINMA approval process for calculating capital adequacy requirements and measuring and managing credit risk in accordance with the FIRB approach in 2015 and was awarded "broadly compliant" status in 2016. The approval process is expected to be completed in 2019.

Market risk

The capital adequacy requirements for market risk are calculated using the standardised approach under supervisory law. Within this framework, the duration method is applied for general market risk with regard to interest rate instruments and the delta-plus approach in respect of capital adequacy requirements for options.

Operational risk

Raiffeisen uses the basic indicator approach to calculate capital adequacy requirements for operational risks.

Methods applied to identify default risks and to establish the required value adjustment

Mortgage loans

The property value of owner-occupied residential properties is determined using either the real value method or a hedonic pricing method. The bank uses these valuations to update the property value periodically. In addition, the bank constantly monitors delinquent interest and principal payments.

The property value of multi-family units, commercial real estate and special properties is determined using the income capitalisation method, which is based on long-term cash flows. This model also takes into account market data, location information and vacancy rates. Rental income from investment properties is reviewed periodically, particularly when there are indications of significant changes in rental income or vacancies. In addition, late payment of interest and amortisation is also regularly monitored here.

With the described methods and with rating systems the bank identifies mortgage loans associated with higher risks. These loans are thoroughly reviewed by credit specialists. Raiffeisen Switzerland's Recovery Department is involved in certain cases. Additional collateral may be requested or a value adjustment recognised based on the missing collateral (see also the section entitled "Steps involved in determining value adjustments and provisions").

Loans against securities

The bank monitors the commitments and value of the pledged securities on a daily basis. If the collateral value of the pledged securities falls below the credit limit amount (fixed collateral) or drawn-down amount (variable collateral), the bank will consider reducing the loan amount or request additional collateral. If the shortfall widens and/or no client-side improvement is possible within a specified period, the securities will be realised and the loan settled.

Unsecured loans

For unsecured commercial operating loans, the bank normally asks the client to provide information that can be used to assess the state of the company's finances. This information is requested annually or more frequently if necessary. Audited annual financial statements and any interim financial statements are requested regularly. This information is evaluated and any increased risks are identified. If the risks are higher, the bank will conduct a detailed assessment and work with the client to define appropriate measures in order to bring the commitment back into compliance. If the loan commitment is determined to be at risk in this phase, a value adjustment will be recognised.

Steps involved in determining value adjustments and provisions

The steps described in sections "Mortgage loans", "Loans against securities" and "Unsecured loans" are used to identify the need to recognise a value adjustment and/or provision. Furthermore, positions previously identified as being at risk are re-assessed quarterly. The value adjustment is updated if needed.

Value of collateral

Mortgage loans

Every mortgage loan is preceded by a recent valuation of the underlying collateral. The valuation method varies depending on property type and use. The bank values residential property using a hedonic pricing model together with the real value method. This approach compares the value of the property to purchase prices paid in the past, producing a statistical price that properties with comparable characteristics (size, appointments, location) have received. The bank uses the income capitalisation method for multi-family units, commercial real estate and special properties. In addition, Raiffeisen Switzerland's valuers or external accredited valuers must be involved if the real estate's lending basis exceeds a certain amount or if the real estate has special risks. The liquidation value is also calculated if the borrower's creditworthiness is poor.

The bank bases its loan on the lower of an internal or external valuation and the purchase price or capital expenditure (if incurred no more than 24 months previously).

Loans against securities

The bank accepts direct investments, structured products and funds as collateral for loans against securities. The bank discounts market values to account for the market risk associated with the financial instruments and to determine the collateral value. The risk discounts vary depending on the asset class and product group but are calculated using a defined, approved set of derivation rules. Discounts on life insurance policies or guarantees are dictated by the product.

Business policy on the use of derivative financial instruments and hedge accounting

Business policy on the use of derivative financial instruments

Derivative financial instruments are used for trading and hedging purposes.

Derivative financial instruments are only traded by specially trained traders. The bank does not make markets. It trades standardised and OTC instruments for its own and clients' account, particularly interest and currency instruments.

Hedges in the banking book are created by means of internal deposits and loans with the trading book; the Treasury and Products & Sales Central Bank departments do not take out hedges directly in the market. Hedges in the trading book are usually executed through offsetting trades with external counterparties.

Use of hedge accounting

Types of hedged items and hedging instruments

The bank uses hedge accounting predominantly for the following types of transactions:

Hedged item	Hedged using:
Interest rate risks from interest rate sensitive receivables and liabilities in the bank book	Interest rate and currency swap
Price risk of foreign currency positions	Currency future contracts

Composition of the groups of financial instruments

Interest rate sensitive positions in the banking book are grouped into various time bands by currency and hedged accordingly using macro hedges. The bank also uses micro hedges.

Economic connection between hedged items and hedging instruments

At the inception of a hedge relationship between a financial instrument and an item, the bank documents the relationship between the hedging instrument and the hedged item. The documentation covers things such as the risk management goals and strategy for the hedging instrument and the methods used to assess the effectiveness of the hedge. Effectiveness testing constantly and prospectively assesses the economic relationship between the hedged item and the hedging instrument by actions such as measuring offsetting changes in the value of the hedged item and the hedging instrument and determining the correlation between these changes.

Effectiveness testing

A hedge is deemed to be highly effective if the following criteria are substantially met:

- The hedge is determined to be highly effective both at inception and on an ongoing basis (micro hedges).
- There is a close economic connection between the hedged item and the hedging instrument.
- The changes in the value of the hedged item offset changes in the value of the hedging instrument with respect to the hedged risk.

Ineffectiveness

If a hedge no longer meets the effectiveness criteria, it is treated as a trading portfolio asset and any gain or loss from the ineffective part is recognised in the income statement.

Accounting and valuation principles

General principles

Accounting, valuation and reporting conform to the requirements of the Swiss Code of Obligations, the Swiss Federal Act on Banks and Savings Banks (plus the related ordinance) and FINMA Circular 2015/1 Accounting – Banks (ARB).

The detailed positions shown for a balance sheet item are valued individually.

Single-entity financial statements are prepared subject to the above regulations and present a reliable view. Unlike financial statements prepared in accordance with the true and fair view principle, single-entity financial statements may include hidden reserves.

Raiffeisen Switzerland publishes the consolidated annual financial statements of the Raiffeisen Group in a separate annual report. This includes the annual financial statements of all the individual Raiffeisen banks, Raiffeisen Switzerland and major subsidiaries in which the Group directly or indirectly holds more than 50% of the voting shares. Raiffeisen Switzerland has therefore chosen not to prepare consolidated subgroup accounts that include the annual financial statement of Raiffeisen Switzerland and its majority interests.

Accounting and valuation principles

Recording of business transactions

All business transactions that have been concluded by the balance sheet date are recorded on a same-day basis in the balance sheet and the income statement in accordance with the relevant valuation principles. Spot transactions that have been concluded but not yet settled are posted to the balance sheet on the trade date.

Foreign currencies

Assets, liabilities and cash positions in foreign currencies are converted at the exchange rate prevailing on the balance sheet date. Exchange rate gains and losses arising from this valuation are reported under "Result from trading activities". Foreign currency transactions during the course of the year are converted at the rate prevailing at the time the transaction was carried out.

Liquid assets, borrowed funds

These are reported at nominal value. Precious metal liabilities on metal accounts are valued at fair value if the relevant metal is traded on a price-efficient and liquid market.

Discounts and premiums on the Group's own bond issues and central mortgage institution loans are accrued over the period to maturity.

Amounts due from banks and customers, mortgage loans, value adjustment

These are reported at nominal value less any value adjustment required. Precious metal assets on metal accounts are valued at fair value if the relevant metal is traded on a price-efficient and liquid market. Interest income is reported on an accruals basis.

Receivables are deemed to be impaired where the bank believes it improbable that the borrower will be able to completely fulfil his/her contractual obligations. Impaired loans – and any collateral that may exist – are valued on the basis of the liquidation value.

Impaired loans are subject to provisions based on regular analyses of individual loan commitments, while taking into account the creditworthiness of the borrower, the counterparty risk and the estimated net realisable sale value of the collateral. If recovery of the amount receivable depends solely on the collateral being realised, full provision is made for the unsecured portion.

Value adjustments are not recognised for latent risks.

If a loan is impaired, it may be possible to maintain an available credit limit as part of a continuation strategy. If necessary, provisions for off-balance-sheet transactions are recognised for these kinds of unused credit limits. For current account overdrafts, which typically show considerable, frequent volatility over time, initial and subsequent provisions are recognised for the total amount (i.e. value adjustments for effective drawdowns and provisions for available limits) under "Changes in value adjustments for default risks and losses from interest operations". If drawdowns change, a corresponding amount is transferred between value adjustments and provisions in equity. Reversals of value adjustments or provisions are also recognised under "Changes in value adjustments for default risks and losses from interest operations".

Interest and related commissions that have been due for more than 90 days, but have not been paid, are deemed to be non-performing. In the case of current account overdrafts, interest and commissions are deemed to be non-performing if the specified overdraft limit is exceeded for more than 90 days. Non-performing and impaired interest (including accrued interest) and commissions are no longer recognised as income but reported directly under value adjustments for default risks.

A receivable is written off at the latest when completion of the realisation process has been confirmed by legal title.

However, impaired loans are written back up in full, i.e. the value adjustment is reversed, if payments of outstanding principal and interest are resumed on schedule in accordance with contractual provisions and additional creditworthiness criteria are fulfilled.

Individual value adjustments for credit items are calculated per item on a prudential basis and deducted from the appropriate receivable.

All leased objects are reported in the balance sheet as "Amounts due from customers" in line with the present-value method.

Receivables and liabilities from securities financing transactions

Securities lending and borrowing

Securities lending and borrowing transactions are reported at the value of the cash collateral received or issued, including accrued interest.

Securities that are borrowed or received as collateral are only reported in the balance sheet if Raiffeisen Switzerland takes control of the contractual rights associated with them. Securities that are loaned or provided as collateral are only removed from the balance sheet if Raiffeisen Switzerland forfeits the contractual rights associated with them. The market values of the borrowed and loaned securities are monitored daily so that any additional collateral can be provided or requested as necessary.

Fees received or paid under securities lending and repurchase transactions are booked to commission income or commission expenses on an accruals basis.

Repurchase and reverse repurchase transactions

Securities purchased with an agreement to resell (reverse repurchase transactions) and securities sold with an agreement to buy back (repurchase transactions) are regarded as secured financing transactions and are recorded at the value of the cash collateral received or provided, including accrued interest.

Securities received and delivered are only recorded in/removed from the balance sheet if control of the contractual rights associated with them is transferred. The market values of the received or delivered securities are monitored daily so that any additional collateral can be provided or requested as necessary.

Interest income from reverse repurchase transactions and interest expense from repurchase transactions are accrued over the term of the underlying transaction.

Trading portfolio assets and trading portfolio liabilities

The trading portfolio assets and trading portfolio liabilities are valued and recognised at fair value. Positions for which there is no representative market are valued according to the lower of cost or market value principle. Both the gains and losses arising from this valuation and the gains and losses realised during the period in question are reported under "Result from trading activities". This also applies to interest and dividend income on trading positions. The funding costs for holding trading positions are charged to trading profits and credited to interest income. Income from firm commitments to securities issues are also reported under trading profits.

Financial investments

Fixed-income debt instruments and warrant bonds are valued according to the lower of cost or market value principle if there is no intention to hold them to maturity.

Debt securities acquired with the intention of holding them to maturity are valued according to the accrual method with the discount or premium accrued over the remaining life.

Equity securities are valued according to the lower of cost or market value principle.

Real estate and equity securities acquired through lending activities and other real estate and equities intended for disposal are reported under "Financial investments" and valued at the lower of cost or market value. The "lower of cost or market value" principle refers to the lower of the acquisition cost or the liquidation value.

Precious metals held to cover liabilities from precious metals accounts are carried at market value as at the balance sheet date. In cases where fair value cannot be determined, they are valued according to the lower of cost or market value principle.

Participations

Shares and other equity securities in companies that are held for the purpose of a long-term investment are shown under "Participations", irrespective of the proportion of voting shares held.

All participations in communal facilities are also reported here. These are valued in accordance with the principle of acquisition cost, i.e. acquisition cost less operationally required value adjustments. Participations may contain hidden reserves.

Tangible fixed assets

Tangible fixed assets are reported at their purchase cost plus value-enhancing investments and depreciated on a straight-line basis over their estimated useful life, as follows:

Real estate	66 years
Alterations and fixtures in rented premises	full rental term, maximum 15 years
Furniture and fixtures	8 years
Other tangible assets	5 years
Internally developed or purchased core banking software	10 years
IT systems and remaining software	3 years

Immaterial investments are booked directly to operating expenses. Large-scale, value-enhancing renovations are capitalised, while repairs and maintenance are booked directly to the income statement. Tangible fixed assets may contain hidden reserves. Expenditure incurred in connection with the implementation of the future core banking systems is recognised as an asset through "Other ordinary income". Real estate, buildings under construction and core banking systems are not depreciated until they come into use. Undeveloped building land is not depreciated.

The value of tangible fixed assets is reviewed whenever events or circumstances give reason to suspect that the book value is impaired. Any impairment is recognised in profit or loss under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets". If the useful life of a tangible fixed asset changes as a result of the review, the residual book value is depreciated over the new duration.

Intangible assets

Other intangible assets

Acquired intangible assets are recognised where they provide the Group with a measurable benefit over several years. Intangible assets created by the Group itself are not capitalised. Intangible assets are recognised at acquisition cost and amortised on a straight-line basis over their estimated useful life within a maximum of five years.

Impairment testing

The value of intangible assets is reviewed whenever events or circumstances give reason to suspect that the book value is impaired. Any impairment is recognised in profit or loss under "Value adjustments on participations and depreciation and amortisations of tangible fixed assets and intangible assets". If the useful life of an intangible asset changes as a result of the review, the residual book value is amortised over the new duration.

Provisions

Provisions are recognised on a prudential basis for all risks identified at the balance sheet date that are based on a past event and will probably result in an outflow of resources. Provisions for available overdraft limits are described in the section entitled "Amounts due from banks and clients, mortgage loans".

Reserves for general banking risks

Reserves may be allocated for general banking risks. These are reserves created as a precautionary measure in accordance with accounting standards to hedge against latent risks in the business activities of the bank. These reserves are counted as capital in accordance with Art. 21 para. 1 letter c of the Capital Adequacy Ordinance and are partially taxable (see "Value adjustments, provisions and reserves for general banking risks" table in the notes).

Taxes

Taxes are calculated and booked on the basis of the profit for the current year.

Contingent liabilities, irrevocable commitments, obligations to make payments and additional contributions

These are reported at their nominal value under "Off-balance-sheet transactions". Provisions are created for foreseeable risks.

Derivative financial instruments

Reporting

The replacement values of all contracts concluded on the bank's own account are recognised in the balance sheet regardless of their income statement treatment. The replacement values of exchange-traded contracts concluded on a commission basis are reported only to the extent that they are not covered by margin deposits. The replacement values of over-the-counter contracts concluded on a commission basis are always reported.

All hedging transactions of the Treasury and Products & Sales Central Bank departments are concluded via the trading book; the Treasury and Products & Sales Central Bank departments do not themselves participate in the market. Only the replacement values of contracts with external counterparties are reported. The "Open derivative financial instruments" note shows the replacement values and contract volume with external counterparties. The volume of internal hedging transactions of the Treasury and Products & Sales Central Bank departments is reported under "Hedging instruments".

In the case of issued structured products that include a debt security, the derivative is split from the underlying contract and valued separately. The debt securities (underlying contracts) are reported at nominal value under "Bond issues and central mortgage institution loans". Discounts and premiums are reported under the item "Accrued expenses and deferred income" or "Accrued income and prepaid expenses", as the case may be, and realised against the interest income over the remaining life. Issued structured products that do not include a debt security and the derivative portions of the structured products that include a debt security are recognised at fair value under "Positive replacement values of derivative financial instruments" and "Negative replacement values of derivative financial instruments".

Treatment in the income statement

The derivative financial instruments recorded in the trading book are valued on a fair-value basis.

Derivative financial instruments used to hedge risk associated with fluctuating interest rates as part of balance sheet "structural management" are valued in accordance with the accrual method. Interest-related gains and losses arising from the early realisation of contracts are accrued over their remaining lives.

The net income from self-issued structured products and the net income from the commission-based issue of structured products by other issuers are booked under "Commission income from securities trading and investment activity".

Changes as against previous year

No significant changes were made to the accounting and valuation principles in the reporting year.

Events after the balance sheet date

No events with a measurable effect on the operating result occurred after the reporting date.

Information on the balance sheet

1. Securities financing transactions (assets and liabilities)

in 1,000 CHF	Current year	Previous year
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	4,925	51,372
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions ¹	2,925,133	1,758,179
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing, as well as securities in own portfolio transferred in connection with repurchase agreements	2,944,113	1,865,788
with unrestricted right to resell or pledge	2,944,113	1,865,788
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing, as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	74,493	185,189
of which, repledged securities	-	
of which, resold securities	69,530	133,799

1 Before netting agreements

2. Collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables

in 1,000 CHF	Mortgage cover	Other cover	Without cover	Total
Loans (before netting with value adjustments)				
Amounts due to customers	450,006	151,360	3,025,039	3,626,405
Mortgage loans	10,719,248	-	2,805	10,722,053
Residential property	9,128,092	-	1,978	9,130,071
Office and business premises	304,701	-	13	304,714
Trade and industry	748,240	-	-	748,240
Other	538,215	-	814	539,029
Total loans (before netting with value adjustments)				
Current year	11,169,254	151,360	3,027,844	14,348,459
Previous year	10,267,029	106,348	1,951,574	12,324,951
Total loans (after netting with value adjustments)				
Current year	11,169,254	151,360	2,888,962	14,209,576
Previous year	10,267,029	106,348	1,938,993	12,312,370
Off-balance-sheet transactions				
Contingent liabilities	1,445	3,224	3,020,236	3,024,904
Irrevocable commitments	1,054,885	17,300	1,392,698	2,464,883
Obligations to pay up shares and make further contributions	-	-	15,345	15,345
Total off-balance-sheet transactions				
Current year	1,056,330	20,524	4,428,279	5,505,133
Previous year	964,272	52,120	4,417,594	5,433,985
Impaired loans				
Current year	314,180	15,455	298,725	138,883
Previous year	24,460	11,716	12,743	12,581

in 1,000 CHF	Gross amount borrowed	Estimated proceeds from realisation of collateral	Net amount borrowed	Individual provisions
Impaired loans				
Current year	314,180	15,455	298,725	138,883
Previous year	24,460	11,716	12,743	12,581

The difference between the net amount borrowed and the individual value adjustments is attributable to the fact that prudent estimates have been made of the amounts Raiffeisen expects to receive based on the creditworthiness of individual borrowers.

Individual value adjustments for default risks increased by CHF 126.3 million to CHF 138.9 million in 2018, CHF 111 million of which was due to a more conservative valuation of positions held by the KMU Capital Group. The increase in impaired loans is also attributable to this fact. If the value of part of the claim of Raiffeisen Switzerland against the KMU Capital Group has been adjusted because of the more conservative valuation of positions held by the KMU Capital Group, the whole item is considered to be impaired. Mainly for this reason, the gross debt amount of the impaired loans rose by CHF 289.7 million, although the increase based on value adjustments amounted to CHF 126.3 million.

3. Trading portfolio assets

in 1,000 CHF	Current year	Previous year
Assets		
Debt securities, money market securities/transactions	422,842	621,728
stock exchange listed ¹	422,842	621,728
Equity securities	42,459	237,586
Precious metals	541,983	443,095
Other trading portfolio assets	20,236	23,461
Total assets	1,027,521	1,325,870
of which determined using a valuation model	-	-
of which, securities eligible for repo transactions in accordance with liquidity requirements	287,915	432,247

in 1,000 CHF	Current year	Previous year
Liabilities		
Debt securities, money market securities/transactions ²	69,530	131,456
stock exchange listed ¹	69,530	131,456
Equity securities ²	-	1,209
Precious metals ²	-	-
Other trading portfolio liabilities ²	-	1,133
Total liabilities	69,530	133,799
of which, determined using a valuation model	-	-

1 Stock exchange listed = traded on a recognised stock exchange

2 For short positions (booked using the trade date accounting principle)

4. Derivative financial instruments (assets and liabilities)

4.1 Derivative financial instruments by contract type

in 1,000 CHF	Trading instruments			Hedging instruments		
	Positive contract replacement value	Negative contract replacement value	Contract volume	Positive contract replacement value	Negative contract replacement value	Contract volume
Interest rate instruments						
Forward contracts incl. FRAs	667	1,799	3,500,000	-	-	-
Swaps	339,741	346,084	35,712,553	473,044	644,734	34,729,660
Futures contracts	-	-	2,759,728	-	-	-
Options (OTC)	22	22	2,576	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Total interest rate instruments	340,430	347,905	41,974,857	473,044	644,734	34,729,660
Foreign currencies						
Forward contracts	166,741	180,888	24,758,365	18,865	53,371	3,392,731
Comb. interest rate/currency swaps	152	-	10,063	-	-	-
Futures contracts	-	-	-	-	-	-
Options (OTC)	17,548	18,321	1,370,012	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Total foreign currencies	184,441	199,209	26,138,440	18,865	53,371	3,392,731
Precious metals						
Forward contracts	30,598	24,828	1,685,412	-	-	-
Swaps	-	-	-	-	-	-
Futures contracts	-	-	31,178	-	-	-
Options (OTC)	13,197	15,594	1,354,820	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Total precious metals	43,795	40,422	3,071,410	-	-	-
Equities and indices						
Forward contracts	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Futures contracts	-	-	41,767	-	-	-
Options (OTC)	222,199	222,199	3,089,638	-	5	92,581
Options (exchange traded)	-	-	-	-	-	-
Total equities and indices	222,199	222,199	3,131,405	-	5	92,581
Credit derivatives						
Credit default swaps	10,105	10,105	525,761	-	-	-
Total return swaps	-	-	-	-	-	-
First-to-default swaps	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-
Total credit derivatives	10,105	10,105	525,761	-	-	-
Other						
Forward contracts	-	-	-	-	-	-
Swaps	-	-	-	-	-	-
Futures contracts	-	-	-	-	-	-
Options (OTC)	17,889	17,889	455,123	-	-	-
Options (exchange traded)	-	-	-	-	-	-
Total other	17,889	17,889	455,123	-	-	-
Total						
Current year	818,859	837,728	75,296,997	491,908	698,110	38,214,972
of which determined using a valuation model	818,859	837,728	-	491,908	698,110	-
Previous year	927,094	945,314	109,200,794	705,122	665,480	39,105,655
of which determined using a valuation model	926,537	945,144	-	705,122	665,480	-

4.2 Derivative financial instruments by counterparty and time remaining to maturity

in 1,000 CHF	Positive contract replacement value	Negative contract replacement value	Contract volume up to 1 year	Contract volume 1 to 5 years	Contract volume over 5 years	Contract volume total
Central clearing houses	190,215	152,625	7,190,900	11,195,100	14,245,300	32,631,300
Raiffeisen banks ¹	131	231	24,257	629	-	24,886
Banks and securities dealers	882,122	1,313,468	36,529,102	24,598,289	10,917,712	72,045,103
Stock exchanges	-	-	2,832,673	-	-	2,832,673
Other customers	238,299	69,514	4,436,752	1,061,113	480,140	5,978,006
Total						
Current year	1,310,767	1,535,839	51,013,685	36,855,132	25,643,152	113,511,968
Previous year	1,632,217	1,610,794	89,071,018	37,106,002	22,129,429	148,306,449

¹ Primarily for clients' needs

No netting contracts are used to report the replacement values.

Quality of counterparties

Banks/securities dealers: Derivative transactions were conducted primarily with counterparties with a very good credit rating; 84.8% of the positive replacement values are open with counterparties with an upper-medium grade or better rating (Moody's) or with a comparable rating.

Clients: In transactions with clients, the required margins were secured by assets or free credit lines.

5. Financial investments

5.1 Breakdown of financial investments

in 1,000 CHF	Book value current year	Book value previous year	Fair value current year	Fair value previous year
Financial assets				
Debt instruments	6,473,740	6,237,724	6,653,739	6,450,762
of which intended to be held until maturity	6,473,740	6,237,724	6,653,739	6,450,762
of which, not intended to be held to maturity (available for sale)	-	-	-	-
Equities	45,769	70,867	46,424	72,976
of which qualified participations ¹	-	-	-	-
Precious metals	-	-	-	-
Real estate	41,363	-	41,363	-
Total financial assets	6,560,872	6,308,591	6,741,525	6,523,739
of which securities for repo transactions in line with liquidity requirements	6,443,576	6,187,537	-	-

1 At least 10% of the capital or the votes

5.2 Breakdown of counterparties by rating

in 1,000 CHF	Book value Very safe investment	Book value Safe investment	Book value Average to good investment	Book value Speculative to highly speculative investment	Book value Highest-risk investment/default	Book value Unrated investment
Debt securities	6,443,576	30,164	-	-	-	-

Ratings are assigned based on Moody's rating classes. The Raiffeisen Group uses the ratings of all three major international rating agencies.

6. Participations

in 1,000 CHF	Purchase price	Accumulated value adjustments	Book value at end of previous year	Current-year transfers/reclassifications	Current-year investment	Current-year disinvestment	Current-year value adjustments	Current-year Reversals	Book value at end of current year	Market value at end of current year
Participations Group companies	644,613	-1,238	643,374	-	16,135	-622,506	-22,361	-	14,642	-
- with market value	-	-	-	-	-	-	-	-	-	-
- without market value	644,613	-1,238	643,374	-	16,135	-622,506	-22,361	-	14,642	-
Other participations	508,299	-95,735	412,564	-	55,610	-197	-58,811	-	409,167	225,198
- with market value	318,849	-85,004	233,845	-	45,387	-	-54,101	-	225,131	225,198
- without market value	189,450	-10,731	178,719	-	10,223	-197	-4,710	-	184,035	-
Total participations	1,152,912	-96,974	1,055,938	-	71,745	-622,702	-81,172	-	423,809	225,198

The 100% stake in Notenstein La Roche Private Bank Ltd was sold to Vontobel in the 2018 financial year, which led to a disposal of CHF 622.5 million.

In the course of the sale of Notenstein La Roche Private Bank Ltd to Vontobel, Raiffeisen Switzerland acquired an equity stake in Leonteq Ltd held by Notenstein, and Raiffeisen Switzerland participated in the capital increase of Leonteq Ltd. In total the investments amounted to CHF 45.4 million. At the end of the year, Raiffeisen Switzerland made a value adjustment of CHF 54.1 million to the participation in Leonteq Ltd as a whole in response to market developments.

In 2018, Raiffeisen Switzerland Cooperative initially terminated the shareholders' binding agreement for Investnet Holding AG (now KMU Capital Holding AG) for good cause and subsequently, where necessary, rescinded the agreements in the context of "Investnet". As a result of the rescission, Raiffeisen Switzerland is claiming all the shares in KMU Capital Holding AG, which is controlled totally by KMU Capital AG. However, Investnet AG does not belong to the Raiffeisen Group. The instituted civil proceedings are currently pending. In connection with the rescission of agreements, Raiffeisen Switzerland has also written off liabilities of CHF 30 million and contingent liabilities amounting to CHF 30 million. Raiffeisen Switzerland assumes that there will be no more payments.

Should – contrary to the expectations of Raiffeisen Switzerland – neither the rescission of the agreements nor the validity of the termination be confirmed, minority shareholders might, if need be, be entitled to tender shares in KMU Capital Holding AG to Raiffeisen Switzerland Cooperative from 1 July 2020 according to the shareholders' binding agreement of 2015 based on a contractually agreed valuation method (put option). Since the valuation method would be based on the prevailing underlying values and value appraisals, it is not possible to carry out a corresponding valuation at this time. The above-mentioned written-off liabilities and contingent liabilities could become relevant then.

7. Tangible fixed assets

7.1 Tangible fixed assets

in 1,000 CHF	Purchase price	Cumulative depreciation/amortisation	Book value at end of previous year	Current-year transfers/reclassifications	Current-year investment	Current-year disinvestment	Current-year depreciation/amortisation	Current-year Reversals	Book value at end of current year
Bank buildings	233,269	-88,067	145,202	-137	20,855	-	-4,368	-	161,552
Other real estate	14,077	-5,032	9,045	-	-	-	-1,355	-	7,690
Proprietary or separately acquired software	143,085	-134,303	8,782	2	51,051	-26,225	-5,876	-	27,734
Other tangible fixed assets	198,700	-166,408	32,292	135	17,597	-170	-13,964	-	35,890
Total tangible assets	589,131	-393,810	195,321	-	89,503	-26,395	-25,563	-	232,866

7.2 Operating leases

in 1,000 CHF	Current year	Previous year
Non-recognised lease commitments		
Due within 12 months	1,905	2,378
Due within 1 to 5 years	2,657	3,150
Due after 5 years	-	-
Total non-recognised lease commitments	4,562	5,528
of which obligations that can be terminated within one year	4,562	5,528

8. Intangible assets

in 1,000 CHF	Purchase price	Cumulative depreciation/amortisation	Book value at end of previous year	Current-year investment	Current-year disinvestment	Current-year depreciation/amortisation	Book value at end of current year
Other intangible assets	12,500	-5,847	6,653	-	-	-2,419	4,234
Total intangible assets	12,500	-5,847	6,653	-	-	-2,419	4,234

9. Other assets and liabilities

in 1,000 CHF	Current year	Previous year
Other assets		
Equalisation account	121,418	15,735
Settlement accounts for indirect taxes	586,319	643,414
Other settlement accounts	43,950	126,310
Commodities	2,809	2,938
Miscellaneous other assets	111	0
Total other assets	754,607	788,398
Other liabilities		
Due, unredeemed coupons and debt instruments	25	25
Levies, indirect taxes	28,293	27,517
Solidarity fund	335,193	332,389
of which open guarantees to Raiffeisen banks	216	259
Other settlement accounts	72,936	98,203
Miscellaneous other liabilities	228	265
Total other liabilities	436,675	458,400

10. Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership¹

in 1,000 CHF	Current-year book values	Current year Effective commitments	Previous-year book values	Previous year Effective commitments
Pledged/assigned assets				
Amounts due from Raiffeisen banks	-	-	-	-
Amounts due from other banks	654,657	654,657	376,039	376,039
Amounts due from clients	570	570		
Mortgage loans	3,188,344	2,030,676	2,977,236	1,974,335
Financial investments	1,249,121	486,213	1,233,075	477,515
Total pledged assets	5,092,692	3,172,116	4,586,350	2,827,889
Total assets under reservation of ownership	-	-	-	-

¹ Without securities financing transactions (see separate presentation of the securities financing transactions in note 1)

11. Pension schemes

All employees of Raiffeisen Switzerland are covered by the Raiffeisen Pension Fund Cooperative. The statutory retirement age is set at 65. Members have the option of taking early retirement from the age of 58 with a corresponding reduction in benefits. The Raiffeisen Pension Fund Cooperative covers at least the mandatory benefits under Swiss occupational pension law. The Raiffeisen Employer Foundation manages the individual employer contribution reserves of the Raiffeisen banks and the companies of the Raiffeisen Group.

11.1 Liabilities relating to own pension schemes

in 1,000 CHF	Current year	Previous year
Amounts due in respect of customer deposits	18,830	51,242
Negative replacement values of derivative financial instruments	2,421	4,345
Bonds	40,000	40,000
Accrued expenses and deferred income	411	543
Total liabilities to own social insurance institutions	61,661	96,130

11.2 Employer contribution reserves in the Raiffeisen Employer Foundation

in 1,000 CHF	Current year	Previous year
As at 1 January	11,563	8,274
+ Deposits ¹	-	5,000
- Withdrawals ¹	3,382	1,727
+ Interest paid ²	18	16
As at 31 December	8,199	11,563

1 Contributions and payments are included in personnel expenditure.

2 Interest paid on the employer contribution reserves is recorded as interest income.

The employer contribution reserves correspond to the nominal value as calculated by the pension plan. They are not reported.

11.3 Economic benefit/obligation and retirement benefit expenditure

According to the latest audited annual report (in accordance with Swiss GAAP FER 26) of the Raiffeisen Pension Fund Cooperative, the coverage ratio is:

in 1,000 CHF	As at 31.12.2018 in %	As at 31.12.2017 in %
Raiffeisen Pension Fund Cooperative	108.4	116.1

As at 31 December 2018, the fluctuation reserve of Raiffeisen Pension Fund Cooperative's pension scheme fell below the level of 115% set out in the regulations. The Assembly of Delegates of Raiffeisen Pension Fund Cooperative decides how any uncommitted funds will be used. In general, the "principles for the use of uncommitted funds (profit participation)" which it issues are applied. The Board of Directors of Raiffeisen Switzerland assumes that even if uncommitted funds are available, no economic benefits will accrue to the employer until further notice; uncommitted funds are to be used to benefit pension plan members.

The affiliated employers have no economic benefits or economic obligations for which allowance would have to be made in the balance sheet and income statement.

Pension expenditure is explained under "Contribution to staff pension plans" in note 26 "Personnel expenses".

12. Issued structured products

in 1,000 CHF	Book value				Total
	Valued as a whole		Valued separately		
	Booked in trading portfolio	Booked in other financial instruments at fair value	Value of the host instrument	Value of the derivative	
Underlying risk of the embedded derivative					
Interest rate instruments	-	-	1,034	-18	1,016
With own debenture component (oDC)	-	-	1,034	-18	1,016
Without oDC	-	-	-	-	-
Equity securities	-	-	1,452,847	-154,334	1,298,513
With own debenture component (oDC)	-	-	1,452,847	-155,136	1,297,711
Without oDC	-	-	-	802	802
Foreign currencies	-	-	1	-1	0
With own debenture component (oDC)	-	-	1	-1	0
Without oDC	-	-	-	-	-
Commodities/precious metals	-	-	101,489	-8,957	92,532
With own debenture component (oDC)	-	-	101,489	-8,957	92,532
Without oDC	-	-	-	-	-
Credit derivatives	-	-	143,849	-1,258	142,591
With own debenture component (oDC)	-	-	143,849	-1,258	142,591
Without oDC	-	-	-	-	-
Total	-	-	1,699,221	-164,568	1,534,652

In the case of issued structured products that include a debt security, the derivative is split from the underlying contract and valued and presented separately. Underlying instruments are recognised at their nominal value in "Bonds and central mortgage institution loans". The derivative components of the products are recognised at market value in "Positive replacement values of derivative financial instruments" and "Negative replacement values of derivative financial instruments".

13. Bond issues and central mortgage institution loans

in 1,000 CHF	Year of issue	Interest rate	Maturity	Early termination possibility	Bond principal in
Non-subordinated own bonds	2010	2.000	21.09.2023	-	245,805
	2011	2.125	04.02.2019	-	250,000
	2011	2.625	04.02.2026	-	145,095
	2014	1.625	07.02.2022	-	100,000
	2016	0.000	17.09.2020	-	50,000
	2016	0.300	22.04.2025	-	364,850
	2016	0.750	22.04.2031	-	73,500
	2018	0.350	16.02.2024	-	378,550
	2018	0.000 ¹	19.06.2020	-	175,000
	2018	0.000 ¹	11.09.2020	-	60,000
Subordinated own bonds without PONV clause ²	2011	3.875	21.12.2021	-	535,000
Subordinated own bonds with PONV clause ²	2015	3.000	Perpetual	02.10.2020	574,210 ³
	2018	2.000	Perpetual	02.05.2023	399,220 ³
Underlying instruments from issued structured products ⁴	div.	-0.179 ⁵	2019		1,138,063
		0.603 ⁵	2020		128,291
		0.745 ⁵	2021		80,549
		-0.511 ⁵	2022		148,077
		-0.075 ⁵	2023		28,967
		0.131 ⁵	after 2023		175,275
Loans from Pfandbriefbank schweizerischer Hypothekarinstitute AG	div.	1.400 ⁵	div.		1,971,530
Total outstanding bond issues and central mortgage institution loans					7,021,981

1 Variable coupon, basis CHF Libor three months and spread.

2 PONV clause = point of non-viability/time of imminent insolvency

3 Subordinated perpetual Additional Tier 1 bond with contingent write-down. With FINMA's consent, the bond can be terminated on a unilateral basis by Raiffeisen Switzerland (no earlier than five years following issue).

4 In the case of issued structured products that include a debt security, the derivative is split from the underlying contract and valued and presented separately. Underlying instruments are recognised at their nominal value in "Bond issues and central mortgage institution loans". The derivative components of the products are recognised at market value in "Positive replacement values of derivative financial instruments" and "Negative replacement values of derivative financial instruments".

5 Average weighted interest rate (volume-weighted).

14. Value adjustments, provisions and reserves for general banking risks

in 1,000 CHF	End of previous year	Appropriate application	Reclassifications	Past due interest, recoveries	New provisions against income statement	Dissolution of provisions against income statement	End of current year
Provisions							
Provisions for default risks	9,600	-143	47	89	1,441	-4,356	6,678
Provisions for other business risks	130	-104			75,900		75,926
Provisions for restructuring	500	-9,138			25,001		16,363
Other provisions ¹	6,455	-2,044			25,000	-5	29,406
Total provisions	16,685	-11,429	47	89	127,342	-4,361	128,373
Reserves for general banking risks	259,450	-	-	-	-	-250,153	9,297
of which taxed	188,450	-	-	-	-	-179,153	9,297
Value adjustments for default and country risks							
Value adjustments for default risks in respect of impaired loans/receivables	12,581	-170	-47	106	129,704	-3,291	138,883
Value adjustments for latent risks	-	-	-	-	-	-	-
Total value adjustments for default and country risks	12,581	-170	-47	106	129,704	-3,291	138,883

¹ Other provisions include provisions for legal expenses.

Reorganisation provisions went up CHF 15.8 million, chiefly due to the sale of Notenstein La Roche Private Bank Ltd. CHF 21.2 million of new provisions were formed in this connection and were charged to the income statement. In total restructuring provisions of CHF 5.6 million were recognised under personnel expenses. In the case of other provisions, in particular the uncertainties in the legal disputes in the context of "Investnet" (see also explanations in Note 6) resulted in an increase of CHF 25 million affecting net income.

The agreed repurchase of ARIZON Sourcing Ltd led to the formation of provisions affecting net income for other business risks of CHF 69 million.

15. Cooperative capital

in 1,000 CHF	Current year			Previous year		
	Total par value	Number of shares in 1,000	Interest-bearing capital	Total par value	Number of shares in 1,000	Interest-bearing capital
Cooperative capital	1,700,000	1,700	1,700,000	1,700,000	1,700	1,700,000
of which, paid up	1,700,000	1,700	1,700,000	1,700,000	1,700	1,700,000

The cooperative capital is owned in full by the 246 Raiffeisen banks within Raiffeisen Switzerland (previous year: 255 Raiffeisen banks). As in the previous year, no Raiffeisen bank holds share certificates granting more than 5% of the voting rights.

Under the Articles of Association of Raiffeisen Switzerland, the Raiffeisen banks must acquire a share certificate for CHF 1,000 for each CHF 100,000 of their total assets. As at 31 December 2018, this corresponded to a call-in obligation towards Raiffeisen Switzerland of CHF 2'025,1 million, of which CHF 893,8 million have been paid in. The Raiffeisen banks took over CHF 806.2 million in share certificates without applying this amount toward the call-in obligation.

16. Related parties

in 1,000 CHF	Amounts due from		Amounts due to	
	Current year	Previous year	Current year	Previous year
Group companies	971,880	718,331	266,859	1,268,491
Transactions with members of governing bodies	15,037	31,070	1,733	5,484
Other related parties	424,224	324,268	337,067	284,981
Total amounts due from/to related parties	1,411,141	1,073,670	605,660	1,558,955

Material off-balance-sheet transactions with related parties

Contingent liabilities to related parties amounted to CHF 2.4 billion (previous year: CHF 2.6 billion). Irrevocable commitments to related parties amounted to CHF 245.1 million (previous year: CHF 336.7 million).

Transactions with related parties

On- and off-balance-sheet transactions with related parties are allowed at arm's length terms, with the following exceptions:

- The Executive Board and the Head of Internal Auditing of Raiffeisen Switzerland enjoy industry-standard preferential terms, as do other personnel.
- Amounts due from Group companies of CHF 971.8 million include unsecured loans of CHF 163.6 million (last maturity on 31 December 2025) with an average interest rate of 1.6%.
- Liabilities to other related parties include CHF current account balances in the amount of CHF 4.3 million for which the credit balance exceeding the allowance is subject to a negative interest rate of 0.4%. Furthermore, a credit balance in the amount of CHF 7.8 million is included, which bears 2.75% interest.
- In Q4 2018, a Group company was transferred from Raiffeisen Business Owner Centre (RUZ) Ltd to Raiffeisen Switzerland at a book value of CHF 10.6 million. At the end of the year, this Group company was written off at an intrinsic value of CHF 0.6 million.

Special provisions apply to the processing and monitoring of loans to executive bodies to ensure that staff remains independent at all times.

17. Maturity structure of financial instruments

in 1,000 CHF	On demand	Redeemable by notice	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after 5 years	Total
Assets/financial instruments							
Liquid assets	17,993,258	-	-	-	-	-	17,993,258
Amounts due from Raiffeisen banks	3,023,050	-	-	-	-	-	3,023,050
Amounts due from other banks	760,708	-	1,005,024	50,000	-	-	1,815,732
Amounts due from securities financing transactions	-	-	4,920	-	-	-	4,920
Amounts due from clients	5,139	491,891	1,913,268	339,718	602,764	137,547	3,490,328
Mortgage loans	6,826	106,518	636,429	1,234,451	5,402,043	3,332,981	10,719,248
Trading portfolio assets	1,027,521	-	-	-	-	-	1,027,521
Positive replacement values of derivative financial instruments	1,310,767	-	-	-	-	-	1,310,767
Financial investments ¹	45,769	-	110,044	305,075	2,365,846	3,734,137	6,560,872
Total							
Current year	24,173,039	598,409	3,669,685	1,929,245	8,370,654	7,204,665	45,945,696
Previous year	24,742,739	224,899	9,570,989	1,691,098	8,098,269	6,992,441	51,320,435
Debt capital/financial instruments							
Amounts due to Raiffeisen banks	15,366,151	-	-	-	-	-	15,366,151
Amounts due to other banks	1,073,001	-	3,365,262	1,744,664	228,000	-	6,410,927
Liabilities from securities financing transactions	-	-	2,919,232	5,904	-	-	2,925,136
Amounts due in respect of customer deposits	3,973,743	4,501,464	1,244,865	532,387	705,386	465,833	11,423,677
Trading portfolio liabilities	69,530	-	-	-	-	-	69,530
Negative replacement values of derivative financial instruments	1,535,839	-	-	-	-	-	1,535,839
Cash Bonds	-	-	1,548	6,446	14,984	7,585	30,563
Bond issues and central mortgage institution loans	-	-	867,891	636,172	2,886,568	2,631,350	7,021,981
Total							
Current year	22,018,264	4,501,464	8,398,798	2,925,572	3,834,937	3,104,767	44,783,803
Previous year	21,451,499	4,453,004	13,923,396	3,492,902	4,386,182	2,943,247	50,650,230

¹ The financial assets include CHF 41'362'658 of real estate (prior year: CHF 0,00).

18. Total assets by credit rating of country groups

in 1,000 CHF	Net foreign exposure			
	Current year	Current year in %	Previous year	Previous year in %
Rating class				
Very safe investment	2,774,592	98.2	6,678,083	99.0
Safe investment	11,607	0.4	29,668	0.4
Average to good investment	30,287	1.1	30,485	0.5
Speculative to highly speculative investment	4,629	0.2	5,553	0.1
Highest-risk investment/default	-	-	-	-
Unrated investment	3,441	0.1	2,843	0.0
Total assets	2,824,555	100.0	6,746,631	100.0

Ratings are assigned based on Moody's rating classes. The Raiffeisen Group uses the ratings of all three major international rating agencies.

19. Balance sheet by currency

in 1,000 CHF	CHF	EUR	USD	Other	Total
Assets					
Liquid assets	17,017,032	848,735	16,382	111,109	17,993,258
Amounts due from Raiffeisen banks	3,020,787	119	342	1,803	3,023,050
Amounts due from other banks	963,067	493,387	164,224	195,054	1,815,732
Amounts due from securities financing transactions	-	-	4,920	-	4,920
Amounts due from clients	2,802,267	387,311	278,988	21,763	3,490,328
Mortgage loans	10,719,248	-	-	-	10,719,248
Trading portfolio assets	480,405	116	5,017	541,983	1,027,521
Positive replacement values of derivative financial instruments	1,310,767	-	-	-	1,310,767
Financial investments	6,541,804	9,015	10,045	7	6,560,872
Accrued income and prepaid expenses	222,850	2,184	2,536	327	227,896
Participations	423,802	-	-	7	423,809
Tangible fixed assets	232,866	-	-	-	232,866
Intangible assets	4,234	-	-	-	4,234
Other assets	754,607	-	-	-	754,607
Total assets reflected in the balance sheet	44,493,736	1,740,867	482,453	872,052	47,589,108
Delivery claims under spot exchange, forward exchange and currency option contracts	11,192,778	5,139,614	10,596,314	3,033,951	29,962,658
Total assets	55,686,515	6,880,481	11,078,767	3,906,003	77,551,766
Liabilities					
Amounts due to Raiffeisen banks	12,565,303	2,141,145	329,570	330,133	15,366,151
Amounts due to other banks	4,694,041	191,924	1,105,452	419,510	6,410,927
Liabilities from securities financing transactions	1,905,000	316,518	662,232	41,385	2,925,136
Amounts due in respect of customer deposits	10,640,224	201,067	543,641	38,744	11,423,677
Trading portfolio liabilities	69,530	-	-	-	69,530
Negative replacement values of derivative financial instruments	1,535,839	-	-	-	1,535,839
Cash Bonds	30,563	-	-	-	30,563
Bond issues and central mortgage institution loans	6,855,005	58,790	99,108	9,077	7,021,981
Accrued expenses and deferred income	304,001	988	5,678	269	310,936
Other liabilities	436,675	-	-	-	436,675
Provisions	128,373	-	-	-	128,373
Reserves for general banking risks	9,297	-	-	-	9,297
Cooperative capital	1,700,000	-	-	-	1,700,000
Statutory retained earnings reserve	177,523	-	-	-	177,523
Profit	42,500	-	-	-	42,500
Total liabilities reflected in the balance sheet	41,093,875	2,910,432	2,745,681	839,120	47,589,108
Delivery obligations under spot exchange, forward exchange and currency option contracts	14,667,774	4,047,111	8,356,596	2,931,983	30,003,463
Total liabilities	55,761,648	6,957,544	11,102,277	3,771,102	77,592,571
Net position per currency	-75,134	-77,063	-23,510	134,901	-40,806
					31.12.2018
					31.12.2017
Foreign currency conversion rates					
EUR				1.126	1.171
USD				0.984	0.975

Information on off-balance sheetbusiness

20. Contingent assets and liabilities

in 1,000 CHF	Current year	Previous year
Contingent liabilities		
Guarantees to secure credits and similar	2,860,759	3,083,924
Performance guarantees and similar	63,752	6,937
Other contingent liabilities	100,394	116,094
Total contingent liabilities	3,024,904	3,206,955
Contingent assets		
Contingent assets arising from tax losses carried forward	23,778	-
Other contingent assets	-	30,000
Total contingent assets	23,778	30,000

21. Fiduciary transactions

in 1,000 CHF	Current year	Previous year
Fiduciary investments with third-party banks	19,663	12,172
Total fiduciary transactions	19,663	12,172

Information on the income statement

22. Result from interest operations

in 1,000 CHF	Current year	Previous year
Interest and dividend income		
Interest income from amounts due from Raiffeisen banks	92,744	126,696
Interest income from amounts due from other banks	2,319	-2,170
Interest income from securities financing transactions	1,487	318
Interest income from amounts due from clients	39,880	29,627
Interest income from mortgage loans	143,710	140,640
Interest and dividend income from financial investments	43,735	48,337
Other interest income	23,548	25,012
Total interest and dividend income	347,422	368,460
of which negative interest on the lending business	-57,645	-56,554
Interest expenditure		
Interest expenditure from amounts due to Raiffeisen banks	32,722	23,985
Interest expenditure from amounts due to other banks	5,739	7,544
Interest expenditure from securities financing transactions	631	-2,216
Interest expenditure from amounts due to clients	-15,313	-15,436
Interest expenditure from cash bonds	-487	-1,201
Interest expenditure from bond issues and central mortgage institution loans	-105,812	-117,917
Other interest expenses	-109,537	-137,131
Total interest expenditure	-192,056	-242,372
of which negative interest on the borrowing business	72,563	61,350
Gross result from interest operations	155,366	126,088

23. Result from commission business and services

in 1,000 CHF	Current year	Previous year
Commission income		
Commission income from securities and investment business		
Fund business	15,710	12,524
Custody account business	24,930	24,414
Brokerage	12,214	17,184
Other securities and investment business	24,735	19,568
Commission income from lending business	16,267	13,395
Commission income from other service transactions		
Payments	57,078	52,913
Account maintenance	2,360	2,553
Other service transactions	3,573	4,245
Total commission income	156,865	146,796
Commission expenditure		
Securities business	-43,173	-40,554
Payments	-2,749	-2,821
Other commission expenditure	-441	-911
Total commission expenditure	-46,362	-44,286
Total net income from commission business and service transactions	110,503	102,510

24. Result from trading activities

24.1 Breakdown by business area

in 1,000 CHF	Current year	Previous year
Branches of Raiffeisen Switzerland	7,394	7,763
Equities trading desk	6,025	4,007
Foreign currency trading desk	9,746	10,878
Fixed income trading desk	6,943	11,228
Macro hedge trading desk	345	-564
Banknotes/precious metals trading desk	38,688	40,767
Options trading desk	2,312	-215
Rates trading desk	6,687	6,785
Combined trading operations	-	-1,127
Total net trading income	78,138	79,522

24.2 Breakdown by underlying risk

in 1,000 CHF	Current year	Previous year
Foreign exchange trading	16,774	17,382
Precious metals and foreign notes and coins trading	41,136	43,280
Equities trading	6,783	3,414
Fixed income trading	13,445	17,445
Other	-	-2,000
Total net trading income	78,138	79,522

25. Other ordinary income

in 1,000 CHF	Current year	Previous year
IT services for Group companies	65,841	61,384
Other individual services provided for Group companies	207,248	205,680
Contributions from the Raiffeisen banks for collective and strategic services	76,376	78,762
Charges for internal services relating to Group projects	39,402	55,406
Other	12,326	2,280
Total other ordinary income	401,193	403,513

26. Personnel expenses

in 1,000 CHF	Current year	Previous year
Meeting attendance fees and fixed compensation to members of the banking authorities	2,618	2,367
Salaries and bonuses for staff	316,855	308,459
AHV, IV, ALV and other statutory contributions	23,744	23,667
Contributions to staff pension plans	33,912	38,817
Other personnel expenses	6,686	7,801
Total personnel expenses	383,815	381,111

27. General and administrative expenses

in 1,000 CHF	Current year	Previous year
Office space expenses	28,343	30,904
Expenses for information and communications technology	124,552	87,332
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	3,981	3,921
Auditor fees	3,427	3,333
of which, for financial and regulatory audits	3,047	3,091
of which, for other services	380	242
Other operating expenses	133,982	129,164
Total general and administrative expenses	294,285	254,653

28. Extraordinary income and expenses

Current year

Extraordinary income of CHF 46.2 million includes CHF 35.2 million from the sale of Notenstein La Roche Privatbank Ltd and CHF 11 million from the sale of tangible fixed assets.

Hidden reserves existed for the participation in Leonteq Ltd at the end of 2017 because the market value of the stake exceeded the book value by CHF 47.4 million. These hidden reserves were eliminated as at the end of 2018 due to the lower mark-to-market accounting of Leonteq Ltd.

Prior year

The extraordinary income of CHF 116.3 million includes CHF 104.1 million from the sale of participations in Helvetia Holding Ltd and Avaloq Group AG. CHF 11.2 million was generated from the sale of real estate. The appreciation gain for Raiffeisen Unternehmerzentrum AG was CHF 1 million.

Extraordinary expenses include losses on the sale of Vescore Ltd of CHF 0.4 million and on the sale of DB Bank AG of CHF 0.3 million.

29. Current taxes

in 1,000 CHF	Current year	Previous year
Expenditure for current income tax	2,500	5,035
Total tax expenditure	2,500	5,035
Average tax rate weighted on the basis of the operating result	-1.0%	13.5%

There are no tax loss carryforwards that affect income tax. Deferred tax is solely calculated and reported at the Raiffeisen Group level.



Report of the statutory auditor to the Delegate Meeting of Raiffeisen Switzerland Cooperative, St. Gallen

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Raiffeisen Switzerland Cooperative which comprise The balance sheet as at 31 December 2018, income statement, statement of changes in equity, notes for the year then ended, including the accounting and valuation principles, information on the balance sheet, information on off-balance sheet business and information on the income statement.

In our opinion, the accompanying financial statements as at 31 December 2018 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

We are independent of Raiffeisen Switzerland Cooperative in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 9.4 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which Raiffeisen Switzerland Cooperative operates.

As key audit matter, the following area of focus has been identified:

- Valuation of loans to customers (amounts due from customers and mortgage loans)

PricewaterhouseCoopers AG, Vadianstrasse 25a/Neumarkt 5, PO Box, 9001 St. Gallen,
Telephone: +41 58 792 72 00, Facsimile: +41 58 792 72 10, www.pwc.ch



Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	CHF 9.4 million
<i>How we determined it</i>	0.5 % of net assets (equity)
<i>Rationale for the materiality benchmark applied</i>	We chose net assets (equity) as the benchmark because, in our view, it is the benchmark which represents the solvency and security of Raiffeisen Switzerland Cooperative and it is key for the economic decisions of the cooperative members, customers and the supervisory authority.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 0.94 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of loans to customers (amounts due from customers and mortgage loans)

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
We consider the valuation of loans to customers as a key audit matter as they represent a significant portion of total assets at 30.0 % (prior year: 23.0 %). In addition, judgement is required to assess the valuation and the amount of any impairment. In particular, we focussed on the following points:	<p>We tested on a sample basis the adequacy and effectiveness of the following controls relating to the valuation of customer loans:</p> <ul style="list-style-type: none"> • <i>Credit analysis</i> Review of compliance with the guidelines and requirements concerning documentation, amortisation, ability to repay, valuation and collateral • <i>Loan approval</i>



- The approach applied by Raiffeisen Switzerland Cooperative to identify customer loans that are potentially impaired
- The appropriateness and application of the significant judgement permitted by the policies relating to the calculation of the amount of any potential individual value adjustments

The accounting and valuation principles applied to customer loans, the process used to identify the default risk and to determine the need for impairment as well as the evaluation of the collateral cover are taken from the financial statements (notes).

Review of compliance with the requirements of the internal authorisation regulations

- *Loan disbursement*
Review of whether the payment of loans to customers is executed only after all of the required documents are present
- *Credit monitoring*
Review of whether the identification of loans that show signs of being at risk is done in a timely and complete manner and whether loans that show signs of being at risk and impairments are checked periodically, especially with regard to the reliability of the collateral cover and the amount of the impairment.

Further, we performed the following tests of detail on a sample basis:

- We performed an assessment of the impairment of customer loans and tested the application of the *processes to identify* customer loans with a potential need for impairment. Our sample contains a random selection of positions out of the entire loan portfolio as well as a risk-oriented selection of doubtful receivables. For our assessment, we used, among others, the expert opinions obtained by Raiffeisen Switzerland Cooperative regarding the value of collateral with no observable market price as well as other available information on market prices and price comparisons.
- In addition, we made an assessment of the *method to estimate impairments*. Our audit focussed on customer loans identified as at risk in the sense of the FINMA Circular 'Accounting – Banks'. We also checked whether the impairments were made in accordance with the accounting rules and the accounting and valuation principles of Raiffeisen Switzerland Cooperative.

The assumptions used were within the range of our expectations.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing Raiffeisen Switzerland Cooperative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends either to liquidate Raiffeisen Switzerland Cooperative or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material



misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statement is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with art. 906 CO in conjunction with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the administration of the cooperative register and the proposed appropriation of available earnings complies with Swiss law and the articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Beat Rüttsche
Audit expert
Auditor in charge

Ralph Gees
Audit expert

St. Gallen, April 1, 2019

Five-year overview

Balance sheet – five-year overview

in 1,000 CHF	2018	2017	2016	2015	2014
Assets					
Liquid assets	17,993,258	18,819,203	18,779,805	17,271,940	7,771,842
Amounts due from Raiffeisen banks	3,023,050	2,655,902	2,923,285	3,758,642	3,953,353
Amounts due from other banks	1,815,732	8,214,912	6,948,718	3,095,492	4,672,095
Amounts due from securities financing transactions	4,920	51,371	13,204	51,801	474,223
Amounts due from clients	3,490,328	2,441,407	2,274,938	2,237,698	2,051,802
Mortgage loans	10,719,248	9,870,963	9,121,212	8,505,627	7,651,603
Trading portfolio assets	1,027,521	1,325,870	1,282,433	1,311,118	1,735,756
Positive replacement values of derivative financial instruments	1,310,767	1,632,217	1,604,991	1,633,087	1,682,705
Financial investments	6,560,872	6,308,591	6,596,490	5,592,891	4,971,082
Accrued income and prepaid expenses	227,896	228,036	239,406	267,760	243,034
Participations	423,809	1,055,938	1,243,250	1,417,390	955,750
Tangible fixed assets	232,866	195,321	249,126	260,309	263,319
Intangible assets	4,234	6,653	18,145	22,984	-
Other assets	754,607	788,398	616,755	1,363,850	1,021,923
Total assets	47,589,108	53,594,782	51,911,758	46,790,589	37,448,487
Liabilities					
Amounts due to Raiffeisen banks	15,366,151	15,528,573	14,063,534	11,473,545	11,157,296
Amounts due to other banks	6,410,927	13,676,261	14,047,052	10,448,545	7,221,460
Liabilities from securities financing transactions	2,925,136	1,757,968	2,514,988	4,052,523	1,043,602
Amounts due in respect of customer deposits	11,423,677	11,044,803	10,714,330	10,002,847	8,297,193
Trading portfolio liabilities	69,530	133,799	138,207	105,139	121,490
Negative replacement values of derivative financial instruments	1,535,839	1,610,794	1,825,313	2,134,730	2,148,635
Cash Bonds	30,563	61,758	73,681	104,476	141,573
Bond issues and central mortgage institution loans	7,021,981	6,836,274	5,743,882	5,562,865	5,306,195
Accrued expenses and deferred income	310,936	289,993	266,380	251,615	245,490
Other liabilities	436,675	458,400	433,423	445,930	410,363
Provisions	128,373	16,685	16,834	16,656	24,697
Reserves for general banking risks	9,297	259,450	158,450	298,900	283,700
Cooperative capital	1,700,000	1,700,000	1,700,000	1,700,000	850,000
Statutory retained earnings reserve	177,523	173,183	169,443	162,790	159,796
Profit	42,500	46,840	46,240	30,028	36,994
Total equity capital	1,929,320	2,179,473	2,074,133	2,191,718	1,330,490
Total liabilities	47,589,108	53,594,781	51,911,757	46,790,589	37,448,485

Income statement – five-year overview

in 1,000 CHF	2018	2017	2016	2015	2014
Interest and discount income	303,687	320,123	372,806	439,900	499,590
Interest and dividend income from financial investments	43,735	48,337	52,852	55,661	52,794
Interest expenses	-192,056	-242,372	-302,113	-378,582	-440,310
Gross result from interest operations	155,366	126,088	123,546	116,979	112,074
Changes in value adjustments for default risks and losses from interest operations	-126,465	-1,782	-14,665	-5,760	2,753
Subtotal net result from interest operations	28,901	124,306	108,881	111,219	114,828
Commission income securities trading and investment business	77,588	73,690	49,973	51,472	50,334
Commission income from lending business	16,267	13,395	8,151	8,686	6,827
Commission income other services	63,010	59,711	57,069	58,082	64,599
Commission expenses	-46,362	-44,286	-33,308	-44,581	-40,377
Net income from commission business and service transactions	110,503	102,510	81,885	73,659	81,383
Net trading income	78,138	79,522	84,222	75,960	42,340
Results from the disposal of financial investments	2,607	20,525	2,632	6,187	7,237
Income from participations	71,510	52,322	51,311	62,799	44,249
Results from real estate	3,884	3,668	3,938	3,888	3,188
Other ordinary income	401,193	403,513	387,971	339,810	273,657
Other ordinary expenses	-42,905	-34,243	-45,550	-39,262	-35,003
Other ordinary profit	436,289	445,785	400,302	373,423	293,328
Operating income	653,831	752,123	675,290	634,261	531,879
Personnel expenses	-383,815	-381,111	-354,690	-322,707	-320,583
General and administrative expenses	-294,285	-254,653	-255,880	-246,816	-164,015
Operating expenses	-678,100	-635,764	-610,571	-569,523	-484,598
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-109,154	-74,775	-133,589	-43,321	-41,189
Changes to provisions and other value adjustments, and losses	-117,910	-4,352	-5,650	866	-11,796
Operating result	-251,333	37,232	-74,520	22,283	-5,705
Extraordinary income	46,180	116,316	9,196	24,013	45,758
Extraordinary expenses	-1	-673	-26,119	-4	-
Changes in reserves for general banking risks	250,153	-101,000	140,450	-15,200	-2,000
Taxes	-2,500	-5,035	-2,767	-1,064	-1,059
Profit	42,500	46,840	46,240	30,028	36,994

Imprint

Raiffeisen Switzerland Cooperative
Communication
Raiffeisenplatz
CH-9001 St.Gallen
Phone: +41 71 225 88 88
Fax: +41 71 225 88 87
Internet: raiffeisen.ch
E-Mail: medien@raiffeisen.ch

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