

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Sustainability Bond Framework

ABZ
19 August 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Sustainability Bond
Relevant standards	<ul style="list-style-type: none">• Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG), as administered by the International Capital Market Association (ICMA)
Scope of verification	<ul style="list-style-type: none">• ABZ Sustainability Bond Framework (as of August 2021)• ABZ Asset Pool (as of August 2021)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as ABZ's Sustainability Bond Framework remains unchanged

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Scope of work

Allgemeine Baugenossenschaft Zürich (ABZ) commissioned ISS ESG to assist with its Sustainability Bond by assessing three core elements to determine the sustainability quality of the instrument:

1. Sustainability Bonds link to ABZ's sustainability strategy – drawing on ABZ's overall sustainability profile and issuance-specific Use of Proceeds categories.
2. ABZ's Sustainability Bond (August 2021 version) – benchmarked against the International Capital Market Association's (ICMA) Green and Social Bond Principles (GBPs, SBPs) as well as the Sustainability Bond Guidelines (SBGs).
3. The Asset Pool – whether the projects contribute positively to the UN SDGs and perform against ISS ESG's issue-specific key performance indicators (KPIs) (See Annex 2).

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
<p>Part 1:</p> <p>Sustainability Bonds link to issuer's sustainability strategy</p>	<p>Allgemeine Baugenossenschaft Zürich (ABZ) is a Switzerland-based cooperative building society. It is committed to reducing greenhouse gas (GHG) emissions, among others by continuously increasing the share of renewable energy sources (e.g., solar power) for electricity and heating, making use of district heating and heat pumps, and by implementing energy-saving measures during refurbishments (e.g., improved insulation).</p> <p>The Use of Proceeds financed through its Sustainability bond are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing sustainability bonds is clearly described by the issuer.</p>	<p>Consistent with issuer's sustainability strategy</p>
<p>Part 2:</p> <p>Alignment with GBPs, SBPs and SBGs</p>	<p>The issuer has defined a formal concept for its Sustainability Bond regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBPs, SBPs and SBGs.</p>	<p>Aligned</p>
<p>Part 3:</p> <p>Sustainability quality of the Asset Pool</p>	<p>The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Sustainability Bond will (re-)finance eligible asset categories which include green buildings and affordable housing.</p> <p>Those use of proceeds categories have a positive contribution to SDGs 10 Reduced Inequalities & 11 Sustainable Cities and Communities. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p>Positive</p>

¹ ISS ESG's evaluation is based on ABZ's Sustainability Bond Framework (August 2021 version), on the analysed Asset Pool as received in August 2021, and on the ISS ESG Indicative Corporate Rating applicable at the SPO delivery date.

ISS ESG SPO ASSESSMENT

PART I: SUSTAINABILITY BONDS LINK TO ABZ'S SUSTAINABILITY STRATEGY

A. ABZ'S INDICATIVE SUSTAINABILITY PROFILE

Methodological note: Please note that ABZ is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment conducted by the analyst in charge of the Real Estate sector based on publicly available information exclusively. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

Industry classification: Real Estate

Key Issues of the Industry

- Green building considerations
- Climate protection, energy efficiency and renewables
- Environmental and social aspects in site selection
- Worker safety and accident prevention
- Health and well-being of occupants

Indicative ESG risk and performance assessment

Allgemeine Baugenossenschaft Zürich (ABZ) is a Switzerland-based cooperative building society with more than 5,000 apartments in the Greater Zurich area, providing space for more than 12,000 residents.

Recognizing that buildings account for a comparably large share of man-made CO₂ emissions, ABZ is committed to reducing greenhouse gas (GHG) emissions, among others by continuously increasing the share of renewable energy sources (e.g., solar power) for electricity and heating, making use of district heating and heat pumps, and by implementing energy-saving measures during refurbishments (e.g., improved insulation).

ABZ discloses GHG emissions from heating in tCO₂e by resident which have decreased in recent years. Moreover, the company provides metrics regarding building energy consumption in kWh/m² (energy construction area). Yet, emissions intensities are not available by floor area covered and the company does not disclose GHG emissions from electricity for downstream-leased assets² (scope 3 emissions). GHG emissions and energy consumption reduction targets are in place, and the company describes measures to achieve these targets.

To promote environmental awareness among residents, tenant groups have been established which take care of e.g., correct waste disposal of all tenants. Further, to enable multi-modal transportation access for its tenants, single electric vehicle charging stations and numerous bicycle facilities have been installed. In the context of developing new buildings, ABZ refers to selecting environmentally

² Assets that are owned by the company and leased to other entities.

friendly building materials for wood and timber and excludes the use of ozone-depleting or climate-impacting substances. No further detail is available on buildings materials. Though the company provides details on how it tries to increase biodiversity in the surroundings of its housing estates, there is no indication of an active biodiversity management in site selection and development. Nonetheless, the company avoids plants that are not native to Switzerland and removes invasive neophytes. Lastly, the company has implemented some internal policies that address health and safety measures for tenants, employees and contractors.

Indicative product portfolio assessment

Social impact of the product portfolio:

By generating the vast majority of revenues from the management of non-luxury residential properties (rental income), ABZ substantially contributes to the achievement of the social objective to provide basic services.

Environmental impact of the product portfolio:

As none of the company's properties seems to be certified to a green building standard (e.g., SNBS, Minergie) the entirety of the company's assets is not considered to have significant positive environmental impacts. However, upon engagement, the company states that it ensures compliance with the relevant building standards (including Minergie) without acquiring the respective certificates. This is done by means of a quality assessment between the total contractor and ABZ once building construction is completed.³

Controversy assessment

1. Company screening:

The analyst in charge of producing this report conducted a high-level controversy assessment, based on publicly available information exclusively. There is no indication of ABZ being involved in any of the below mentioned controversies.

2. Industry risks:

Based on a review of controversies in the period of 1 January 2019 – 02 June 2021, the greatest risk reported against companies operating in the Real Estate industry relate to activities that may have adverse impacts on the human rights and business malpractice. This is closely followed by activities related to labor rights. The top three issues that have been reported against companies within the industry are as follows: alleged failure to respect consumers' rights, failure to prevent bribery and failure to prevent money laundering. This is closely followed by the alleged failure to respect the right to safe and healthy working conditions, failure to respect the right not to be subjected to torture/inhumane treatment and failure to respect consumer health and safety.

³ ABZ states that in the future, new and replacement buildings shall be certified by the relevant MINERGIE certificates. Further, the company has provided the assessment of a Zurich-based engineering company, confirming that 'Siedlung Glattpark' – one of the settlements to be financed – are in line with the requirements of the MINERGIE-ECO standard. The external verifier is listed as an official partner of the MINERGIE label and has over 30 offices globally. Lastly, it is noted that none of the buildings financed via this bond is built before 2017 and none of them relies on fossil energy source. Factually, these can thus be considered comparatively energy efficient and climate friendly to the applicable standard.

B. CONSISTENCY OF SUSTAINABILITY BOND WITH ABZ'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the issuer

Cooperatively organized, ABZ demonstrates a history of sustainable management. In the cooperative statutes, the companies' purpose resides "in joint self-help and co-responsibility to provide its members with cheap and healthy housing". Accordingly, ABZ is organized on a non-profit basis. One of the other principles prescribed by the statutes is that the buildings of the cooperative are to be permanently withdrawn from any speculative use. The rents are calculated according to the cost. The average area of rents is around 38% below the comparable market rents. Compared to the average of the city of Zurich, ABZ's housings comprise 15% more people with a taxable household income of up to CHF 40T. This group makes up about half of all of ABZ's tenants. As a strategic goal, ABZ has defined a share of 15%-20% of the housing stock in the segment of very low-cost apartments with a monthly net rent of less than CHF 700.00. In the past three years, this share has been held between 16%-18%. A related foundation provides financial support to tenants of ABZ with low household incomes.

With respect to ecological aspects, the company states to take these into account in the choice of location, in new buildings, in renovations and maintenance. According to principle 4 of the ABZ mission statement "Taking responsibility for the environment", the ABZ acts "ecologically during construction, operation and office and promotes environmentally-conscious behavior of the residents". The ABZ is committed to the goal of a 2000-watt society. Further the company claims to rely on renewable energies and aim to reduce its CO₂ emissions. Concrete environmental goals are consistently pursued in four areas: energy and climate, construction and procurement, nature and environment, and mobility. Since 2015, annual greenhouse gas emissions per resident have been reduced from 0.71 tons of CO₂ equivalents caused by heating to 0.41 tons in 2020. Further, according to the company, its own photovoltaic systems produce renewable energy to supply over 1,300 households. The living space per resident is around 20% below the average of privately owned households in the city of Zurich.

Rationale for issuance

With the issuance of this bond, ABZ is the first building cooperative in Switzerland to gain direct access to the capital market. By means of issuing a Sustainability Bond, the corporation wants to enable its investors to finance the proven positive effects of the ABZ building cooperative on the environment and society and to support the corresponding ABZ objectives.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this Sustainability Bond with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Real Estate sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Green Buildings	✓	✓	Contribution to a material objective
Affordable Housing	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this bond are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing green bonds is clearly described by the issuer.*

PART II: ALIGNMENT WITH ICMA'S GREEN BOND AND SOCIAL BONDS PRINCIPLES AS WELL AS SUSTAINABILITY BOND GUIDELINES

1. Use of Proceeds

The net proceeds of the Sustainability Bond issued by ABZ will be used exclusively for the financing and refinancing of the construction or ownership of ABZ housing cooperative properties in Switzerland that are environmentally friendly. The funds of the ABZ bond will be used in the 6 months after their settlement to redeem mortgages and loans due, which serve to finance the settlements "Glattpark" Opfikon, "Entlisberg 2" Zurich-Wollishofen and "Toblerstrasse" Zurich. This will enable the more than 700 non-profit apartments in these settlements to be financed in part or in full.

Opinion: ISS ESG considers the Use of Proceeds description provided by ABZ's Sustainability Bond as aligned with the GBPs, SBPs and SBGs. Expected environmental and social benefits are clearly described. Moreover, ABZ states that all proceeds are fully allocated to redeem mortgages and loans included in the Framework.

2. Process for Project Evaluation and Selection

The buildings financed must meet the following criteria:

- Part of the ABZ residential building park and thus use mainly for non-profit (cost rent), democratically organized housing;
- Compliance with the following recognized energy standards: 2000 Watt Gesellschaft, Minergistandard or GEAK A;
- Compliance with all environmental guidelines required by the ABZ as well as the ABZ rental guidelines;
- Use of energy sources geothermal energy, water, solar, wood, pellets, green electricity, biogas or district heating based on non-fossil energy;
- Switzerland as a business location and thus compliance with the relevant Swiss environmental and social law provisions.

Opinion: ISS ESG considers the process for project evaluation and selection provided by ABZ's Sustainability Bond as aligned with the GBPs, SBPs and SBGs. Selection criteria are well-defined and category specific. Moreover, the projects selected show alignment with the sustainability strategy of the issuer.

3. Management of Proceeds

The use of proceeds for the purpose set out above is explained in the notes to the financial statements (substitution of existing financing with issue proceeds from ABZ bonds in the total volume of CHF ...). If a portion of the issue proceeds cannot be allocated to financing in accordance with the criteria defined in this framework, the corresponding amount will be held in cash for a maximum period of six months. If it is not possible to allocate the funds according to this framework within this period, this amount would be invested in a bond meeting the Sustainable Bond criteria of another issuer.⁴

⁴ The following criteria would have to be met: (1) bond in CHF, Euro, USD, senior, unsecured or secured; (2) issuer with investment grade; (3) independent audit or sustainable bond rating by a recognized auditor.

Opinion: ISS ESG finds the management of proceeds proposed by ABZ's Sustainability Bond as aligned with the GBPs, SBPs and SBGs. The amount collected through the Bond will be held in cash until allocation of the proceeds is possible, in line with best-market practices. Moreover, ABZ defines the expected allocation period and the procedure in case of divestment or postponement.

4. Reporting

ABZ publishes a comprehensive annual report and, from the 2021 financial year, an extended sustainability report based on the SDGs. In this report, ABZ will also publish a report on each bond issued under this framework until the maturity of the last bond issued. The following measures are included in this reporting:

- Allocation of issue proceeds (in %) the volume of the issue;
- the number of cooperative dwellings financed by the bond,
- the number of financed apartments rented at cost;
- energy standards complied with by buildings;
- energy sources used;
- Emissions per inhabitant in tons of CO₂equivalents caused by heat generation

The financial reporting is audited and certified by the statutory, independent auditor.

Opinion: ISS ESG finds the reporting proposed by ABZ's Sustainability Bond as aligned with the GBPs, SBPs and SBGs. ABZ is transparent on the level of reporting, on its frequency, scope and type of information reported. Moreover, the reporting will be audited by an independent entity, in line with best-market practices.

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE




A. CONTRIBUTION OF THE SUSTAINABILITY BOND TO THE UN SDGs

Based on the assessment of the sustainability quality of the Sustainability Bond Asset Pool and using a proprietary methodology, ISS ESG assessed the contribution of ABZs Sustainability Bond to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):



Each of the Sustainability Bond’s Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Green Buildings	Limited Contribution	
Affordable Housing	Significant contribution	 

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ASSET POOL

The table below presents the findings of an ISS ESG assessment of the asset pool against ISS ESG KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Site selection

- ✓ 100% of assets have a policy on responsible site selection in place (e.g. brownfield development, exclusion of protected areas and sites of high environmental value).
- ✓ 100% of the assets are located within 1 km from one or more modalities of public transport.

Construction standards

- ✓ 100% of assets are located in Switzerland where high labour and health and safety standards are in place (e.g. ILO core conventions).
- ✓ 100% of assets provide for sustainable procurement regarding building materials (e.g. recycled materials, third-party certification of wood-based materials).

Water use minimization in buildings

- ✓ 100% of assets provide for measures to reduce water consumption (i.e. water-saving fixtures as well as consumption-dependent measurement of hot water per rental unit).

Safety of building users

- ✓ 100% of assets ensure operational safety measures that are in line with Swiss regulation (e.g. emergency exits, fire sprinklers, fire alarm systems)

Energy consumption and avoidance of CO2 emissions

- ✓ The average building energy consumption in Wh pro m2 EBF, climate-adjusted) is: Glattpark: 38, Tobler: 20, Entlisberg 2: 16⁵.

Standards for affordable housing

- ✓ For 100% assets, rents are lower than the local average rent level.
- ✓ For 97% of assets, tenant rights include lifelong right of residence.

Energy Efficiency

- ✓ For 100% of assets, good energy efficiency standards are in place (e.g. heating energy demand below 50 kWh/m2a).
- ✓ Buildings in the Toblerstrasse, Entlisberg 2 and Glattpark estates are among the top 15% of ABZs assets in terms of energy efficiency

⁵ Due to the drying phase after completion of the buildings, this value is higher in Glattpark than in Tobler and Entlisberg 2. It is to be expected that the value in Glattpark will also be at max. the value of the the other two sites.

Sustainability labels

- None of the assets obtained a MINERGIE P Eco (or an equivalent) certification.⁶ However, the company states that the buildings are constructed in alignment with the MINERGIE P ECO standard. For one of the settlements (“Siedlung Glattpark”), this has been verified by an external engineering company that is listed as an official partner of the MINERGIE certification label.

⁶ The company states that the buildings are constructed in alignment with the Minergie standard. However, the effort for certification is not made, since ABZ does not build the properties for sale (statutory restriction). Instead of the certification, the total contractor who is commissioned with the construction of a housing development is contractually bound to the corresponding sustainability specifications. For control purposes, the buildings are subjected to a quality assurance check on the sustainability specifications during acceptance.

DISCLAIMER

1. Validity of the SPO: As long as ABZs Framework (August 2021) remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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ANNEX 1: Methodology

ISS ESG Green and Social KPIs

The ISS ESG Green Bond and Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of ABZs Sustainability Bond.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

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

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Environmental and social risks assessment methodology

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

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

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

Assessment of the contribution and association to the SDG

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

ANNEX 2: Quality management processes

SCOPE

ABZ commissioned ISS ESG to compile a Sustainability Bond SPO. The Second Party Opinion process includes verifying whether the Sustainability Bond Framework aligns with the ICMA GBPs, SBPs, and SBGs to assess the sustainability credentials of its Sustainability Bond, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA GBPs, SBPs, SBGs
- ISS ESG KPI set: Green Buildings and Affordable Housing

ISSUER'S RESPONSIBILITY

ABZ's responsibility was to provide information and documentation on:

- Framework
- Asset pool / Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

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

ISS ESG has conducted this independent Second Party Opinion of the Sustainability Bond to be issued by ABZ based on ISS ESG methodology and in line with the ICMA Green Bond Principles, Social bond Principles and Sustainability Bond Guidelines.

The engagement with ABZ took place from June to August 2021.

ISS ESG'S BUSINESS PRACTICES

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

About ISS ESG SPO

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

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

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

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

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