

SECOND PARTY OPINION (SPO)

Verification of the Sustainability Quality of the Issuer and Social Finance Framework

Gewobag Wohnungsbau Aktiengesellschaft Berlin (Gewobag)
27 May 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Social Bond
Relevant standards	<ul style="list-style-type: none">• ICMA Social Bond Principles
Scope of verification	<ul style="list-style-type: none">• Gewobag's Social Finance Framework (as of May 2020)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• As long as no new assets or project categories are added to the Framework

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SCOPE OF WORK

Gewobag Wohnungsbau Aktiengesellschaft Berlin (Gewobag or the Group) commissioned ISS ESG to assist with its Social Finance Framework by assessing three core elements to determine the sustainability quality of the framework:

1. Gewobag’s Social Finance Framework (May 2021 version) – benchmarked against the Social Bond Principles (“SBPs”) 2020 Version as published by the International Capital Markets Association (“ICMA”)
2. The eligible category’s contribution to the UN Sustainable Development Goals.
3. Gewobag’s indicative ESG performance¹, based on and considering ISS ESG Research methodology.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
Part 1: Alignment with the SBPs	The issuer has defined a formal concept for its Social Finance Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Social Bond Principles.	Positive
Part 2: Sustainability quality of the eligible categories	Under the Social Finance Framework, the issuer will (re-) finance affordable housing / Social Assets. These Social Assets have a significant contribution to SDGs 10 ‘Reduced inequalities’ and 11 ‘Sustainable cities and communities’.	Positive
Part 3: Issuer’s indicative ESG performance	Gewobag is a Germany-based real estate company with a focus on residential property acquisition, development and management in the city of Berlin, generating more than 90% of revenues from rental income. It achieves a positive social impact of the product portfolio, while its environmental impact of the product portfolio performs moderately, according to ISS ESG Research methodology	Moderate indicative ESG performance

¹ ISS ESG’s Please note that Gewobag is not part of the ISS ESG Corporate Rating Universe. Thus, the sustainability profile is an assessment 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.

² ISS ESG’s evaluation is based on the Gewobag’s Social Finance Framework (May 2021 version), and on the ISS ESG Indicative Corporate Assessment applicable at the SPO delivery date

ISS ESG SPO ASSESSMENT

PART I: ALIGNMENT WITH THE SOCIAL BOND PRINCIPLES

1. Use of Proceeds

Gewobag intends to allocate an amount equal to the net proceeds of the Social Financing Instruments issued under this framework to Eligible Social Assets contributing to Affordable Housing.

Eligibility criteria:

An amount equal to the net proceeds from the issuance of each Social Finance Instrument will be used to finance or refinance, in whole or in part, Gewobag's Eligible Social Assets. The table below shows the eligible Social Assets and the target population of Gewobag's balance sheet.

ICMA SBP Category	Eligibility Criteria	Target Population
Affordable Housing	<ul style="list-style-type: none"> All residential units that qualify for social housing under the Cooperation Agreement with the municipal housing companies (KoopV)³ targeted at tenants with a WBS (Wohnungsberechtigungsschein) Residential units that are rented below the local reference rent⁴ and whose rents do not increase by more than 2% per year⁵ Privately financed new residential units that are rented at differentiated rents which remain under 11 EUR/m²/month to have a rent-controlling effect on the Berlin housing market⁶ Portfolio purchases where every second new rental is a net basic rent of max. 6.50 EUR/m²/month to households entitled to WBS⁷ Modernized residential units whose net basic rents are increased by no 	<p>WBS-entitled¹⁰ persons according to the Berlin income limits¹¹:</p> <ul style="list-style-type: none"> Single person households: 16.800 EUR/year Two-person households: 25.200 EUR/year Plus for each additional person in the household: 5.740 EUR/year Support for each child in the households: 700 EUR/year <p>The net basic rent amounts to more than 30 percent of a tenant's income (hardship clause)¹²</p> <p>Broad sections of the population¹³ with small and medium income to</p>

³ KoopV to be found here:

<https://www.stadtentwicklung.berlin.de/wohnen/wohnraum/wohnungsbaugesellschaften/download/kooperationsvereinbarung.pdf>

⁴ Evaluation basis is the so called 'Berliner Mietspiegel', to be found here: <https://www.stadtentwicklung.berlin.de/wohnen/mietspiegel/de/download/>

⁵ Included in 4.2 KoopV, socially acceptable rents need to be secured; one-time rent increases of up to 4% within 2 years are possible. Exceptions are made for rents that are below 75% of the average Gewobag rent.

⁶ Included in 2.1 KoopV, obligation of the municipal housing associations to inexpensive building and appropriate price differentiation

⁷ Included in 2.3 KoopV, applies to purchased residential buildings if the net basic rent of a purchased residential building is above 6.50 EUR / m² / month

¹⁰ According to the Berlin income limits (§ 9 Abs. 2 WoFG + 40%), in exceptional cases the income limits of the WoFG can be exceeded by +60% or +80%

¹¹ To be found here: https://www.stadtentwicklung.berlin.de/wohnen/mieterfibel/de/mf_wbs.shtml

¹² Eligible are tenants that fall below the income limits for WBS (§ 9 Abs. 2 WoFG + 40%). Legal basis is Article 2 §§ 2,3 WoVG Bln, to be found here:

https://www.stadtentwicklung.berlin.de/wohnen/wohnraumversorgung/download/WoVG_Gesetzblatt_05.12.15.pdf

¹³ Particular offers for special needs groups such as students, transfer recipients, benefit claimants, refugees, senior citizens and people living in assisted living facilities provide social value in addition to rentals to WBS-beneficiaries

ICMA SBP Category	Eligibility Criteria	Target Population
	more than 6% of the modernization costs incurred ⁸ and do not exceed the local reference rent by more than 10% ⁹	maintain the value of a socially mixed city ¹⁴

Opinion: ISS ESG considers the Use of Proceeds description provided by Gewobag’s Social Finance Framework as aligned with the Social Bond Principles. The social benefits and targeted population are described and quantified. Furthermore, ISS ESG finds that the social objectives of the issuance align with the overall social strategy of Gewobag.

2. Process for Project Evaluation and Selection

A dedicated Sustainable Finance Team has been established to evaluate and select assets based on compliance with the above eligibility criteria. Assets financed and/or refinanced through the Social financing proceeds are evaluated and selected based on compliance with the Eligibility Criteria. The team consists of members within Gewobag’s funding team, Treasury as well as the Sustainability Management Team of Gewobag.

The Sustainable Finance Team monitors the Eligible Social Assets and is also responsible for:

- Reviewing the content of Gewobag’s Social Finance Framework and updating it to reflect changes in corporate strategy, technology and market developments on a best effort basis;
- Excluding assets that no longer comply with the Eligibility Criteria or have been disposed of and replacing them on a best efforts basis;

The Sustainable Finance Team will meet at least on an annual basis. Project evaluation and selection also complies with Gewobag’s corporate and sustainability objectives as well as with applicable national, European and international sustainability standards and regulations, to ensure a stringent management of any potential negative environmental/social impacts. Gewobag’s internal Sustainability Management underpins the framework and serves as minimum standards for all business processes, including those financed with an amount equal to the proceeds of Social Finance Instruments issued under this Framework. Gewobag also applies risk management measures in its business decisions which are supported by company-wide planning, reporting and controlling systems.

Examples of policies and guidelines that mitigate any environmental/social risks potentially associated with Eligible Social Assets are:

⁸ Evaluation basis is the so called ‘Berliner Mietspiegel’, to be found here: <https://www.stadtentwicklung.berlin.de/wohnen/mietspiegel/de/download/>

⁹ Included in 4.3 KoopV, contributes to ensuring socially acceptable rents after modernization

¹⁴ Central social purpose of the municipal housing companies as laid out in the KoopV and in the statutes of Gewobag

- State of Berlin Corporate Governance Kodex
- Risk and Compliance Management Manual
- State of Berlin Supplier Conduct Principle “Berliner Ausschreibungs- und Vergabegesetz” (BerLAVG)
- Sustainability Report 2019
- Sustainability Declaration of Gewobag “DNK Erklärung 2018”
- Cooperation Agreement “Leistbare Mieten, Wohnungsneubau und soziale Wohnraumversorgung”
- Statutes of Gewobag

Opinion: *ISS ESG considers the Process for Project Evaluation and Selection description provided by Gewobag’s Social Finance Framework as aligned with the Social Bond Principles. Internal accountability and responsibilities for the process are clearly defined and relevant internal expertise is utilized. The company commits to regularly screen for environmental and social risks through the implementation of strict guidelines on a corporate and decision-making level.*

3. Management of Proceeds

Gewobag will allocate amounts equal to the proceeds from Social financing instruments to finance Eligible Social Assets on its balance sheet in accordance with the use of proceeds criteria and evaluation and selection process presented above. Proceeds from Social Finance Instruments will be managed by Gewobag’s Finance department, based on the values of Eligible Social Assets on the balance sheet.

Gewobag will strive to maintain a level of allocation for the Eligible Social Assets which matches or exceeds the balance of net proceeds from its outstanding Social Financing Instruments. Additional Eligible Social Assets will be added to the extent required, as a result of, for instance, disposals, to ensure that an amount equal to the net proceeds from outstanding Social Finance Instruments will be allocated to the Eligible Social Assets until the maturity of the Social Instruments.

Whilst any proceeds remain unallocated, Gewobag will hold, and/or invest, at its own discretion, in its treasury liquidity portfolio, in cash or other short term and liquid instruments or use for the repayment of indebtedness and for other capital management activities.

Opinion: *ISS ESG finds that Management of Proceeds proposed by Gewobag is well aligned with the Social Bond Principles. The Finance Department will track the Social Assets on the balance sheet. All proceeds are expected to be allocated at issuance.*

4. Reporting

In accordance with the recommendations from the Social Bond Principles, Gewobag intends to make and keep readily available reporting on Eligible Social Assets and/or Social Finance Instruments outstanding. Reporting with respect to outstanding Social Finance Instruments will take place at least annually or until full allocation on a consolidated basis.

Reporting will be made available on Gewobag’s website.

Allocation Reporting

The allocation report will provide:

- The total amount of proceeds allocated to Eligible Social Assets
- For Eligible Social Assets, the amount of additions, amount of sold and disposed and amount of depreciation of Eligible Social Assets during the year
- The balance of unallocated proceeds
- The total amount of Gewobag Social Finance(s) outstanding

Impact Reporting

Gewobag intends to report on the social impacts of the assets funded with proceeds from Social Finance Instruments through annual impact reporting. Where relevant, information may be provided on data reporting and impact assessment methodologies to increase transparency.

Impact reporting may, on a best efforts’ basis, include:

Eligible Category	Impact Reporting Matrix
Affordable Housing	<ul style="list-style-type: none"> • Number of residential units that are rented out according to rental regulations of the WoVG Bln and the KoopV • Number of residential units that are newly rented/re-rented to WBS-beneficiaries • Average local reference rent • Average portfolio rents

Allocation and impact reporting will be made available via Gewobag’s website. Gewobag intends to align its reporting with the Handbook for Harmonized Framework for Impact Reporting - April 2020.

Opinion: *ISS ESG finds that the reporting proposed by Gewobag is aligned with the Social Bond Principles. Gewobag shows great transparency on the level of expected impact reporting in terms of scope, frequency and level of information it intends to report. Moreover, the issuer provides a list of possible impact indicators which is aligned with best market practices.*

External Review

Second Party Opinion (pre issuance)

ISS ESG will review the contribution to the UN SDGs of the eligible financed category as well as the alignment of Gewobag’s Social Finance Framework with ICMA’s 2020 Social Bond Principles. ISS ESG will provide a Second Party Opinion (SPO) that will be made available on Gewobag’s website.

Verification (post issuance)

Gewobag intends to commission an independent review at after the full allocation of any Social Bond proceeds, with the intention of confirming that the Social Bond proceeds have been allocated in accordance with the Use of Proceeds specified in this framework document. This report will be included in the Sustainability Report of Gewobag.

PART II: SUSTAINABILITY QUALITY OF THE FRAMEWORK

CONTRIBUTION OF THE SOCIAL FINANCE FRAMEWORK TO THE UN SDGs

Based on the assessment of the sustainability quality of the Social Finance Framework and using a proprietary methodology, ISS ESG assessed the contribution of the Gewobag’s Social Finance Framework 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 Social Finance Framework’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
Affordable Housing	Significant contribution	 

PART III: GEWOBAG'S INDICATIVE ESG PERFORMANCE

Methodological note: Please note that Gewobag is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment by the analyst in charge of the financials/mortgage and public finance 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

Gewobag is a Germany-based real estate company with a focus on residential property acquisition, development and management in the city of Berlin, generating more than 90% of revenues from rental income. As at 31 December 2019, the company had 72,000 rental units in its portfolio.

By 2050, Gewobag is working to support limiting global warming to well below 2°C in accordance with the Paris Climate Agreement. Gewobag is in fact a founding member of the Initiative Wohnen.2050 ("Living.2050"), which was founded to achieve Paris Climate Targets and Climate Neutrality by 2050.

Recognizing that buildings are responsible for a comparably large share of man-made CO₂ emissions, Gewobag is currently developing this climate strategy based on science-based targets as well as an action plan. In this regard, GHG emissions inventories are in place, compiling scope 1, 2 and 3 emission.

In order to increase its property portfolio's energy efficiency and reduce CO₂ emissions, the company refers to photovoltaic panels installed on some roofs by other parties through business cooperation, generating more than 200,000 kWh per year. Photovoltaic together with highly efficient small Combined Heat and Power Plants ("CHP") provide an environmentally friendly power supply. Around 6,200 households have therefore the opportunity to use energy from this renewable source. Yet the percentage of renewable energies in total energy use of the property portfolio is at around 1%, only.

In order to make its property portfolio more energy efficient Gewobag has taken measures related to the building envelope (e.g., insulation, modern windows) and more efficient heating systems in the context of energetic modernizations. Gewobag uses the sustainable housing label by RITTERWALD which includes green and social criteria in its sustainability assessment and has one

property under construction that has received pre-certification by the DGNB (Platinum). The entire building stock, consisting of more than 70,000 units, is certified with the RITTERWALD certification, while about 2000 units are covered by DGNB certification.

Gewobag also engages in a range of mobility initiatives including mobility hubs for car/bike sharing, public charging points (already 24 established) and 15 electric vehicles in the company fleet, representing 60% of the entire fleet.

With regard to site selection and planning, there is a continuous dialogue with tenant (representatives) to discuss planned restructurings and changes in the neighborhoods to increase acceptance of planned projects. Also, in case of development projects the company systematically reaches out to the community to enable participation through e.g., information and consultation of affected residents and neighbors.

While tenant health issues are not strategically addressed (except for disclosing the number of apartments where asbestos was removed), tenant well-being is enhanced by providing green space to tenants for e.g., joint gardening projects.

Health risks of employees are addressed by single elements of an occupational health and safety management system, such as workshops and counselling on (psychological) health related issues. Gewobag also discloses data with regard to occupational injuries and illness, which show that no fatal accidents have occurred during the past years among employees.

Indicative Product portfolio assessment:

Social impact of the product portfolio: As the company generates the vast majority of revenues from the management of non-luxury residential properties (rental income), the basic services objective aiming at providing housing to the more vulnerable target population, is applicable to the company. The overall assessment is positive as residential buildings positively contribute the achievement of the respective global social objectives.

Environmental impact of the product portfolio: The company refers to one property under construction that has received pre-certification by the DGNB, and the widespread use of the sustainable housing label by RITTERWALD. The entire building stock, consisting of more than 70,000 units, is certified with the RITTERWALD certification, while about 2000 units are covered by DGNB certificate.

The company also claims 90% of new constructions align with the building standard 'KfW-55' meaning the annual primary energy requirement of the 'KfW-55' building corresponds to only 55% of the energy requirement of a comparable new buildings. This results from good thermal insulation in the roof and outer walls as well as triple glazing in the windows and doors. Wood pellet or biomass heating is also required to meet the requirements of KfW Efficiency House 55. While this is a good step forward, performance on energy efficiency can be further improved by having a larger share of buildings certified and aiming at achieving nearly zero-energy buildings (NZEB) standards.

Controversy risk assessment:

Based on a review of controversies logged from 1 January 2019, the greatest risk reported against companies operating in the Real Estate industry relate to activities that may have adverse impacts on consumers' and workers' rights. The top three issues that have been reported against companies within the industry are as follows: alleged failure to respect consumer health and safety, failure to respect the right to safe and healthy working conditions and failure to assess environmental impacts. This is closely followed by the alleged failure to respect the right to just and favourable conditions of work, failure to respect the right not to be subjected to torture/inhumane treatment and anti-competitive behaviour.

There is no indication of Gewobag being involved in any of the above-mentioned controversies.

DISCLAIMER

1. Validity of the SPO: As long as no new assets or project categories are added to the Framework.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to 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

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 Gewobag's Social Finance Framework contributes to related SDGs.

ANNEX 2: Quality management processes

SCOPE

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

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Social Bond Principles

ISSUER'S RESPONSIBILITY

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

- Framework

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 Social Finance Framework to be issued by Gewobag based on ISS ESG methodology and in line with the ICMA Social Bond Principles.

The engagement with Gewobag took place in November 2020.

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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