

2021

SUSTAINABILITY REPORT



**FUNDING
FOR
FUTURE**

Letter from our CEO:

What has inspired us and where we are going



Nicholas Stancioff
Executive Director

We spend 90% of our time indoors. Imagine that a building is actually unhealthy, then this time spent indoors begins to impact our wellbeing. If your home is kept at temperatures between 14-15°C, you may be unable to fight against colds, or flu, and other respiratory diseases. When your home is below 13 °C , your blood pressure increases, together with your risk for cardiovascular diseases. Exposure to excessive mold and dampness leads to 37,000 years of healthy life lost for European children.

Eradication of mold and dampness in all EU buildings would lead to an economic gain of €55 billion for the EU economy by 2060. Improper ventilation in homes gives us 40% more of a chance to have asthma. Did you know that 15-20% of the new cases of children's asthma in the EU are connected to poor indoor living standards? This means that approximately 26 million children live in unhealthy homes and miss 1.7 million school days .

How can we respond to this public and environmental crisis that has caused the destruction of our social fabric and increasingly affect our environment and wellbeing?

From Crisis to Action

One of the most innovative ways to deal with these two European-wide problems related to buildings (societal breakdown and CO₂ emissions) is to dEEp renovate buildings (for energy efficiency) which results in more comfortable and healthier buildings for residents and reduction of CO₂ emissions, which can be paid back by the savings from the energy efficiency.

dEEp renovation is the idea of capturing the full economic energy efficiency potential of a building with a focus on the building fabric. It leads to remarkable energy savings. In much of Eastern and Central Europe, much of the building stock is multifamily residential buildings that continue to rapidly deteriorate due to harsh weather conditions and lack of proper maintenance, making this idea become extremely attractive.

Because of the way these buildings were built, we can take advantage of a common architectural and engineering style to leverage renovation across the region. The fact that these buildings were built to scale means we can renovate to scale as well. We can take advantage of this opportunity by delivering the dEEp renovation of multifamily buildings through standardizing each step of the renovation process: from the technical and legal aspects to project financing, allocating risks and setting guarantees for apartment owners and tenants.

To realize this potential, renovation, therefore, requires designing, financing, and implementing complex energy efficiency investments.

Our mission, vision, and values

Our mission

Setting up and managing dedicated Building Energy Efficiency Facilities (BEEFs) in cooperation with local partners across Europe, F3 provides 20+ year standardized financing to owners of building stock to purchase guaranteed safety, health, and comfort services while reducing the buildings' carbon footprint by over 50%.

Our vision

Support scaling up massively the decarbonization of the built environment through low-risk, long-term building energy efficiency financing methodologies which deliver guaranteed Safety, Health, and Comfort™ long-term to residents. As an aspiring B-Corp, F3's responsibility is to align our interests and those of our financiers with citizens, along with those of our value chain (Service providers, Utilities, Construction companies, suppliers), and employees. F3 goal goes beyond financial returns, aiming to also be a benchmark for scale, integrity, and impact for owners in delivering guaranteed Safety, health, and comfort.

Our values

As a financial institution working in the housing sector, we understand that trust is fundamental in building renovation because it directly touches people's homes and involves so many different players. Therefore we have built a process that opens a way for building trust in this sector through transparency, accountability and standardization. To maintain our integrity and that of the entire chain, we incorporate best practices and operate according to B-Corp principles.

How Our Mission, Vision and Values Link with SDGs?

SDG 3 - Ensure healthy lives and promote well-being for all at all ages

Good condition of building is a key to health and well-being of the society, for people spend 90% of their time in buildings. That is why our vision is aimed at delivering guaranteed long-term "Safety, Health and Comfort"™ to residents. We provide financial tools to improve their living/working conditions.

The performance of the building indoor environment affects people's health, productivity and general level of well-being. By renovating a building we address that 40% of Europeans are more likely to have asthma because of mold at home. While, at the workplace, improved air quality can increase employee's performance by up to 15%. The UN admits that among all the topics covered by this SDG, progress in child health especially needs acceleration. Scaling-up financing renovations, we address the problem that 1 out of 3 European children live in unhealthy homes, which condition impacts their health negatively.

Buildings are strongly linked with health, that is why by improving their condition we contribute to the sub-target 3.4 on the reduction of mortality from non-communicable diseases and promotion of mental health. In 2019 2.2 million Europeans had asthma, which was often linked to their living conditions. Renovations improve the air quality in buildings which reduces the risk of chronic respiratory diseases. Besides that, better buildings are found to improve mental health and well-being, what makes them a key to Safety, Health and Comfort™ as well as well-being at all ages.

How Our Mission, Vision and Values Link with SDGs?

SDG 7 - Affordable and clean energy.

Decarbonized building stock that leads to affordable energy are at the core of our values. We believe that affordability must be inherent in sustainability. By improving energy efficiency in buildings and building condition in general, we lower utility bills for residents. Through our model, based on Energy Performance Contracting (EPC), the energy saved is used to repay the cost of renovation. EPC enables residents to pay the renovation costs, while living in an already energy-efficient, healthy building with no upfront capital needed.

SDG 11- Make cities and human settlements inclusive, safe, resilient and sustainable.

A healthy building stock could improve the health and living standards of urban dwellers. Our approach, therefore, focuses on the most important parts for people in a city - their homes. The better housing conditions attract people of various backgrounds and middle and high-income levels to the neighbourhood. This improves the human capital of the city, stimulates the labour market by the new talent, etc which results in better socio-economic conditions and quality of life in general. Bringing diversity together enables mutual learning. At the same time, neighbourhood renovation decreases violence levels. Buildings are an opportunity for cities because renovation can significantly improve the life of urban dwellers.

How Our Mission, Vision and Values Link with SDGs?

SDG 13 - Take urgent action to combat climate change and its impacts.

Greener buildings are keys not only to our health but to the health of our planet. It is projected that to limit global warming to 1.5 °C, the global decarbonization goal of 7.6% CO₂ emissions reduction per annum should be achieved. Renovation of existing building stock could decrease annual global CO₂ emissions by 6.78%. Buildings are responsible for around 40% of CO₂ emissions worldwide, the direct building-related emissions grew between 2010 and 2019 by 5%. As Climate change only increases the demand for energy used in buildings, e.g. in some countries, the unusually high temperatures boost the demand for air conditioning, eventually making buildings consume more. This makes the scaling up of the decarbonization of the built environment even more urgent.



What Problems are we addressing?

One of the most innovative ways to deal with the European-wide problems of societal breakdown and CO₂ emissions is to dEEp renovate buildings (for energy efficiency) which, apart from the CO₂ reductions, results also in more comfortable and healthier buildings for residents.

However, the building renovation sector itself faces challenges. The condition of building stock is deteriorating year by year, while the annual renovation rate is insufficient to address it and achieve climate targets. At the same time, funds with short-term guarantees are often the only option for renovations. The renovation costs, high risks, and lack of trust in the entire process discourage stakeholders from using those funds.

F3 knows that the most effective way to deal with problems in the sector is to tackle the causes. The first cause is that there is no standardized process to deliver long-term guarantees. Often, the guarantees do not go beyond the renovation phase or cover the short-term maintenance phase e.g. 5 years, which creates the reluctance to renovate. The second cause is that the renovation process is costly, and to be affordable it needs a long payback period. Usually only short-term financing options are available, which makes it hard for the stakeholders to cover costs. The F3 approach to finance renovation is designed to address these causes to make renovation affordable and beneficial for all.

Low annual renovation rate and building crisis

We have focused our work in Eastern and Central Europe, where 75% of building stock is energy inefficient. The EU has started the Renovation Wave to address this building crisis. However, the annual renovation rate in the EU is very low - around 1% and 0.2% for deep renovations, the Commission has a goal to double it by 2030, while some experts claim that at least 3% of deep renovation is needed by 2030.

A low annual renovation rate will impede our ability to meet climate objectives. Currently, the EU's existing policies are assessed as "insufficient" to meet climate goals and more effort is needed. Despite the EU has already increased the emission reduction target to 55%, some sources estimate that a raise to 65% can make it compatible with the Paris Agreement. The renovation can decrease the CO₂ emissions in the EU by 5% and the total energy consumption by 5-6% because deep renovation improves the energy performance by 60% at least. Renovation is a solution that is more environmentally friendly than demolition and new construction, mainly due to embodied carbon from new material for construction.

Therefore, to scale up the renovation wave, we focus on inclusion in financing and engagement.

Why does this problem exist?

Lack of affordable financing

Building renovation is a capital-intensive process, that is why to be affordable the financing needs to be long-term. Unfortunately, quite often only short-term financing and loans with short repayment periods are available, which results in a very low possibility to renovate for small local companies and for residents who can not afford to cover costs in a short term.

Building renovation is among the sectors to face the largest investment gap in the EU, at the same time bad housing conditions cost the EU €194 billion per annum. The available funds are insufficient for the sector's development and growth. The conditions to scale-up investments vary a lot in the Member States because the availability of subsidies and grants and the cost of investment into building renovation are not the same.

F3 by using BEEF makes renovation affordable for parties involved. By purchasing the cash flows from the Service Providers, it turns what would be a short-term loan into a long-term investment, allowing the residents to pay on a longer period of time, which allows them to pay for it using the energy savings.

No standards

Standardization is fundamental in the building renovation process because it has multiple stages and involves a lot of stakeholders who need to cooperate effectively. Lack of standardization leads to low reliability and a lack of incentive for parties to be involved in the renovation process.

F3 follows the standardized process where each step is known and communicated with stakeholders, the responsibilities are clearly defined among parties, and risks are shared.

Why does this problem exist?

Not a transparent process

Lack of transparent information was often pointed out among the key obstacles for building renovation by stakeholders. Also, the asymmetric information and the lack of communication at each step of the project implementation hampers the sector development in general.

F3 makes sure the data is transparent and accessible to all the parties involved. The Sunshine platform is our tool to bring efficiency, transparency and standardization to building renovation, hence, built trust and engagement.

Short-term guarantees are given by renovations

Often reluctance to renovate is created by the lack of standardized mechanisms to guarantee high-quality renovations and maintenance with long-term results. The service provider's long-term guarantees are short-term and in some cases do not cover the building maintenance phase. Short-term guarantees create a risk that renovation can be done with low quality and another one will be needed soon. Service providers should guarantee long-term to ensure the high-quality of renovations and long-lasting benefits of investment.

F3 guarantees long-term. The safety, health and comfort™ and renovations high-quality is guaranteed 20 years of building maintenance.

Who feels our impact?

Building renovation can be a home-making process and at the same time an investment opportunity. The impacts of building renovation are multidimensional and therefore are felt by multiple stakeholder groups. Our main beneficiaries are residents, apartment owners, market operators, municipalities and policymakers, and green investors.

Residents will live in a new building with guaranteed safety, health, and comfort for 20 years. The BEEF financing model is designed to deliver the renovation for people regardless of their income level, the long-term payback period makes it affordable. As our work concentrates on multi-family buildings, we know that we also focus on some of the most vulnerable groups to energy poverty who are low-income families, pensioners, etc. More than 40% of our beneficiaries are underserved, F3 makes renovation accessible to them.

Apartment owners living in a building or not will benefit as well. The value of their property increases, since the building is renovated it has better technical characteristics and overall outlook, hence, it can be sold out or rented at a higher price.

Market operators scale their business through the financing offered by BEEF. Forfeiting allows them to repay the short-term loan they got from the bank, which enables them to request loans for other buildings. Another advantage of the BEEF model is that beyond renovation it covers maintenance and monitoring periods, which guarantees market operators a long-term client.

Green investors can use the potential of the building renovation sector, as an investment opportunity with a very strong environmental and social dimension. The building renovation sector represents the largest single segment of the energy efficiency market worldwide. In the EU alone all the investments in building renovation can be repaid in 18 months, while each million invested creates 18 jobs. F3 offers them to use this investment opportunity by a low risk investment with guaranteed social and environmental impact, based on the BEEF Guidelines.



What we do: creating impact through holistic financing

Social

Can social sustainability be built? Based on our experience, we know it can. The built environment has an enormous potential to improve the quality of life. Buildings are a place where the physical and social world intersect. They constitute the living and working space for the majority of the people, making them healthy is an important step to an inclusive socially-sustainable city.

What do we do?

EPC++ for wider benefits of renovations as a part of BEEF investment guidelines to ensure social sustainability

BEEF technical and financial guidelines for energy efficiency improvement measures are a set of principles and values on which we base our work with the stakeholders. We make sure investments made in building energy retrofits are sound and socially responsible, adopting the highest standards of transparency. Through guidelines, we can guarantee investors with long-term secure returns, and most importantly, residents with safe, healthy, and comfortable homes that remain affordable. We only forfeit projects that are compliant with our Guidelines.

We believe that the approach to buildings should be occupant-focused. Our goal is to ensure citizens' wellbeing through long-lasting homes, that is why we improved the concept of EPC and created the EPC++.

Under BEEF guidelines technical criteria EPC++ includes all the structural and energy efficiency measures and the additional measures to ensure the safety, health, and well-being of residents for a longer period. Beyond the repairs of building fundamental elements, it covers improvements of common spaces (staircases, roofs, fire equipment, balconies, etc). It allows for guaranteed maintenance to be a part of the building renovation at no extra cost.

Additional measures bring wider benefits of renovation. It improves safety and visual comfort. EPC++ gives the residents a possibility to actively contribute, extend the life of their building and modify their everyday behaviour to achieve the best result together.

We make renovation accessible to all

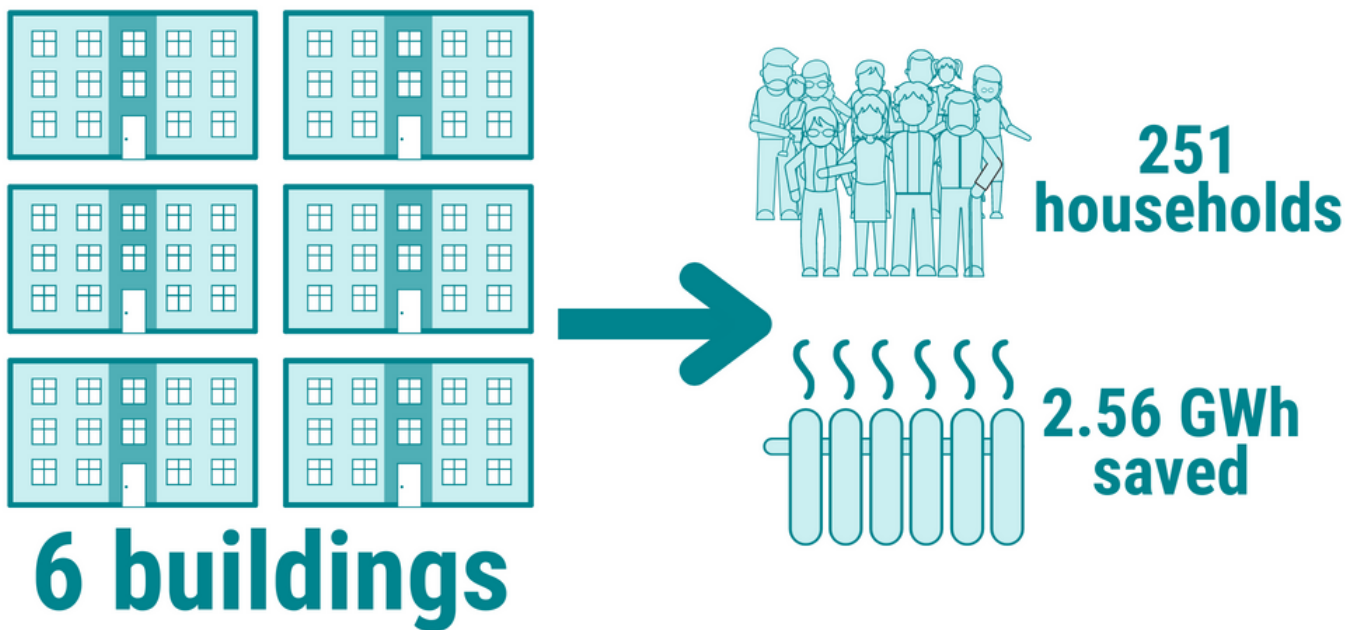
More than 45% of our beneficiaries represent vulnerable groups or underserved beneficiaries. This proves that we keep the renovation process affordable and inclusive, so people no matter their income level can afford the improvement of their homes no matter their income level.

The renovation must be accessible to all to get scale. That is why our financing scheme is designed in a way to enable a long payback period while delivering guaranteed results.

EPC enables the renovation costs through energy savings. By paying the same amount they paid before the renovation, residents can cover the cost of utilities and renovation after the renovation is done. We combine short-term financing from banks that serve an upfront capital with the long-term capital provided by investment funds using forfeiting. The forfeiting allows the apartment owners to pay for the renovation in a longer period of time.

Impact

- Improved living conditions of 251 households in 6 forfeited buildings
- 2.56 GWh of energy savings on 6 buildings between 2018-2020



What you can do

- Meet your neighbours - you are a community
- Think: how can I make my building a better home?
- Build inclusion - talk to your neighbours about the dEEp renovation

Environmental

The urgency of climate action requires commitment from all industries. The building renovation sector has a huge potential to contribute to the efficient use of energy and decarbonization. At the same time renovation of existing buildings is a more environmentally-friendly policy option than demolition and construction of a new one. Due to the embodied carbon, which is in the building materials used for the construction of the new building, it results in an overall higher level of emissions. Financing energy-efficient building renovation is our way to offer “alternative fuel” and address the fast and continuous global energy demand rise.

What do we do?

Minimal requirements of energy savings

Energy efficiency improvements are our way to mitigate global energy demand rise, by acting through buildings - the consumers of 40% of global energy and emitters of $\frac{1}{3}$ of global CO₂. Smart use of energy is our way to offer “alternative fuel”.

Our delivery is based on the energy savings achieved in the renovation. Therefore, our investment Guidelines require 45% of energy savings, aiming at 60%, if a project will be forfeited. Service providers guarantee the achievement of the contractually agreed level of savings and are obliged to compensate for savings shortfalls.

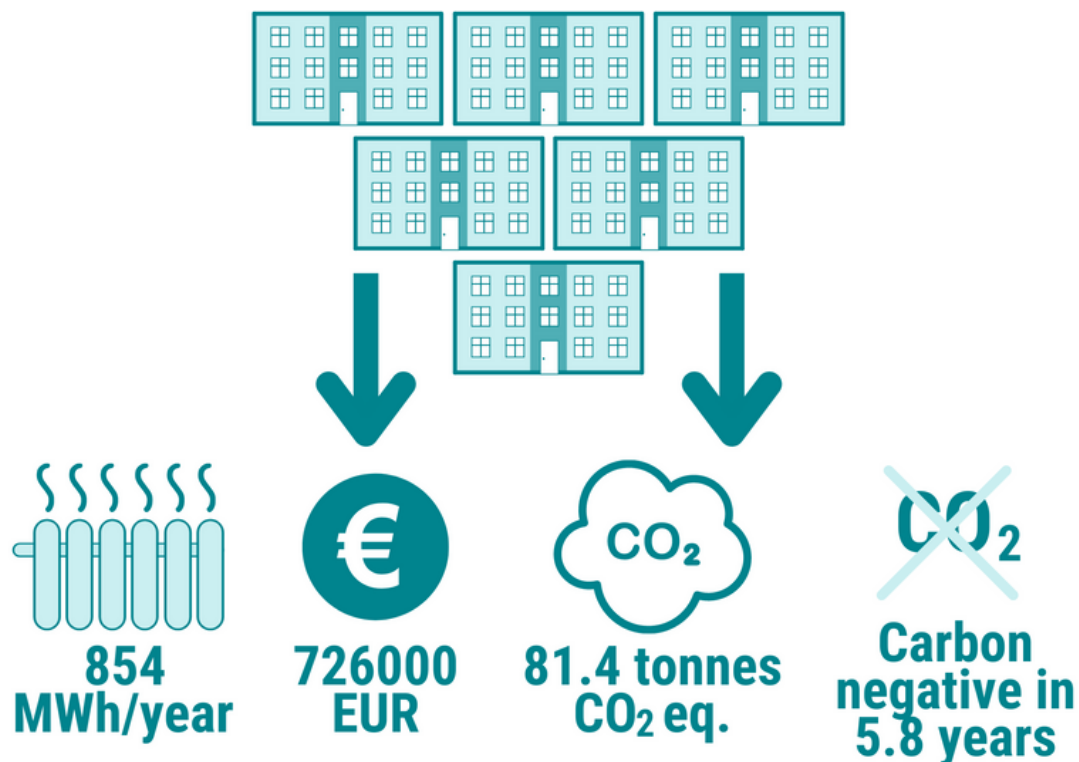
Results monitoring.

Keeping track of the environmental impacts is important for accountability to climate targets and transparent assessment. We support the climate objectives by providing a useful data set on the results of building renovation projects.

Our Methodology requires thorough monitoring of the results, both to guarantee the savings and to make sure the building is being maintained as defined in the project. After the renovation is done we continue to keep track of the results to make sure they are actually long-term. We calculate the actual energy saved, and use this calculation to measure the impact after 4 months, 2 years.

Impact

- We invested 726000 EUR in the forfaising of 6 buildings between 2018 and 2020.
- We saved 854 MWh of energy in buildings annually.
- We reduced on average 81.4 tonnes of carbon which is equal to planting an average of 3875 trees each year
- Our renovation solution becomes carbon negative in 5.8 years.



Renovation is a more advisable policy option than new construction, because of the embodied carbon saved on materials and construction works. In the renovation process, the total carbon emitted due to works and embodied in construction materials of 6 buildings is 602.2 tonnes. This will be offset after 5.8 years of building maintenance.

Economic

Besides environmental and social benefits, building renovation has a huge economic potential. Only in the EU per 1 million EUR invested 18 jobs can be created, while the energy-efficient renovation of offices can due to improved workers productivity in 12% which may result in the potential benefit of 500 billion EUR a year for the economy. Improved conditions of hospitals can save 45 billion EUR annually to the health care sector because it reduces the patient's stay by 11%.

What do we do?

Enable scale for local companies and facilitate private sector involvement

The role of private sector financing is crucial to achieve renovation at scale and make a tangible impact. Private sector investment can complement public spending in providing accountability, transparency, and efficiency for building renovation. Our discussions with core stakeholders across 12 countries in Europe (from Germany/France to Bulgaria/Croatia)- market operators and municipalities would welcome longer tenors and sustainable investments with greater accountability.

We actively work on improving conditions for private sector involvement. We attract the attention of policymakers to the regulatory framework aspects that may discourage private sector participation. Our team prepared a letter to the European Commission which included the analysis of the EU directives related to building renovation, indicated the shortcomings which discourage the private sector participation, and requested the improvements of private-sector position in the future directive revisions.

Monitoring of the projects' results and forfeiting annual checks

We make the annual checks to make sure service providers are accountable for the renovation results. That is why after forfeiting 20% of funds are received by the service provider during the entire contract period conditionally if savings are achieved. This puts the responsibility on service providers to deliver energy savings for the long term. Also, we check the forfeiting itself every year by performing an annual review of all contracts that have been financed and are being paid for by beneficiaries.

EU taxonomy compliant investments

We are committed to the EU climate objectives and share the view that to achieve them the investments should be responsible and environmentally accountable. EU taxonomy is a classification system that helps identify sustainable economic activities. We offer EU taxonomy compliant investment opportunities, by doing so we empower green investors. Renovation of existing buildings is one of the activities included in EU taxonomy delegated acts, hence, we require investors to be compliant with the technical screening criteria established by the Commission. Compliance with the EU taxonomy was included as a part of investment guidelines to replicate the BEEF financing scheme.

Impact

- One Service Provider forfeited for 6 buildings, through BEEF we forfeit 80% of the contract, the 20% left is received according to the performance being monitored.
- BEEF was praised in 5 external reports by BUILD UP, Federal Ministry for the Environment, Nature Conservation and Nuclear Safety of the Federal Republic of Germany, European Investment Bank, Ernst & Young.
- In 2021 BEEF business model was presented at Innovate4Cities 2021 Conference



6 buildings

80% - BEEF
20% - Performance



Federal Ministry
for the Environment, Nature Conservation,
Nuclear Safety and Consumer Protection

EY



**European
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INNOVATE  CITIES



Strategy for a better bottom line: our commitment to our team internal stewardship

We believe that the big changes start internally, that is why our strategy for creating impact starts with us.

Diversity

We build diversity and inclusion in the work environment. Despite being small in numbers we are big in backgrounds. In 2021, Our team involves 5 employees which include 40% of men and 60% of women, 3 nationalities, residents of 3 countries, and 5 languages spoken. We use the advantage of remote work to enable diversity- our strong asset. Employees learn from each other, share experiences, and contribute to each other's development.

Recruitment policy

We recruit new employees based on their professional competencies and ability to work in a culturally diverse environment. The decision to proceed with the hiring process is taken jointly by managers.

Communication and support

Communication and support are the core of our approach to employees. Each employee has weekly catch-ups with the manager to receive the necessary guidance and weekly catch-ups with the HR head and even the CEO. We have online working hours to facilitate collaboration and be able to "meet in the office" virtually. Some teams work connected on a daily basis to create the atmosphere of a real office, being at home. We have multiple processes in place to make sure all team members get the feedback and the support they need and are able to provide feedback.

Being an inclusive and diverse organization is a great opportunity but at the same time a challenge. We believe that trust is a key in successful business development, that is why we strive to incorporate nonviolent communication (NVC) proposed by M.Rosenberg in our work, and communication both externally and internally. Our team will continually receive training NVC. We make NVC part of our organisational culture, so our employees can effectively use these principles in communication with stakeholders and between themselves.

Development and personal growth

We enable employees' personal growth. Each quarter there are goals set for each employee to achieve, and its definition considers the employees' preferences and suggestions. We align preferences with the organization's goals as much as possible to keep everyone inspired and motivated. We encourage employees to attend training and cover the costs of some of them. Additional training is counted in working hours, hence, employees are paid for them as well. Each employee has access to the digital library and useful resources board. We try to keep employees' tasks diversified and before hiring someone new we make sure any possibilities of promotions or work enrichment for present employees have been considered.

We want to enrich our team with new talents as well as provide the knowledge and experience, that is why we recruit interns throughout the year. The interns' development is the primary goal, that is why they are asked what skills they would like to develop during the internship, and expressed preferences are aligned with the organization's goals. We make sure interns are part of a team, they participate in common meetings, present their work, have weekly catch-ups with managers, etc. Interns are welcome to propose and share their ideas. Interns who have done very good work and were successful team players have been offered future collaboration opportunities.

Environmentally friendly workplace

We minimize our environmental impact using the advantages of remote work. We have a small office where employees can work if they wish to, but most of the work happens in many home offices. By working from home, we reduce the environmental costs of having an office, e.g. energy use, waste, etc. That is why it is important to make employees aware of how to keep their home office environmentally friendly. We have developed a set of tips and guidelines to support employees on this matter, and raise awareness of how to minimize the energy use, waste generation etc. at their workplace.





Final note

Building a pipeline is our next step. We will facilitate the inclusive renovation and focus on the increase of private sector involvement and improvement of conditions for it by the increased communication and advice to policymakers. By building engagement we are aimed at more forfeited buildings, greater emission cuts and energy savings, and more people provided by the safety, health and comfort in their buildings.

Inspired by buildings, we are committed to a change for the better. Knowing that building renovation represents a great opportunity to make the world a better place we developed tools to scale it up - BEEF business model and the Investment Guidelines. Despite having already achieved impressive results, we have just begun our journey.

