



Winner in National Competition
"100 Best Goods of Russia 2012" (bank services)



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Strategy for Center-invest Bank's Ecosystem in 2016-2018

"Global Competitiveness in Transformations"

Sustainable Development Declaration for a Time of Transformations

Center-invest Bank's Sustainable Banking Business Model

1. Center-invest Bank's sustainable banking business model comprises decisions taken voluntarily by its shareholders and employees in the interests of current and future generations. These obligations have become a cornerstone of Center-invest Bank's corporate culture. They inform the bank's customer and partner relationships, are a competitive advantage, and provide a mechanism for successful business management even at a time of crisis.
2. The distinctive features of the sustainable banking business model are:
 - a long-term vision for the bank's own business and for the environmental, social and institutional setting in which the bank and its customers operate;
 - stricter self-regulation, with due regard for national and international regulatory requirements and anticipated changes to these requirements;
 - rejection of speculative profits in favour of long-term profitability based on organic growth;
 - application of best international practice to ensure the competitiveness of the bank and its customers.
3. By applying a sustainable banking business model Center-invest Bank is achieving: sustainable, balanced growth; a high level of competitiveness (including when compared to the speculative market); and high rankings in ratings of Russian banks, especially for the latest and most popular inclusive finance products.
4. Center-invest Bank applies best international practice to improve its business performance. The following factors make our business model competitive in Russian and international markets and will ensure that it remains so in the long term: transparent procedures; a clearly defined corporate culture and unambiguous rules of conduct; independent risk management and internal control; a commitment to nurturing our employees; transparent and accessible reporting under national and international standards; a modern and constantly evolving information system; highly responsive liquidity management procedures; and technology, operations and product development.
5. Center-invest Bank is the leading bank in southern Russia. In terms of efficiency, southern Russia lags behind developed countries and the rest of Russia as a whole. This creates scope to introduce best international practice with the aim of increasing efficiency three- to fivefold throughout the regional economy and raising standards of living.
6. Center-invest Bank is committed to helping maintain southern Russia's environmental diversity and to reducing environmental harm. For example, the bank takes great care when selecting which agribusiness projects to finance. We are a market leader for energy efficiency finance, small business and youth enterprise development, and products to support women in business. We also offer products to enable the residents of southern Russia to improve their standard of living: consumer loans, mortgage loans and car loans. We do not, however, provide express loans. Rather, in dialogue with the customer, we assess the risks relating to the loan purpose, factoring in the long-term interests of the customer's family and loved ones. We also look for opportunities to provide special purpose loans to enable customers to purchase energy efficiency technologies or carry out housing renovations (including to multi-family residential buildings). Drawing on its

accumulated experience of introducing best international practice, the bank is broadening the scope of its lending on the basis of public private partnerships (PPP).

7. Center-invest Bank's social and educational projects are designed to raise new generations of schoolchildren, students, entrepreneurs, civil servants and company managers.

8. The bank helps businesses in southern Russia to expand their contacts with partners from Europe and CIS and BRICS countries. For example, we have updated an online database of SMEs in southern Russia. We establish correspondent banking relationships with new partner banks abroad, and we hold training events where bankers from various countries can share experience of introducing a sustainable banking business model.

9. Center-invest Bank provides continuous staff training on new areas in banking, in line with the sustainable banking business model. We have established a positive corporate culture, with a creative atmosphere and employees who take responsibility for, and have confidence in, the successful implementation of the bank's own strategy and its customers' strategies. An important result of this is the high birth rate among our employees. We have every reason to be confident that all the members of our team are committed to helping the bank and our customers achieve new sustainable results.

Center-invest Bank's Mission: "The Sustainable Bank for Southern Russia!"

Southern Russia is a region:

— in which the staff of Center-invest Bank's 132 branches are fulfilling their civic and professional responsibility to work in the immediate and long-term interests of the region by promoting effective economic development, social stability, and environmentally responsible behaviour;

— in which Center-invest Bank effectively manages the regional risks associated with accepting deposits and lending to retail and business customers, the requirements of supervisory and regulatory bodies, the impact of global processes, and the specifics of Russian legislation;

— that, at a time of globalisation, effectively combines the advantages conferred by its geographical position, favourable climate, diverse natural and human resources, and infrastructure;

— that has long been populated by people of different nationalities, whose lives are enriched by the region's cultural diversity and tradition of enterprise, and who value their freedom and independence;

— that, with its economic diversity and high levels of entrepreneurship, serves as a model for the future Russian economy;

— in which salaries are 30-40% lower than the Russian average and five times lower than in European countries;

— that is restructuring its economy (production is growing at a faster rate than in the rest of Russia as a whole, while production costs are increasing at a slower rate). This makes the region more competitive. Indeed, southern Russia plays the same role in the Russian economy as do the BRICS countries in the global economy;

— where SMEs are modernising successfully on the basis of best international practice.

At Center-invest Bank, sustainable banking means:

— an integral part of the corporate culture for its employees and customers;

— procedures to comply with the environmental requirements of the bank's IFI shareholders and partners;

— the bank's experience in financing projects pertaining to energy efficiency, SME modernisation, and agribusiness, which have increased business efficiency three- to fivefold;

— increased operational efficiency on the basis of best international practice: transparent corporate governance, risk management and internal control procedures, advanced information technologies, and a new corporate culture;

— a risk management system based on a combination of data analysis methods that ensures the appropriate allocation of capital, powers and responsibilities among the bank's business units and employees;

— a consistently strong financial performance that is persuasive not only for supporters of sustainable development but also for speculative market participants;

— increasing the competitiveness of the bank's customers and raising the population's standard of living by providing training in best international practice for a wide audience, including managers and other personnel, young people and schoolchildren.

Transformational banking is understood as the implementation, in the interests of future generations, of sustainable, creative, socially and environmentally responsible solutions to the new challenges that continually arise, and being constantly prepared for any changes in regulatory requirements or markets, in an aggressive competitive environment.

*President and Chairman of the Board of Directors
Chairman of the Executive Board*

*Dr Vasily Vysokov
Yuri Bogdanov*

Main definitions

For the purposes of this document the following definitions apply:

Ecosystem – the minimum selection of participants and resources required for continual reproduction of the ecosystem.

Transformations – a method of managing constant change amid continual crises on the basis of creative, socially responsible solutions in response to today’s challenges, in the interests of future generations.

Global competitiveness – transformation of business processes on the basis of localisation of best international practice (“envy Copernicus, not your neighbour”).

1. Sustainable Transformations for Southern Russia

1.1. A “Reform Laboratory” in Southern Russia

Center-invest Bank was established in 1992 by southern Russia's first privatised companies with the aim of “providing the local population and businesses in southern Russia with a broad range of banking services on the basis of international standards and modern banking technologies”. With its experience of localising best international practice, Center-invest Bank has become a prime example of a Bank of Solutions, and its approach is itself now cited as best practice by international organisations.

1.2. Sustainable Banking

Center-invest Bank has incorporated the concept of sustainable banking into its operations. This entails:

- developing its customers' businesses in the interests of current and future generations;
- social and environmental responsibility, incorporated in banking products and decision-making procedures;
- a focus on the long-term, effective development of its own business and its customers' businesses, rather than on immediate, speculative profit;
- helping its customers to introduce best international practice, including by means of technical, financial and social engineering;
- managing risks with the aim of reducing their impact, at a time of crisis, on the ability of its customers to complete existing projects, and making its customers more competitive in the post-crisis economy;
- regularly informing its customers and the general public about global and local development risks, presenting its own situational analysis, and proposing solutions to the challenges arising;
- running social and educational projects to train the general population, young people, students, schoolchildren and women in the principles of entrepreneurship.

The bank’s experience has confirmed the viability and effectiveness of this approach. The numerous examples of projects that have made business processes 3-5 times more efficient give

an impetus to new projects pertaining to small business, agriculture, energy efficiency, and the local population.

Center-invest Bank's ecosystem ensures the interaction and sustainable reproduction of the bank's shareholders, partners, customers and employees in the interests of long-term development.

Transformational banking is a new stage in the development of sustainable banking, requiring the implementation of practical solutions amid continual new challenges: changes in regulatory requirements, considerable market uncertainty and volatility, and continuous technological change.

1.3. Center-invest Bank's Development Strategies: Lessons from the Success Story

The implementation of the sustainable banking business model is supported by the interlinkage of strategic and operational plans, risk analysis, and monitoring of task implementation.

Table 1.1. Center-invest Bank's Key Financial Indicators, RUB bn

At 31.12	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Capital	2.2	4.2	5.2	5.5	5.4	5.8	6.7	7.6	8.8	9.6	10.6
Assets	13.6	23.8	39.5	50.7	42.9	48.3	54.5	62.7	75.9	91.3	89.6
Net loans and leases	8.2	15.8	28.7	30.7	26.3	30.6	42.5	48.4	61.5	72.0	72.7
Deposits	7.7	12.4	19.2	21.3	27.8	33.8	39.0	44.1	49.4	49.2	65.0
Profit	0.3	0.5	0.7	0.3	0.07	0.22	0.91	1.10	1.4	1.1	0.5

❖ **The “South of Russia +” Strategy (2006-2008)** was a logical continuation of our development strategy involving the EBRD and DEG. These international financial institutions became Center-invest Bank shareholders in 2004 and 2005, respectively. The main outcome of the “South of Russia +” strategy and our work in the preceding period was the introduction in southern Russia of best international practice in banking, specifically, in terms of:

- corporate governance;
- development of a strategic planning system, risk management and internal control;
- independent audit under international standards;
- meriting an independent international rating;
- participation in pilot projects run by international financial institutions (EBRD, IFC, KfW, DEG, FMO, BSTDB, OeEB) to promote energy efficiency and develop SMEs, agribusiness, trade finance and syndicated lending;
- promoting best international practice for southern Russia's businesses and local population.

Center-invest Bank managed to achieve the strategy's key financial targets for the beginning of 2009 before the crisis even began.

❖ **The “Southern Russia Versus the Global Crisis” Programme¹ (2009-2010)** contained a specific action plan appropriate to the crisis conditions, both for the bank and also for its customers. The plan was based on rigorous analysis, taking into account different economic theories, as well as the bank's regular monitoring of different sectors of global, Russian and regional markets². Its fundamental precept was that businesses could use the economic downturn during the crisis to increase their efficiency.

The crisis underlined:

- Southern Russia's global advantages:
 - its geographical location,
 - its natural and climatic conditions,

¹ http://www.centriinvest.ru/pdf/ug_rossii_protiv_crizisa.pdf и http://www.centriinvest.ru/pdf/vysokov2009_allbook.pdf

² http://www.centriinvest.ru/pdf/CI_invest_privlek_English.pdf, http://www.centriinvest.ru/pdf/ug_rossii_protiv_crizisa.pdf

- its relatively well-developed infrastructure,
 - its experienced and skilled workforce,
 - its diversified economy and companies producing goods that are competitive in terms of price-to-quality ratios.
 - The sustainability of Center-invest Bank's business model, with its focus on long-term returns, rather than speculative profits:
 - Center-invest Bank strengthened its customer base;
 - met all its obligations to its partners on time and in full;
 - took timely measures to manage risks during the crisis;
 - continued developing its operations in the new market conditions.
- ❖ **The Post-Crisis Development of Southern Russia Strategy (2011-2014)** entailed using southern Russia's competitive advantages to help the region adapt rapidly to change, during a challenging time of “W”-shaped economic recovery in different countries, regions and sectors.

Table 1.2. Southern Russia (Southern Federal District (SFD) and North Caucasus Federal District (NCFD) as % of Russian Federation

	2000	2005	2010	2011	2012	2013	2014	2015	SMEs*	IEs*
Territory	3.5									
Population	15.6	16.0	16.3	16.4	16.3	16.4	16.5	16.2		
Gross regional product/value of goods and services produced	7.6	7.1	8.6	8.5	8.8	8.8	9.0	9.4	10.8	17.6
Fixed assets	10.2	9.3	8.6	8.5	8.4	8.4	-	8.8	11.5**	15.4**
Industry	-	5.6	7.2	7.6	7.3	7.2	6.2	6.5	9.4	15.1
Agriculture	18.7	22.6	24.4	23.2	23.6	23.4	23.5	23.0	23.1	37.4
Construction	11.4	9.5	13.2	14.5	14.4	15.0	13.0	12.5	11.6	16.9
Retail trade	9.8	11.5	13.8	14.0	14.2	14.1	14.3	14.9	8.1	16.1
Fixed capital investments	11.6	9.4	13.2	14.5	13.0	14.0	13.3	11.8	16.2	19.0
Average wage										
SFD	71.4	72.5	74.3	73.8	75.3	75.1	75.2	74.6	80.4	-
NCFD	54.5	55.9	60.0	59.5	63.1	65.2	65.0	60.1	63.9	-
Average per capita income										
SFD	69.8	71.2	79.8	79.9	81.3	85.3	87.6	83.3	-	-
NCFD	49.5	56.0	69.9	72.5	79.3	74.1	75.2	81.3	-	-

* The indicators for small and medium-sized enterprises (SMEs) and individual entrepreneurs (IEs) are based on full-scale federal statistical observation of SMEs and IEs in 2010.

** data as at 01.01.2013

The bank's successful work contributed to southern Russia's dynamic economic growth and the region's increased role in the Russian economy as a whole.

Southern Russia's banking sector has been developing rapidly: replacing independent credit organisations, the share of branches per capita now exceeds the Russian average. At the same time, the scale of lending per capita is 1.5 times lower than the average and has good growth potential.

Despite the marked increase in the role of state-owned banks in Russia's banking sector, Center-invest Bank has managed to increase its share of the banking services market among local banks and retain its market share among all the banks operating in southern Russia.

Table 1.3. Center-invest Bank's Share of the Banking Services Market in Southern Russia*, %

At 31.12	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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Among all banks	Loans	3.5	4.2	4.8	4.1	3.6	3.7	4.0	3.6	3.7	3.7	
	Deposits	3.2	3.6	4.1	4.0	4.0	4.0	4.0	3.9	3.7	3.7	
Among local banks	Loans	18.9	24.5	29.8	31.1	30.8	38.3	38.1	36.3	37.3	40.8	39.5
	Deposits	18.2	19.5	20.8	23.3	22.8	29.2	29.7	29.4	29.5	29.1	29.4

*Due to a lack of data for Sberbank regional branches, we do not have complete information about Center-invest Bank's share among all banks after July 2014.

❖ **The Strategy “The Global Competitiveness of Center-invest Bank’s Customers (2014-2017) took into account:** the experience gained in the implementation of the previous strategies; the risks assumed by the bank; observance of sustainable development principles; and the competitive advantages offered by the progressive customer base cultivated by the bank. The geopolitical events of 2014 were a “black swan” which could not be taken into account when producing the strategy.

Nonetheless, Center-invest Bank’s business model again proved to be competitive even in crisis conditions: the bank increased its loan portfolio and retail customer deposits, and it maintained its margin and the high quality of its loan portfolio. The slowdown and recovery evidenced by the bank’s key indicators coincide to first derivatives with the established stages of the 2008 crisis.

Table 1.4. Key Indicators in Center-invest Bank's 2016-2018 Development Strategy
RUB bn

FYE	2010	2011	2012	2013	2014	2015	2016	2017	2018	
	Actual						Strategy			
Capital	5.8	6.7	7.6	8.8	9.6	10.6	11.5	13.1	15.3	
Assets	48.3	54.5	62.7	75.9	91.3	89.6	89.1	93.1	97.4	
Net loans and leasing	30.6	42.5	48.4	61.5	72.0	72.7	76.6	80.5	84.8	
Deposits	33.8	39.0	44.1	49.4	49.2	65.0	62.9	67.4	72.0	
Profit	0.22	0.91	1.10	1.4	1.1	0.5	1.21	1.96	2.40	
%										
CAR, RAS ≥ 10	14.7	13.3	13.3	12.4	10.9	12.8	11.3	12.7	14.19	
CAR, IFRS ≥ 8	19.8	18.2	17.4	15.6	14.47	17.1	16.2	16.9	18.07	
CAR, (Basel 3) ≥ 10.5	16.4	15.9	15.3	13.9	12.95	15.1	14.3	15.0	15.9	
CAR Tier 1, IFRS ≥ 4.0	11.9	11.5	11.8	11.3	10.32	12.7	13.30%	14.87%	16.76%	
CAR Tier 1, (Basel 3) ≥ 8.5	9.9	10.1	10.4	10.0	9.24	11.2	11.77%	13.19%	14.74%	
ROAA	0.48	1.77	1.88	2.03	1.32	0.6	1.38	2.15	2.52	
ROAE	3.92	14.64	15.42	17.25	12.07	5.3	11.03	15.94	16.87	
Cost/Income	51.8	49.9	45.1	45	43.41	51.1	44.14	42.67	39.81	
Number of children born to bank employees	81	82	71	83	86	78				

The bank’s track record of successfully resolving problems is a competitive advantage in the light of new challenges.

With the publication of the book “Transformational Banking: made in Russia”³ Center-invest Bank was able to look at the future of banking in a new way and promote its new vision to its partners at various international forums in Moscow, St Petersburg, Sochi, Vienna, Boston, Frankfurt, Bucharest, Istanbul and Warsaw.

The crisis in Ukraine and the introduction of sanctions created new conditions for the development of the bank’s ecosystem:

- consolidation of society and mobilisation of the economy in Russia;

³ www.centriinvest.ru/files/smi/pdf/CI_TransformationBank_book_en_small.pdf

- restrictions on the operations of international financial institutions in Russia;
- creation of competitive advantages in the domestic market for the bank's business customers;
- government support for competitor banks, and a tougher competitive environment.

❖ **2016 - 2018 Strategy for Center-invest Bank's Ecosystem "Global Competitiveness in Transformations"**

The bank's development in 2014-2015 confirmed that our assessments concerning the following had been correct: uncertainties about new technological platforms, geopolitical risks, market volatility, and stricter regulatory requirements. The bank was also able to pass a number of stress tests relating to: dirty PR; the abuse of the law by unscrupulous customers with the connivance of law enforcement officials; protection from hacker attacks; and protection from customer and employee fraud.

The bank promptly identified risks, introduced procedures and technologies to impede these and other actions, and restructured its operations in order to cope successfully with the negative consequences of stress situations.

The bank's shareholders have increased its capital through a new share issue. This capitalisation was in effect the first investment in the new transformational banking business model, which is based on:

- proper risk management, providing customers with manageable terms for the implementation of their projects, rather than on a speculative spiral of risk buying and selling whereby loan interest rates increase in line with risks;
- the future division of banking into electronic payments and investments, with banking transactions delimited by maturities, risks and rates;
- faster money circulation, driven by new technologies and the removal of administrative barriers;
- a greater role of banking transactions for the public goods and services sector and infrastructure;
- making local projects more attractive for investment compared to currency speculation;
- developing Center-invest Bank's ecosystem and the effective interaction of shareholders, customers, partners, and employees on the basis of best international practice in management and operations, and developing sustainable products for retail lending, small business, energy efficiency, agribusiness and the implementation of social and educational projects.

2. Global competitiveness: new challenges and new opportunities

2.1. Global conditions: continual crisis

The global economy is emerging from the structural crisis, but the risks of uncontrolled developments are increasing.

- Transition to a new equilibrium requires a change of growth model.
- The way in which individual countries emerge from the crisis will depend on their national elite's capacity for transformation: more competitive or crisis national model.
- Geographic asynchrony of the crisis:
 - emergence of developed countries from the crisis,
 - preservation of Euro zone,
 - downturn in BRICS.
- Search for new models (internal or external demand, inflation - deflation), but on a new technological basis.
- From globalisation to national values and local blocs (Transatlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP), the Silk Road Economic Belt (SREB), and the Eurasian Economic Union (EAEU).
- Fall in prices for raw materials and energy products, influenced by new technologies
- Changes in social structure (establishment of a middle class in developing countries, and its erosion in developed countries)
- Growing international tensions.

Despite the assurances of the G20 leaders that the crisis is over, the prospects for the global economy remain uncertain:

- It is unclear which new scientific developments, and in which sectors, will create new technology platforms.
- Changes in financial mechanisms to transform savings into investments are not evident.
- There is a very wide range of possible scenarios for economic regulation, the legal framework for the economy, and domestic and international policy.
- Development in the countries that are part of traditional groups is heterogeneous; the gap between the leaders and the outsiders in each group is increasing.

Table 2.1. GDP Growth of Individual Countries, % per year

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Worldwide	5.2	3.9	3.1	2.9	3.4	3.0	3.4	3.4	3.6
United States	2.4	1.8	2.8	1.5	2.4	2.6	2.7	2.6	2.6
Eurozone	2.0	1.5	-0.6	-0.5	0.9	1.5	1.7	1.7	1.7
Germany	4.0	3.1	0.9	0.5	1.6	1.7	1.9	1.7	1.7
France	1.7	2.0	0.0	0.0	0.2	1.1	1.4	1.3	1.5
Italy	1.7	0.4	-2.4	-1.7	-0.4	0.7	0.9	1.3	1.2
Japan	4.7	-0.6	1.9	1.7	-0.1	0.6	1.1	1.0	0.3
China	10.4	9.3	7.8	7.4	7.3	6.6	6.5	6.3	6.0
CIS (excl. Russia)	6.0	6.0	3.1	2.6	1.9	-0.1	2.8	2.8	
Russia	4.5	4.3	3.4	1.8	0.6	-3.9	0.7	-1.0	1.0

Given this uncertainty, the optimum outcome is continued growth within the current trends, while remaining highly receptive to any innovations in different spheres and regions. **It is important to not only keep up with trends, and to be at the forefront, but also to be in a state of permanent combat readiness, come what may.** When writing the bank's strategy, as a first approximation we used materials and scenarios produced by the Russian Ministry for Economic Development, taking into account adjustments and alternative solutions proposed by other analytical centres and experts.

2.2. Development of the Russian economy: stagnation, crisis, structural reforms

The scenarios for the development of the Russian economy assume that the tasks and priorities set by the Russian President will be implemented against a backdrop of new geopolitical conditions, new trends in the global environment, and a slowdown in economic growth.

Table 2.2. Key Indicators for the Economic Development of the Russian Federation in 2012 - 2018 (increase/decrease as % of the same period of the previous year)

	2012	2013	2014	2015	2016	2017	2018
Average oil price	110.5	107	97.6	53			
Urals, USD/barrel					40	40	40
Consumer price index, average for the year, %	5.1	6.7	11.4	12.2	6.5	4.9	4.5
GDP	3.4	1.8	0.6	-3.9	-0.2	0.8	1.8
Industrial output	2.6	0.7	1.7	-3.3	0	1.1	1.7
Fixed capital investments	6.6	2.5	-2.7	-9.9	-3.1	0.8	3
Real disposable income	4.4	3.4	-0.8	-4.0	-2.8	0.7	1
Real wages	8.4	6.2	1.3	-8.1	-1.5	1.2	1.3
Retail trade	6.3	4.2	2.7	-8.5	-2.7	1.1	2.6

Sectoral analysis of the scenarios shows: inefficient production in most sectors due to higher costs; inefficiency of the sale of manufactured goods at dumping prices on sharply contracting markets (both external and domestic); and inefficiency of the revenue obtained (its substantial centralisation and its redistribution in the form of support for inefficient companies and infrastructure). This combination of unfavourable factors make economic restructuring unavoidable. There has been so much talk for a long time now about the need for institutional reforms, and these must now be implemented.

2.3. Southern Russia: even the deepest crisis is not universal.

Thanks to its diversified economy, southern Russia can quickly adapt to any changes on global markets: the region can be active both in purchasing high-productivity technology and equipment from developed countries and in selling agricultural produce and manufactured goods on domestic and external markets. These same advantages hold true for the strategic positioning of southern Russia in relation to the other regions of the Russian Federation. Historically, southern Russia has been more dynamic than the Russian Federation as a whole. This trend continued in 2015.

Table 2.3. Growth Rates for Southern Russia's Economic Indicators, 2015 as % of 2014

	RF	SFD	NCFD	KK	VR	RR	SK
Industry	-3.4	9.5	2.3	0.7	-0.8	54.6	5.3
Agriculture	3	1.9	3.2	3.8	-5.4	2.8	3.5
Construction	-7	-16.4	5.1	-28.3	21.5	0.2	-5.8
Retail sales	-10	-7.6	-4.5	-7	-9	-6.5	-14.2
Consumer spending on services	-2.1	3.7	0.3	6.9	-1.1	2.6	-0.4
Real incomes	-5	-3.6	-4.3	-3.9	-2.2	-2.1	-8.3
Fixed capital investments	-8.4	-17.9	-6.7	-27.3	-4.7	-1.9	-20.0
Wages	4.8	3.7	2.6	2.7	5.7	3.6	3.9

RF – Russian Federation, **SFD** – Southern Federal District, **NCFD** – North Caucasus Federal District, **KK** – Krasnodar Krai, **VR** – Volgograd region, **RR** – Rostov region, **SK** – Stavropol Krai.

SMEs in southern Russia continue to play a leading role in the region's economic development, pursuing active investment policies.

Table 2.4. Key Indicators Characterising SME Activity, 2015 as % of Total for Russia

	RF	SR	SFD	NCFD	KK	VR	RR	SK
Number of SMEs at 1 July 2015	100	7.5	2.2	3.5	1.3	2.1	1.3	100
Number of jobs (workers)	100	7.3	2.7	3.2	1.2	2.1	1.9	100
SME turnover	100	7.6	2.2	3.7	0.9	2.6	1.5	100
Fixed capital investments	100	9.4	5.2	4.9	1.0	2.8	2.2	100

RF – Russian Federation, **SR** – Southern Russia, **SFD** – Southern Federal District, **NCFD** – North Caucasus Federal District, **KK** – Krasnodar Krai, **VR** – Volgograd region, **RR** – Rostov region, **SK** – Stavropol Krai.

2.4. Development of the banking sector: in search of a new business model

In addition to the factors that are worsening the operational environment, which remain long-term trends, a number of events in 2014-2015 put the Russian banking system under stress:

- The oil price fell by almost half, to below 50 USD per barrel;
- The need to repay large amounts of foreign debt as financial sanctions took effect;
- The weakening and increased volatility of the ruble, and an increase in inflation and devaluation expectations.

In this situation, the Bank of Russia's decision to increase the key rate to 17% per annum in December 2014, together with a set of measures to support financial stability, stabilised

expectations, limited inflation risks and normalised the situation in the banking sector and on the financial market. In 2015 the balance of risks shifted towards a cooling of the economy:

- a substantial fall in both consumption and investment,
- forecast fall in inflation, weakening of the ruble, and goods embargo.

The Bank of Russia believes that the high degree of uncertainty about the development of Russia's economy and the financial markets will continue in the next three years. This is due to changes in the structure of the oil market, uncertainty about Chinese economic growth, and the monetary policy of countries issuing reserve currencies. Russian economic growth will also depend on its ability to adapt to potential external shocks.

The long-term trend continues to be a worsening in the banking sector's operational environment due to:

- lower economic growth rates and a slowdown in lending rates;
- stricter regulatory requirements;
- elevated risks in the business models of many market participants;
- the monopolistic domination of state-owned banks;
- the reduced asset quality, higher reserves and insufficient capital of many banks;
- the assets concentration of certain banks, including among borrowers affiliated with these banks;
- increased reputational risks in the sector due to criminal incidents involving certain banks;
- reduced profitability of banking;
- periodic liquidity problems of certain market participants;
- the additional risks and the conflict of interests involved in state support for borrowers and banks;
- risks of a run on deposits resulting from panic and disinformation campaigns;

It is important that at a time of high uncertainty the Bank of Russia:

- is prepared for the different ways in which events might develop;
- ensures flexible and timely decision making;
- with all necessary instruments at its disposal, if there are specific grounds to reduce inflation, prevents excessive cooling of the economy and maintains financial stability.

However, the efforts of the Bank of Russia alone will be insufficient. The Bank of Russia and the Russian government must coordinate their actions with respect to economic policy and the indexation of tariffs, wages and pensions, and they must also harmonise possible anti-crisis measures. To overcome structural problems, measures are needed to improve the investment climate, labour market flexibility, and the quality of public institutions.

Ratings agencies are taking a negative view of the prospects for the Russian banking sector:□

- a slowdown in lending and economic growth rates;□
- an increase in non-performing loans;
- higher mandatory reserves and exacerbation of banks' capitalisation problems;□
- domination of state-owned banks;□
- FOREX risks;
- capital outflow;
- reduced margins and profitability.

Such a situation has arisen because the traditional banking model, requiring the use of temporarily surplus funds, has come to the end of its useful life:

- With modern payment processing technologies there is no temporarily available liquidity.
- There should be a technological, organisational and regulatory separation between the circulation of money for payments/settlements and the circulation of money for investment.

In many countries, the regulators have not only recognised this fact but have already introduced legal requirements on ring-fencing customer funds from money for investment. There is much work to be done to educate the population about the new situation on the financial markets and to separate out payment and settlement services from investment services.

Despite the "negative" outlook for the Russian banking system as a whole, Center-invest Bank retains its B1 Moody's rating, outlook stable, and it is willing to assist the regulator and the

authorities, drawing on its experience of implementing structural reforms within its ecosystem, on the basis of a transformational banking business model.

Center-invest Bank

- knows the risks involved in development of the Russian banking system;
- monitors best international practice in the development of banking;
- assumes only those risks which meet the parameters approved by its shareholders;
- effectively manages the risks that it assumes.

New challenges	Center-invest Bank’s solutions
Volatility of global markets	Strengthening its positions in southern Russia, a sustainably developing region
Stagnation of the Russian economy	Using the advantages of southern Russia's diversified economy and entrepreneurial potential
Uncertainty about financial market reforms in Russia	Business based on a transformational banking model

2.5. Transformational banking business model

Amid the continual challenges of today, in the interests of future generations, and on the basis of a sustainable banking business model and southern Russia’s competitive advantages, Center-invest Bank is helping to raise the competitiveness of southern Russia’s companies and the living standards of its population to the level of developed countries.

This strategy is proving effective. Center-invest Bank also applies best international practice in its own operations: international standards in corporate governance, strategic and business planning, and risk, asset and liability management; reporting under Russian and international standards and the new Basel rules; internal control; information technology, operations and product development, including products for SMEs, youth enterprise, female entrepreneurs, energy efficiency and agribusiness, and consumer loans using online applications and plastic cards; human resources management; and reporting to investors and customers. Under the sustainable banking business model, Center-invest Bank applies stricter methods of self-regulation to ensure long-term profitability, organic growth, and risk management in compliance with national and international regulatory requirements.

Our colleagues and partners from various countries are showing considerable interest in Center-invest Bank’s experience. In many countries, banking regulators are deciding that there must be a stricter separation between banking services and investment banking. Given the global economic slowdown, it is ever more important that countries find ways to work together by sharing best international practice in all spheres of life. Politicians and the business community face the same challenges of promoting enterprise, training future generations, and developing a green economy. The current climate is conducive to Center-invest Bank’s application of a sustainable banking business model.

Southern Russia is becoming a unique testing ground for the successful implementation of a sustainable banking business model. In terms of labour productivity, the efficiency of production, including energy efficiency, and the time taken to implement projects, southern Russia lags three to five times behind European countries. Such disparities clearly demonstrate the region's development potential.

In addition, personal income in southern Russia is 25% less than the Russian average, indicating potential for improved standards of living and changes in the structure of consumption, the quality of goods and services, and lifestyles.

These trends will continue in the long term. This will allow us to accumulate more examples and arguments in support of the sustainable banking business model, and to build on and replicate our

experience to date. We will also be able to use various training methods, reference projects and success stories to facilitate our interactions with proponents of other banking business models.

In the Russian banking services market, Center-invest Bank will use its advantages in the SME, energy efficiency and agribusiness sectors, while also taking into account the risks resulting from stricter banking regulation and the increased role of state-owned banks. These risks will be overcome by using modern banking technologies on the basis of sustainable banking principles. Operating at the local level through its extensive branch network, Center-invest Bank can deliver modern banking services based on international standards and effectively implement standard projects on the basis of best international practice.

3. Product Development

3.1. Small and Medium-Sized Enterprises

There has recently been a surge in interest among speculative banks in working with SMEs.

Center-invest Bank has been working with SMEs since 1997. As well as “pure” banking products, we also offer our SME customers consultancy on accountancy, business planning, marketing and legal issues. Center-invest Bank’s experience has been commended by development institutions and market participants. The bank has approximately 50,000 SME customers, accounting for 41% of its loan portfolio. Center-invest Bank is one of the top 20 Russian banks by volume of SME lending. We have successfully implemented all the SME lending programmes proposed by our banking partners (the EBRD, IFC, KfW) and we work effectively with the SME Loan Guarantee Funds for the regions of southern Russia in which we operate.

Center-invest Bank will:

- continue to adapt its products to meet its customers’ specific needs (flexible and prompt decision-making, opportunity to obtain short-term loans at minimal interest rates);
- help SMEs to modernise by localising best international practice;
- continue to “nurture” its customers through the Start-Up programme and the Youth Business Russia programme (together with the International Business Leaders Forum (IBLF));
- continue to provide business loans for women and engage young people, students, and young academics and scientists in entrepreneurship;
- expand its range of services for SMEs by using direct marketing to promote standard projects among target segments and groups of entrepreneurs (e.g. replacing equipment in the service and commercial sectors (including franchising), agricultural processing, road freight transportation, construction and repair work, and the artisan business);
- continue to develop all its forms of training for entrepreneurs, students and schoolchildren, including distance learning under the “Enterprise for All” programme (www.school.centriinvest.ru);
- continue to actively promote:
 - SME compliance with the law (through legal support, outsourcing accountancy services, consulting);
 - the use of Internet technologies and Internet consulting to accelerate our customers’ business development;
 - training for entrepreneurs in secondary and higher educational institutions;
 - international cooperation between SMEs.

New challenges	Center-invest Bank’s solutions
Surge of interest among speculative banks in working with SMEs	1. Modernisation of southern Russia's SMEs 2. Implementation of the programmes “Start up!”, Youth Business Russia (IBLF), Business Loans for Women, Enterprise for All

3.2. Energy Efficiency Programmes

Center-invest Bank has become the leader in Russia for financing standard energy efficiency projects. We actively work with the following partners on energy efficiency programmes: IFC, EBRD, FMO, KfW, OeEB and EDB. To date, we have financed more than 15,000 energy efficiency projects in various sectors of southern Russia’s economy, with loans totalling RUB11.5bn (~€225m). These projects have reduced CO₂ emissions by 150,000 tonnes a year. Our energy efficiency product line includes loan programmes for industry, agriculture, the service sector, homeowner associations and housing management companies, public sector enterprises, and retail customers. New Russian legislation means that we can expect annual energy efficiency lending to increase to RUB4-5bn.

The bank is developing loan programmes (including loans on preferential terms) to enable customers to make energy efficiency improvements to their homes and purchase energy efficient household appliances (energy efficiency rating of A and above). The bank provides training for its employees and customers in all the regions in which it operates, and it actively promotes its experience among Russian and foreign banks. It is successfully piloting a loan programme for the renovation of multifamily residential buildings.

New challenges	Center-invest Bank’s solutions
Low energy efficiency of the Russian economy	Using success stories to increase the number of energy efficiency projects
Uncertainty surrounding the setting of tariffs for energy resources	Financing energy efficiency projects that are invariant to tariff policy
Russian government declaration on new approaches to major housing repairs	Multiplying the number of success stories for energy efficiency lending in the housing sector
Low level of participation by the general public in energy efficiency programmes	Growth in lending for retail customers' energy efficiency projects

3.3. Lending to Agribusiness

Center-invest Bank has experience of helping successful companies from the agribusiness sector to introduce modern technologies. By replicating this experience and expanding our cooperation with new players in this market, including foreign players, we can increase agribusiness lending to RUB12-15bn. Southern Russia’s agribusiness sector has considerable potential for higher efficiency: crop yields and productivity could be increased by 50%-200% and the value added chain (processing, transportation and packaging of agricultural products) could be lengthened.

New challenges	Center-invest Bank’s solutions
Scope to increase efficiency in the agribusiness sector using its existing equipment, infrastructure, and approaches has been exhausted.	Financing the modernisation of agribusiness
Low level of processing of agricultural produce	Localisation of loan programmes to increase the level of processing and improve value chains, promotion of southern Russia's agricultural produce

3.4. Working with Chains and Organisations with Multiple Branches

Although many chains are controlled by Moscow offices, Center-invest Bank’s new technologies and methods have proved popular with retail chains, car dealerships, telecommunications, construction and transportation companies, and heat, gas and water suppliers. We will further develop our work with chains through the introduction of modern technologies for automated

payment acceptance, centralised settlements, and online data exchange and integration. Chains are attracted to Center-invest Bank by our extensive branch network and new technologies. A new banking product allows all of a chain’s establishments to pay cash from the sale of goods and services into the same current account, integrated with online accountancy and the bank’s online banking system.

New challenges	Center-invest Bank’s solutions
Large counterparties have problems collecting payments (infrastructure, tax services, higher education institutions, public services).	Introducing modern technologies for payment collection and processing

3.5. Working with Educational Institutions

Center-invest Bank will continue to work with southern Russia’s educational institutions, which are currently undergoing structural reform. In particular, we will continue to:

- provide payment and cash management services for departments and staff;
- assist with the setting up of small businesses within higher education institutions;
- use the Education and Science in the Southern Federal District Endowment Fund to support the best higher education students and teaching staff.

For those educational institutions that have already changed their legal status to “autonomous institution”, in addition to traditional products (opening and managing ruble and foreign currency accounts), the bank offers corporate treasury services.

New challenges	Center-invest Bank’s solutions
Education reform in Russia	Payments and settlements for educational institutions; setting up financial literacy centres; managing endowment funds; educational projects for primary, mainstream and vocational educational institutions

3.6. Working with Non-Governmental and Professional Associations

At a time of considerable market uncertainty, inconsistent economic policy, and complex processes of transformation in various spheres of life, the bank uses all means of constructive engagement with government bodies and non-governmental and professional associations. The bank participates in events held by these organisations and invites the most active of them to its own events:

- participation in the work of government bodies, committees, commissions and working groups in every region in which the bank operates;
- joint events with the Chamber of Commerce and Industry, the Employers Union (industrialists and entrepreneurs), associations of entrepreneurs, the Association of European Business, and Chambers of Commerce and Industry and trade missions from other countries.

New challenges	Center-invest Bank’s solutions
Non-governmental and professional associations are looking to change their models and approaches.	Organisational and financial support for localisation of best international practice

3.7. Developing our Customers' Businesses

Thanks to direct marketing, Center-invest Bank will be able to provide timely finance for its customers’ equipment modernisation projects. To finance these projects, we will use leasing, combinations of structured and project financing (in part, by attracting long-term funding from international banks and agencies), and the PPP mechanism. Total lending for such purposes will reach RUB7-8bn. To help us design new products to support our customers’ post-crisis growth, we

regularly monitor Russian legislation and federal and regional programmes. In addition, we systematically hold briefings for our customers and advise them on important issues relating to legislation, taxation and business planning.

New challenges	Center-invest Bank's solutions
Customers are seeking to localise best international practice in their lines of work.	Organisational and financial support for the localisation of best practice

3.8. Service Packages

Providing its business customers with business support, the bank will offer unique services for the co-financing of our customers' projects by accessing government financial assistance for national projects and programmes (government finance for the infrastructure components of projects; PPP). We will use our Client Relationship Management (CRM) system to expand the automation of integrated client support processes and facilitate cross-selling and the provision of integrated products and services.

New challenges	Center-invest Bank's solutions
All areas of our customers' operations require modernisation.	Multifaceted organisational and financial support for the localisation of best international practice on the basis of service packages

3.9. Securities Trading

Center-invest Bank's trading portfolio consists primarily of highly liquid securities that are included in the Bank of Russia's Lombard List and which have sufficient liquidity in the market to allow the bank to obtain refinancing from other market participants.

The bank has experience in placing its own bonds and managing its two Bank Managed Mutual Funds. It also has stable relationships with the largest organisers of borrowing on the Russian and international markets. Provided that the Russian securities market undergoes accelerated development and is transparent, this means that we can offer to place our customers' shares and debt securities on the open market.

New challenges	Center-invest Bank's solutions
Reform of the securities market	Working with transparent products on the securities market to implement the bank's strategy

3.10. Retail Lending

Center-invest Bank's developed branch network and our experience of working with retail customers will enable us to increase retail lending to RUB46.8bn by the end of 2018. This will include:

- mortgages – RUB18.7bn
- car loans – RUB2.8bn
- consumer loans – RUB23.4bn
- loans on plastic cards – RUB1.9bn

In addition to our branch network, Center-invest Bank's main advantages in this sector are: we are ahead of the competition in developing standard products for retail customers in southern Russia; our use of plastic cards; and our special methods for assessing the sustainability of our customers' financial positions.

The bank will:

- step up development of new banking products based on bank cards;
- expand its programmes to increase the financial literacy of the population, for example, installing a credit calculator on the bank's website;
- expand the scope of its work with credit reference agencies;
- introduce personal finance management programmes for customers with low and medium incomes.

New challenges	Center-invest Bank's solutions
The population is seeking to raise its standard of living by any means.	Promoting sustainable products to raise customers' standards of living

4. Development of Services

4.1. Payments and Settlements

Modern technologies are speeding up customer payments and settlements and reducing opportunities to use temporarily surplus funds in customer accounts. Center-invest Bank is systematically working to transform payments and cash management services into an independent, effective business on the basis of modern technologies, product line development, optimum tariffs, and its extensive network of branches and terminals. The bank will expand marketing of its payment and settlement services, including by facilitating C2C settlements, introducing clearing technologies, and running special promotions.

The bank will develop its remote banking provision to improve the quality and efficiency of its payment and settlement services:

- Center-invest Bank's "Client" online banking system allows customers to carry out bank transactions without the need to install additional software. The services include: acceptance and processing of electronic payment documents, provision of account information, options to apply online for bank products, and online communications with the bank.
- SMS notifications about financial transactions provide customers with prompt information about current account credits and debits.
- The bank will continue to introduce self-service pay-in devices (terminals and ATMs).
- The use of company plastic cards for the payment of expenses in Russia and abroad (e.g. hospitality and business trip expenses) will be expanded.
- The range of services for publicly funded organisations will be expanded, both on the basis of traditional forms of payment and cash management services, and also using special corporate plastic cards.
- The bank will continue to work with companies that are engaged in foreign trade: servicing foreign trade contracts, producing transaction certificates, complying with currency legislation, and holding seminars and conferences on currency control (with the participation of government officials).

New challenges	Center-invest Bank's solutions
Changes in payment and settlement technologies	Leadership in the localisation of best international practice in payments and settlements

4.2. Attracting Retail Deposits and Servicing Retail Customer Payments

The highly volatile and unpredictable markets will also affect the deposit market:

- The contraction of the market for financing effective projects will reduce demand for retail deposits;
- The high risks and liquidity problems of certain banks will create speculative demand for retail deposits.

In this environment, Center-invest Bank will aim to attract retail deposits to finance effective

projects in the region and ensure the global competitiveness of its customers (retail and business). The bank will develop:

- products for different depositor categories: parents, veterans, young people, entrepreneurs;
- the forms and types of deposits: different purposes, terms, interest rates, and interest payment and transfer schedules;
- its technologies: remote management of deposit accounts, pay-in terminals (ATMs), SMS notifications for depositors;
- a high level of service for all customer categories, based on staff professionalism and multifunctionality and implementation of customer care methods;
- customer loyalty, through regular surveys, prize draws, introducing products and services requested by customers, and educating customers from a young age.

For customer payments, the bank will continue to:

- expand its use of modern devices and technologies (terminals, ATMs, online banking (Internet-bank));
- enter into agreements with service suppliers to set up online payments and electronic documentation for bill payments by retail customers, thus freeing staff from routine work;
- expand the list of partners for money transfers (Western Union, Zolotaya Korona, etc).

The bank will continue to be a reliable, stable, “homegrown” bank. The sales outlets for the bank’s retail products will continue to operate with extended opening hours or 24-hour.

New challenges	Center-invest Bank’s solutions
New technologies for retail customer payments and settlements	Leadership in localising best international practice in attracting deposits
A search for areas in which to invest retail deposits (the population’s savings)	Developing products for the sustainable investment of retail deposits

4.3. Plastic Cards

Drawing on the results to date, Center-invest Bank will systematically develop its remote banking services based on bank card technologies. We will expand the sphere of application of bank cards, the range of services offered, and the methods for providing Cardholder Activated Services (CAS) through our own processing centre. Our leading position in the region’s bank card market and our strategy to increase the number of cards issued (with it being a priority to encourage active use of our cards), create a basis for the bank to organise cross-selling of retail bank products and related products from the non-banking sector. To this end, the bank will work with federal treasury departments, tax inspectorates, public service providers, utilities companies, insurance and tourism companies, mobile telephone operators, and transport companies. By using business processes that promote cross-selling and the introduction of multipurpose, integrated products based on bank cards, the bank can increase the following ratios:

- number of products per client,
- revenue from product /product costs.

New challenges	Center-invest Bank’s solutions
New payment and settlement technologies	Leadership in localising best international practice in payments and settlements using plastic cards

5. Operations Development

To reduce the operational risks as we introduce new technologies, expand our branch network and increase the volume of transactions, Center-invest Bank will take the following measures:

5.1. Standardisation of Products and Services

All of the bank’s business units continually work on standardising products and services: standard descriptions are produced for products, business processes, sales techniques, customer relations, and risk management. We pay particular attention to:

- optimising our internal processes for the provision of banking services;
- simplifying, standardising and automating services;
- reducing the costs of promoting our products;
- increasing the capacity of our sales channels and the volume of sales;
- ensuring high-quality service;
- our ability to respond promptly and effectively to customer needs, while minimising risks

The bank will continue to develop its branch network on the basis of staff multifunctionality (universality) and standardisation of the sustainable banking services offered in each region where the bank operates. The bank will continue to provide customers with the full range of services in each branch, to reduce costs through staff substitutability, and to optimise operational processes while retaining service quality.

New challenges	Center-invest Bank’s solutions
Products and services are constantly updated	Leadership in localising best international practice in payments and settlements using plastic cards

5.2. Information Technology Systems and Technical Infrastructure

To achieve the objectives of the 2016-2018 Strategy, Center-invest Bank will take the following steps to develop its information technology systems and infrastructure and to introduce modern service-oriented approaches to information technology management in the bank.

- The bank will use its experience in introducing SAP for Banking to strengthen its competitive advantages on the basis of rationalisation and automation of operating processes, its methods for managing continual IT development, and its status as a co-innovation partner for SAP SE. In partnership we are working on a project to introduce deposit management in SAP BS8 in the bank. The bank will continue to be involved in testing SAP SE’s solutions that have been localised for the Russian financial sector.
- The bank will continue its gradual introduction of the front office system. This will speed up and to a certain extent simplify the processes of working with incoming customer applications. Based on its experience of automating loan applications and end-to-end integration of application processing, the bank intends by 2018 to replicate the automation of business processes for the remaining areas of its activities and to introduce the BPM On-line system.
- The bank will continue to work on introducing new software to scan incoming customer documents and automatically transfer data to the bank’s information systems. This will speed up processing of incoming documents and reduce the risks of human error.
- Thanks to sustainable growth in the customer base and in payments by wire transfer, the bank is planning to transition its processing centre to direct interaction with international payment systems by 2018. This will reduce the transaction costs to the bank. To speed up issuance, the bank plans to open an additional card issue centre in another region.
- Within the framework of its collaboration with the national payment cards system the bank will develop and offer new and innovative high-technology products and services.
- The bank will continue to develop mobile banking, Internet banking, IVR, the call centre, and self-service devices.
- The bank is expanding the list of electronic services with various government bodies (including Russian pension Fund, Federal Tax Service, customs agencies). After connection to the Unified Identification and Authorisation System the bank will be able to register and confirm the records of individuals in the system and identify them.
- The bank will continue to develop its statistical data processing and analysis methods by portfolio, product, point-of-sale, and customer group.
- The bank will continue to conduct stress tests and to monitor the availability, reliability, security and uninterrupted provision of the bank’s services.
- By 2018 the bank intends to have brought online a new reserve data management centre. This

centre will be located a considerable distance from the main data processing centre and will use modern energy-saving technologies.

- The bank is mastering new information technologies which will increase the fault tolerance and availability of the bank's information system module. It is planned to transfer the bank's automated banking system to a high availability cluster, to make greater use of virtual servers, and to continue introducing next generation data storage systems.

Center-invest Bank's modern technical infrastructure guarantees the reliability of its business processes. It is upgraded on the basis of department and branch business plans, with technical innovations helping to reduce costs.

- Technical equipment is purchased on a competitive basis. Transparent procedures are used to select offers with the lowest price, proven reliability and reparability, a long guarantee period, after sales servicing, and the shortest delivery times.

New challenges	Center-invest Bank's solutions
Constant updating of software products and services	1. Developing the co-innovation partnership for the global updating of SAP for Banking 2. Systematic introduction of best practice in IT, the latest and most promising services 3. Product and service development based on updated software
Greater requirements for data security, uninterrupted service and reliability of business processes	Testing and monitoring the availability, reliability, security and uninterrupted provision of the bank's services. Modern equipment for business reliability. A new reserve data management system.
Wide range of hardware options	Transparent competitive procedures based on price, quality and timescales.

5.3. Risk Management

Risk management at Center-invest Bank, based on the sustainable banking business model, entails:

- knowledge of markets and regional risks;
- promoting best international practice to develop our customers' businesses;
- effective decision-making procedures;
- using attractive interest rates, a broad product line and flexible lending terms to ensure the growth and quality of the bank's loan portfolio;
- priority lending to retail customers and SMEs on the basis of proven technologies and know-how, which ensure the optimum risk to return ratio;
- a wide range of products and services for different customer groups, with flexibility for customisation and bundling based on comprehensive risk assessment and risk optimisation;
- comprehensive application of a collateralisation system, setting lending limits, and monitoring borrower risks;
- using sustainable and diversified sources of funding;
- managing operational risks, ensuring information security, and combating fraudulent transactions;
- ensuring that risks are covered with adequate capital and reserves, with due regard for the requirements of the national regulator and the Basel Committee on Banking Supervision;
- continual development of risk assessment methodologies, tools and technologies.

New challenges	Center-invest Bank's solutions
- Increased risks in banking - Emergence of new risks and threats connected, inter alia, with new products, services, and service channels - Constant change in the regulatory environment	1. Continually improving decision-making and transaction monitoring systems 2. Focusing on best international practice 3. Completing the transition to the new Basel III international standards for bank capital and

	liquidity 4. Taking into account the risks associated with the regulator and controllers.
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5.4. Internal Control

A risk-oriented internal control system:

- is based on the sustainable development concept;
- is organically embedded in all business processes;
- constantly updates control procedures in the light of changing risks, market conditions, regulatory requirements, and best international practice;
- uses automated control procedures;
- is integrated with the risk management system.

The future development of the internal control system will entail:

- an Internal Control Service audit of all areas of the bank's activities in the light of the changing economic conditions;
- timely organisational changes in accordance with regulatory requirements and market conditions;
- continual monitoring of external regulations and the bank's compliance with these requirements; timely revision of internal regulations;
- introducing and improving control procedures for business processes;
- making inferences from the results of checks and inspections; informing the appropriate level of management about findings so that the necessary decisions can be taken;
- involving staff from the bank's departments and branches in cross control;
- participation of the Internal Control Service in upgrading the existing automated banking system and introducing the new automated banking system based on SAP with the aim of increasing the efficiency of business processes.

New challenges	Center-invest Bank's solutions
Increased complexity of transactions and regulatory requirements	1. Auditing all areas of the bank's activities in the light of changing economic conditions 2. Timely organisational changes and revision of internal regulations in line with regulatory requirements and market conditions 3. Continual development of control procedures and using the findings when taking decisions 4. Cross control by department and branch staff; 5. Participation of the Internal Control Service in upgrading the IT system

5.5. Human Resources

The bank's human resources policy, based on sustainable development principles, has proven effective. These principles will be retained when implementing the new strategy:

- competitive selection based on the professional and personal qualities of applicants and the bank's corporate culture standards;
- career growth with due regard for employee performance and potential;
- continuing professional development for every employee, and involving staff in staff training;
- reserve personnel, competitive selection, training and horizontal rotation of staff;
- continual retraining of staff to international standards;
- inviting in consultants and specialists in areas of particular importance to the bank's development;
- implementation of an active social policy;
- gender equality and non-discrimination policies.

New challenges	Center-invest Bank's solutions
Higher demands placed on staff in a sustainable bank	<ol style="list-style-type: none"> 1. The bank's corporate culture 2. Transparent procedures for career growth based on the professional and personal qualities of managers and employees 3. Continuous staff training 4. Active social policy

5.6. External Communications and Social Projects

Center-invest Bank will continue to provide information about its sustainable banking activities:

- timely provision of information to customers and the general public about development trends and risks;
- promoting technical, financial and social engineering as best practice;
- advice, mentoring and training for customers, professional communities, and public authorities on new banking technologies, products and services, and managerial methods;
- implementing social and educational projects, including projects in partnership with the Endowment Fund for Education and Science in Southern Russia, the IBLF, and non-governmental and professional associations.

New challenges	Center-invest Bank's solutions
New information technologies and spaces	<ol style="list-style-type: none"> 1. Filling the information space with content using new technologies and aggressive marketing of sustainable banking 2. Implementing social and educational programmes

6. Raising Capital and Capital Structure

The Strategy will not require the bank to raise additional capital. Moreover, it will allow for the payment of rising dividends to shareholders.

To implement the Strategy the bank will continue its balanced use of various sources of funding:

- borrowing on the long-term funding markets;
- attracting retail and business deposits;
- placing the bank's own debt securities on the open market;
- implementing projects with international development institutions.

New challenges	Center-invest Bank's solutions
Shortage of resources on the financial markets and capital markets	Organic growth and raising funds from various sources in a balanced manner

Center-Invest Bank takes measures to ensure that it complies with the prudential regulations for its contractual liabilities.

1. Financial Forecast

1.1. Balance Sheet

At 31.12	2015	2016	2017	2018
Million rubles	forecast	plan	plan	plan
ASSETS				
Cash and cash equivalents with the Central Bank	8 634 324	8 226 806	8 269 534	8 209 804
Mandatory reserves with the Central Bank	357 261	390 835	421 910	453 817
Due from other banks	0	0	0	0
Net loans to customers	73 320 000	76 202 500	80 113 500	84 510 000
Total, including	78 000 000	81 500 000	85 500 000	90 000 000
<i>Business customers</i>	42 120 000	42 380 000	42 750 000	43 200 000
<i>Retail customers</i>	35 880 000	39 120 000	42 750 000	46 800 000
Provisions for loan portfolio impairment	(4 680 000)	(5 297 500)	(5 386 500)	(5 490 000)
Net investment in leasing	427 850	398 000	368 890	338 980
Investment in leasing	430 000	400 000	370 000	340 000
Provisions for lease portfolio impairment	(2 150)	(2 000)	(1 110)	(1 020)
Trading securities intended for sale	50 000	0	0	0
Investment in associate	332 202	332 202	332 202	332 202
Fixed assets	2 272 825	2 307 634	2 276 640	2 243 876
Other assets	1 182 029	1 241 130	1 303 187	1 368 346
Total assets	86 576 491	89 099 108	93 085 864	97 457 026
LIABILITIES				
Due to other banks	3 700 000	3 200 000	2 600 000	2 600 000
<i>Russian Central Bank</i>	3 200 000	2 700 000	2 600 000	2 600 000
<i>Other banks</i>	500 000	500 000	0	0
Customer accounts	57 962 895	62 909 980	67 411 980	72 009 980
Current accounts	13 284 000	14 194 400	14 995 600	15 898 000
<i>Business customer settlement accounts</i>	9 000 000	9 100 000	9 200 000	9 300 000
<i>Retail customer current accounts (plastic card accounts)</i>	3 600 000	4 400 000	5 100 000	5 900 000
<i>Call deposits + 40817</i>	684 000	694 400	695 600	698 000
Term deposits	44 678 895	48 715 580	52 416 380	56 111 980
<i>Business customers</i>	3 211 645	3 409 980	3 709 980	4 009 980
<i>Retail customers</i>	41 467 250	45 305 600	48 706 400	52 102 000
Securities in issue	5 500 000	5 800 000	5 600 000	7 000 000
Due to international organisations	5 462 705	2 322 520	970 080	323 400
Other liabilities	441 742	419 655	398 672	378 739

Total liabilities	73 067 342	74 652 155	76 980 732	82 312 119
Subordinated loans	3 041 895	3 043 470	3 045 045	0
Total liabilities and subordinated loans	76 109 237	77 695 625	80 025 777	82 312 119
Share capital	1 326 277	1 326 277	1 326 277	1 326 277
Share premium	2 078 860	2 078 860	2 078 860	2 078 860
Fixed assets revaluation reserve	1 197 041	1 165 042	1 133 042	1 101 043
Accumulated earnings (+) /deficit (-) of previous years and the accounting year	5 865 076	6 833 304	8 521 907	10 638 727
Total shareholders' equity	10 467 254	11 403 483	13 060 086	15 144 907
Total liabilities and shareholders' equity	86 576 491	89 099 108	93 085 864	97 457 026

1.2. Profit and Loss Account

At 31.12	2015	2016	2017	2018
Million rubles	forecast	plan	plan	plan
Interest income from interbank loans	10 403	0	0	0
Interest income from loans	10 779	10 999	11 268	11 592
Interest (discounted) income from securities	342	973	460	041
Interest (discounted) income from securities	161 601	0	0	0
Net income from leasing	82 058	81 902	77 456	73 563
Total: interest income	11 033	11 081	11 345	11 665
	404	875	916	603
Interest expense for interbank loans	1 736 960	865 369	545 336	265 076
Interest expense for deposits	4 956 748	5 161 857	5 342 924	5 248
Interest expense (discounted) for securities	1 043 337	692 125	621 300	439
Contributions to the state deposit insurance scheme	174 991	200 923	218 564	617 400
Total: interest expense	7 912 035	6 920 274	6 728 124	6 366
				279
Net interest income	3 121 369	4 161 601	4 617 792	5 299
Provisions for loan and lease portfolio impairment	-1 218 335	-1 227 750	-573 110	324
Net interest income after provisions for loan and lease portfolio impairment	1 903 034	2 933 851	4 044 682	4 710
				914
Net non-interest income from trading securities	44 000	0	0	0
Net income from trading in foreign currencies	29 046	47 346	47 346	47 346
Results from currency revaluation	-60 000	-30 000	-30 000	-30 000
Other net fee and commission and operating income of the bank	760 472	845 358	879 437	914 259
Total net non-interest income	773 519	862 704	896 784	931 605
Net operating income	2 676 553	3 796 555	4 941 465	5 642
				519
Operating expenses, total	2 143 386	2 243 093	2 371 299	2 501
Employee salaries	1 300 000	1 365 000	1 433 250	397
Administration and maintenance costs	582 576	610 285	644 665	1 504
Amortisation of intellectual property rights	39 726	36 449	51 257	913
Fixed assets depreciation	130 250	135 984	141 984	686 050
Tax	90 833	95 375	100 144	57 550
Pre-tax earnings	533 167	1 553 462	2 570 166	3 141
Tax expense	133 292	388 366	642 542	122
Earnings after tax	399 875	1 165 097	1 927 625	2 355
				842
Net profit/(loss)	399 875	1 165 097	1 927 625	2 355
Dividends (plan)	18 099	228 867	271 021	842
Retained earnings for the current year	381 776	936 229	1 656 603	2 084
				821

1.3. Ratios

At 31.12	2015	2016	2017	2018
	forecast	plan	plan	plan
<i>Profitability</i>				
<u>Return on assets (ROAA)</u>				
Net income / Average assets	0.45%	1.33%	2.12%	2.47%
<u>Return on equity (ROAE)</u>				
Net income / Average equity	3.99%	10.65%	15.76%	16.71%
<i>Profitability</i>				
Loans to customers	14.04%	13.79%	13.50%	13.21%
Net interest margin	3.94%	5.19%	5.50%	6.01%
Rate for interest-earning assets	13.94%	13.82%	13.53%	13.24%
Rate for interest-bearing liabilities	10.08%	9.05%	8.58%	7.88%
<u>Operating ratio</u>				
Operating expenses / Operating income	55.03%	44.64%	43.00%	40.14%
<i>Asset quality</i>				
Loan loss provisions / Total loan portfolio	6.00%	6.50%	6.30%	6.10%
Increase in the total loan portfolio in the current year / Total loan portfolio at the end of the previous year	3.09%	4.42%	4.85%	5.21%
Increase in assets / previous year's assets	-5.19%	2.91%	4.47%	4.70%
Net loan portfolio / total assets	85.18%	85.97%	86.46%	87.06%
Total loans / total assets	90.59%	91.92%	92.25%	92.70%
<i>Capital Adequacy</i>				
CAR, RAS	11.40%	11.26%	12.65%	14.09%
CAR, IFRS	16.17%	16.14%	16.77%	17.92%
CAR, BASEL III	14.32%	14.28%	14.88%	15.78%
CAR Tier 1, IFRS	12.34%	13.24%	14.78%	16.62%
CAR Tier 1, BASEL III	10.93%	11.72%	13.11%	14.63%
Common Equity Capital Ratio, BASEL III	10.80%	11.59%	12.99%	14.51%
<u>Internal capital formation</u>				
Retained earnings / Previous year's capital	3.98%	8.94%	14.53%	15.96%
<i>Liquidity</i>				
Liquid assets / Total obligations	11.34%	10.59%	10.33%	9.97%
Customer loans (net) / Total deposits	127.23%	121.76%	119.39%	117.83%