

Sustainable Banking Business Model

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DEATH THROES OF SPECULATIVE BANKING

Fearing a new wave of the crisis, the world is living in hope that the pre-crisis boom will repeat itself. Speculators are trying to reassure their customers who have suffered large losses that everyone will be a winner in the long-term. The real economic recovery, however, will only happen when the new demand and the new supply, based on new approaches to production, management and government regulation, will balance out.

The painful search for this new balance is accompanied by the following trends in the financial markets:

- The death throes of speculative banking are being drawn out by attempts to introduce stricter banking supervision and create mega-regulators, as well as by further rounds of quantitative easing launched in hope that inflation will eventually bring about restructuring in business;
- M&A deals to conceal problems in balance sheets, comparable to merging doughnut holes and acquiring soap bubbles;
- Club SPO deals and private placements are replacing the "people's" IPO;
- State-owned banks are maintaining the status of the political elite and businesses close to the elite;
- The growth of popularity of Islamic banking is being hampered by ideological differences among market participants;

- **Sustainable banking** is developing through banks that voluntarily commit to higher standards of self-regulation.

SUSTAINABLE BANKING BUSINESS MODEL – THE CASE OF CENTER-INVEST BANK

Aware of the lack of sustainability and the unpredictable future of their business, speculative bankers are trying to find out how exactly to make money and earn profit in sustainable banking? With the **sustainable banking business model**, stricter rules for self-regulation and total commitment to best international practice reduce risks and ensure long-term profitability.

Sustainable banking includes: a sustainable shareholder structure and corporate governance system; sustainable procedures for producing strategies and plans and managing assets, liabilities and risks; financial reporting under international standards; sustainable internal control and

operations management systems; a range of sustainable products and services; a sustainable system for customer and investor relations management; and corporate social responsibility.

With the sustainable shareholder structure, including international shareholders, and its strong corporate governance system, Center-invest Bank has been able to establish a new corporate culture and harmonise the interests of its shareholders, senior management, personnel and customers.

A system of balanced indicators for strategy and business plan development and financial reporting uses data calculated under RAS and IFRS, takes into account Basel 2 and Basel 3 requirements, and incorporates risk assessment based on a combination of data analysis methods (content, expert and formal analysis).

SUSTAINABLE BANKING BUSINESS MODEL IN SPECULATIVE MARKETS

During the acute phase of the crisis, Center-invest Bank did not raise interest rates for loans. As a result, the Bank's customers were able to complete

modernisation projects and expand their businesses. Center-invest Bank provides finance for SME modernisation projects and for new technologies implementation in agribusiness and energy efficiency. The Bank does not give out expensive express loans; instead, it provides loans that enable the people of Southern Russia to improve their living standards. Centre-invest Bank also runs educational projects for schoolchildren, students and entrepreneurs¹.

The sustainable banking business model is not just about being environmentally and socially responsible; it is a practical model for running a competitive and profitable business even in a speculative market environment. This fact was recognised by Moody's in August 2011, when it upgraded Center-invest Bank's international rating to Ba3 and its national scale rating to Aa3. ru. Based on the performance in 2011, Center-invest Bank was recognised as the best Russian bank for services to SMEs (in terms of both quantity and quality), and ranked 16th for retail banking services, and 24th for plastic card services².

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The real results being achieved by the sustainable banking business model, amid the death throes of speculative banking, should encourage both the bankers and the regulators to rethink the future of banking and to act promptly to change the model for financial markets regulation³.

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Table 1. Sustainable banking business model – components

SUSTAINABLE BANKING	BEST INTERNATIONAL PRACTICE - Center-invest Bank
Shareholders	EBRD (27.5%), DEG (22.5%), Dr. Vysokov's family (17.9%), Erste (9.8%), RLB Ooe (3.6%), Firebird (9.9%), Renaissance Capital (8.2%)
Corporate governance	NEW Corporate Culture
Mission, Strategy, Business plan	Gosplan experience & strategic management
ALM	Strong: by sectors, clients, diversification, maturity
IFRS, RAS, Basel 3	Invariant reporting
RM	Robust estimation, clear capital allocation
Internal audit & Compliance	Total A & best international practice in compliance
Operations & IT	Partnership for localisation of SAP for Banking 8
Products & services	SME, EE, Agribusiness, Retail, Next Generation
HR	Nurturing personnel
CRM	Nurturing clients
IR	From G7 to BRICS

¹ www.centinvest.ru/ru/about/businesseducation.html

² http://rating.rbc.ru

³ www.centinvest.ru/en/pub.html

Table 2. Sustainable banking business model (in RUR billion)

	01.01.11	01.01.12	01.10.12	01.01.13	2012	2013	2014	2015
	Fact			Business Plan	Strategy 2011-2015			
Capital	5.8	6.7	7.3	7.5	6.2	7.1	8.2	9.6
Assets	48.3	54.4	61.1	57.8	49.0	55.3	62.1	70.2
Net loans and leasing	30.6	42.5	46.0	47.9	35.7	41.8	48.2	55.9
Deposits	33.8	39.0	41.7	42.5	35.4	39.0	42.7	46.4
Profit	0.22	0.90	0.79	1.06	0.67	0.87	1.24	1.60
CAR, RAS, % ≥ 10	14.7	13.3	13.1	12.3	15.2	14.6	12.2	13.0
CAR, IFRS, % ≥ 8	19.8	18.2	18.3	18.3	18.0	17.3	14.4	14.8
CAR, (Basel 3), % ≥ 10.5	16.4	15.9	16.1	16.4	17.6	16.9	14.2	14.6
CAR Tier 1, IFRS, % ≥ 4.0	11.9	11.6	12.1	12.8	11.7	11.7	12.2	12.9
CAR Tier 1, (Basel 3), % ≥ 8.5	9.9	10.1	10.7	11.5	11.4	11.4	12.1	12.7
ROAA, %	0.48	1.76	1.82	1.90	1.40	1.67	2.11	2.42
ROAE, %	3.92	14.53	15.1	14.97	11.26	13.10	16.29	18.09