

Social responsibility of business versus sustainable development

The general idea of the "sustainable development" envisages that sustainable business is aiming at the maximization of not just instant profit, but also long-term profit, thus entailing additional obligations concerning environment, society, clients, shareholders, staff and business development. Since 2006, FT and IFC have introduced "FT Emerging Markets Sustainable Bank of the Year Award". The Center-invest Bank has applied for this competition in 2007. The winner will be announced on the 7th of June in London.

The article is based on the materials which were prepared for this award.



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Sustained Innovations

Bank Center-invest was founded in 1992 by the newly privatized enterprises of the South of Russia. No money from state budget, state banks, or oil companies has been invested into the authorized capital of the Bank. But the founders invited a team of lecturers and graduates from Rostov State Economic University who contributed their knowledge and experience to the bank's capital.

15 years of Center-invest activity have certified its sustained development according to both the Russian and International Accounting Standards.

3 to-6 months later, allowing Center-invest Bank to come up with other brands, rendering a full range of services.

(In millions rubles)

		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Capital	RAS	3641	2010	1087	686	628	421	205	101	53	51	27
	IFRS	4234	2221	1141	779	678	414	210	99	41	46	15
Assets	RAS	22872	13058	8359	5132	3026	1605	991	540	340	234	151
	IFRS	23833	13637	8493	5257	3124	1635	960	630	252	186	97
Profit	RAS	777	501	212	130	64	27	17	6	5	9	8
	IFRS	518	311	131	94	14	4	-7	-11	-4	6	0.4

Over all stages of the reforms Center-invest Bank managed to be the first in assisting its clients in their various arrangements, including privatization process, initiation of the securities market in the region, solutions to mitigate settlement crisis, launching project finance and services for small businesses entering international markets. Successful realization of these objectives enabled Center-invest Bank to be called the "laboratory for reforms in the South of Russia".

Sustained development of the bank is provided by a chain of innovations. Practically each quarter, the bank offers its clients a new product. Similar banks, introduce the same products

In 1997, the bank launched a program for small business support, offering banking services (including legal and tax advice, application of internet-technologies, security service and outsourcing for book-keeping). Only 150 enterprises were needed to reach a break-even point for the project, but within the first two months more than 400 companies participated in this program. Today, the bank has over 20 thousand small enterprises and individual entrepreneurs as its customers. Over RUR 12.5 billions was granted to these clients in 2006. Center-invest Bank also helps SMEs to position their business on the international markets.

In 1998, the bank promptly initiated

a program of aggressive marketing, which enabled its clients not only to overcome the consequences of the crisis, but also to enlarge their market share.

In 2006, Center-invest Bank became the first Russian bank participating in the IFC program on the implementation of energy saving technologies. A \$4 millions credit line from the IFC and other financings allowed the Bank to cut fuel expenses of its clients and reduce CO₂ emission by 217 tones per year.

The Best Practice

Since 1997, PriceWaterhouseCoopers has been auditing Center-invest Bank in compliance with IFRS. It enabled the Bank to initiate co-operation with the USAID, IFC, EBRD, DEG, KfW, BSTDB and obtain accreditation in Hermes, SACE, Coface and OPIC.

Co-operation with the international financial institutions implied not only financial support to the bank, but also technical assistance programs. These include transfer of the best practice in the field of marketing, planning policy in the bank and its branches, internal auditing and compliance, risk management, trade finance and informational technologies. The ability of Center-invest team to efficiently apply the best world practice on the Russian market allowed its foreign partners to experience such implementation and evaluation as the best practice. "Center-invest is the best!"

Center-invest Bank became one of the first participants of the IFC and SECO program on the introduction of the Corporate Governance Code in the Russian banking sector. Adoption of this document allowed the bank to modify the methodology based on the experience of the investors and shareholders regarding their protection rights and constructive interaction of the bank's managers with clients etc. EBRD became a shareholder of the bank in 2004 and DEG (KfW Group) in 2005. The other institutional shareholders include, US Firebird Fund, Raiffeisen Landesbank Oberosterreich, and Renaissance Capital. In 2005, Mr. Ernst Welteke, ex-president of the Deutsche Bundesbank was

elected as independent director of the bank's board of directors.

Center-invest Bank pursues an open information policy. The bank's shareholders, clients and partners receive financial reports and information about its most important events timely. Annually the bank arranges more than 50 seminars and informational meetings with clients devoted to new products and programs.

The bank's transparent and efficient work has attracted domestic and foreign financing for the South of Russia. In 2006 Center-invest Bank succeeded in placing its first Rouble Bond issue, attracted syndicated loans on the domestic and international markets exceeding \$150 millions and issued additional shares which were distributed among the existing shareholders, thus increasing the bank's capital to RUR 4.2 billion.

Social Responsibility

Any commercial bank is oriented on generating profit. But sustainable development requires maximisation of the long-term efforts. Therefore Center-invest Bank focuses on providing support to its clients. For businesses Center-invest offers informational meetings and seminars. The bank publishes its research and evaluation of major economic events in the mass media and clients are constantly consulted on the current issues of the reforms in Russia.

Over 120 thousand depositors hold their accounts within 99 branches and additional offices of the bank. The bank considers war veterans of vital importance and is proud of the constant growth in the number of these depositors, as it is a most conservative client category. Therefore the bank arranges annual meetings with the veterans and offers them gifts and special types of deposits with better terms.

50 thousand students of the South of Russia receive their scholarships through "card accounts" facilitated by Center-invest Bank. Over 150 of the best students receive special grants from the bank and they also have access to the meetings with leading specialists and bank management as

well as being offered an internship with the bank.

On the threshold of the internet-technologies development in Russia, Center-invest Bank offered free computer literacy classes for over 3 000 schoolchildren in the region. The bank also sponsored an exhibition 'Treasuries of the Don Steppes' allowing over 22,000 children to get an insight into the history of the ancient trading centre "Tanais".

Focus on long-term development of the bank and its clients require very careful structuring of retail banking products.

As a large portion of its loan portfolio is in the agricultural sector, Center-invest Bank pays special attention towards the implementation of modern technologies for ecologically clean production; therefore the bank invites reputable foreign specialists to advise on choosing optimal equipment and technological processes to ensure minimal damage to the environment. This responsible attitude towards social and environmental concerns helps boost the loyalty and confidence of clients and businesses alike towards Center-invest Bank's continuous growth and ensuring the sustainable conduct of business.

According to recent polls, Center-invest Bank has been recognized as leading regional competitor for "The most Successful Business", "Business Image", "Reputation" and "Regional Brand Awareness".

Regional Risks

Russia, like other emerging markets, is traditionally considered to be a risky place for business. Ratings of the regional Russian risks are even lower. Analysts add additional points to the risk levels when assessing regional risks. Center-invest Bank is in the TOP-60 of the largest Russian Banks and successfully operates in the South of Russia with a population of 23 million that generate about 10% of Russia's GDP.

The bank efficiently manages region-



al risks.

Unbalanced legal base of the reforms leads to the over regulated market instead of regulated. During 250 out of the total of 280 business days the Bank is being examined and checked by the various supervisory and regulatory authorities, auditing companies, rating agencies and the partners of the Bank. In such conditions, only a transparent Bank can insure sustained activity. In addition, the experience shows that a transparent Bank should show

short-term foreign currency deposit ratings and an E+ financial strength rating to Center-invest Bank. Moody's Inter fax Rating Agency has assigned an A2.ru long-term national scale credit rating to the Bank.

Up until now, Moscow and foreign based banks are actively seeking opportunities in the regions of Russia, and the South is not an exception. The region has obvious advantages: favorable climate, diversified economy and big potential for growth. The scale of transformation that is required by the South of Russia to enter global market leaves enough room for banking competition.

Center-invest Bank has the experience, knowledge, technology, and products

adequate for the sustainable development of its clients mitigating the regional risks.

nual and quarter plans for the business development.

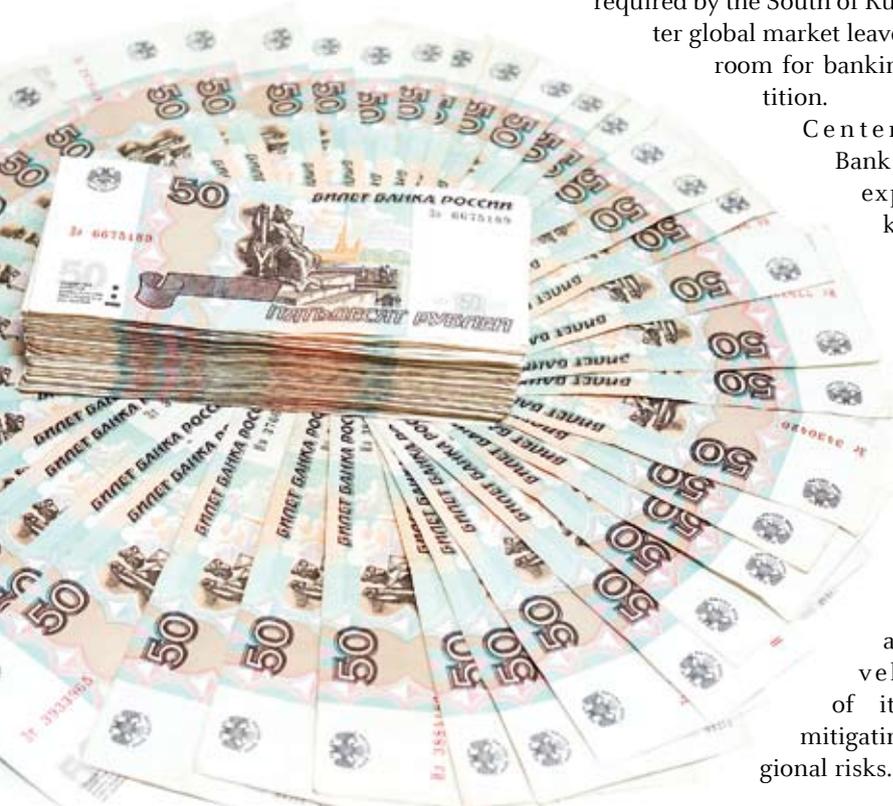
In 2005, the Bank arranged a tender for a supply of a new ABS system among 16 foreign producers. SAP for banking system (Germany) won the tender. According to the approved schedule, the system is being localized, in compliance with the Russian legislation. Together with the favored banking practice the system will also include the best of Center-invest Bank work.

In the framework of EBRD's technical support program, the Bank improved its internal auditing, compliance procedures and risk management policy. The Human Resources Department is testing the staff in the offices of the Bank. As a result, new methods of recruiting people were introduced.

The Center-invest Bank has an effective team of managers with a strong academic background (over 30 PhD combined) and the work experience in the Bank for more than 10 years. A special motivation system provides incentives for 1350 employees of the Bank for an efficient work and development. In 2006, 27 babies were born in the families of the Bank's employees.

These and other steps enable us to believe in bright future of the Bank Center-invest and the whole Russian banking system. The Russian banking sector is waiting for a wave of mergers and acquisitions. A change of the owners plays an important role only in the first stages of reorganization. Upon completion of the formal procedures, the work on integration of the technologies, products, and management strategies commences.

The experience acquired during interaction with the international financial institutions allows the Center-invest Bank to offer technology for consolidation of the Russian banking sector. Participation in the equity of a regional bank allows its adjustment to procedures and technologies, on the basis of having the best practice and sustainable development, thus preparing consolidation of the regional banks with the minimal expenses. **RF**



Sustainable Development Multiplier

Russian banking sectors demonstrate high dynamics of the growth. Annual growth of assets, capital, and loans is 30 - 50%. Figures of Center-invest Bank exceed the average levels of the Russian banks. However, the growth in the volumes is accompanied by the continuous improvement of management processes, banking technologies, and the development of new products.

Center-invest Bank has a Strategy of the development, which was approved by the Board of Directors, with break down by markets, products, and departments. It also has an-

good results regardless of the methods of due diligence.

According to the results of the Tax Authority due diligence in 2001, Center-invest Bank was awarded a Certificate of Confidence, which was re-confirmed in 2003. In 2004, the Bank received a Silver Certificate of Confidence.

From 2004, the Bank was given a rating from the national rating agency Rus. The rating was upgraded to BB/Stable level in 2006. Towards the placement of the Ruble bond issue in 2006 Moody's Investors Service assigned B1 long-term and Not-Prime