

“Gentlemen’s lot” for Consolidation of Regional Banks

Commercial Bank Center-invest achieved impressive success on world financial markets this year – the company obtained a syndicated loan for \$80 million; issue of credit notes (CLN) for \$175 million was carried out; a subordinated loan for \$10 million was raised; the first long-term syndicated loan for 1.25 billion RUR was signed; and Center – invest Bank won second prize in an international competition by the Financial Times and IFC “2007 Sustainable Banking Awards”.

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This success has been achieved by following the world’s best practice standards. These standards include a Development Strategy for the bank, a Corporate Code of Conduct, reporting based on IFRS, international rating, a Corporate Governance policy and a Risk Management policy.

Strategy. In September 2006, the Board of Directors of Center-invest Bank approved the Strategy of Development for 2006 – 2011. In order to implement the strategy the shareholders increased the capital by 1.3 billion RUR, thus creating the base for steady dynamic growth up to the year 2011. The strategy consists of a number of objectives which, when combined, assist in the development of products, services and operations. The advantage of the strategy is its feasibility, as it became essential for every employee of the bank.

The Corporate Code of Conduct of the Bank was developed together with specialists from the IFC and EBRD. The code regulates the relationship between shareholders, managers, employees and clients. The corporate culture of the bank improved following the Code’s implementation. The combination of the bank’s HR policy, Strategy and the Corporate Code of Conduct, guarantees consistency in the banks operation and provides employees with confidence in prospective career advancement.

IFRS and RAS are different systems of clustering banking operations. Since 1996, Center-invest Bank has been submitting its reports based on IFRS, and is being audited by PricewaterhouseCoopers. Adhering to IFRS has taught the bank to evaluate every product, not only from the point of view of Russian and international standards, but also from the point of view of fiscal accounting. The bank gained deserved recognition from regulatory authorities, international financial institutions and foreign partners due to high and steady figures demonstrating the bank’s progress according to IFRS and RAS. In 2007, the Federal Tax Service Department in the Rostov region awarded Center-invest Bank with the Golden Certificate of Credibility for its high quality of fiscal accounting.

International rating is another means of independent evaluation of the bank’s operation. Rating agencies create their ratings based on the analysis of all the operations of a bank, the quality of its loan portfolio, and management system including corporate governance and risk management. Since 2004 “Rus-Rating” agency has been evaluating the performance of Center – invest”. During this period the bank’s assigned rating has improved from B+ to B++ (with a “stable” outlook). In 2006, Bank “Center – Invest” was assigned a B1 rating by Moody’s Agency. In 2007 the Bank has strengthened its rating by being assigned a positive outlook.

Corporate governance is often considered an element of incremental costs in business. Center – invest Bank, together with international specialists, created a viable system of corporate

governance, which includes all management bodies, organization departments and functional trends of the banking business. The work of the Corporate Governance Department is based on planning procedures regulations, checks arrangement, monitoring and reporting. As a result, a system such as this one not only reveals violations of established rules but also provides suggestions to improve them.

Risk management is a new strand of work connected with transition to the so called Basel Principles. These principles are based on the concept of banking activity as: purchase and sale of risks. Accordingly, capital adequacy ratio is defined by taking into account the risks (credit, market, operational risks) which a bank takes while earning profit. While developing the new policy of risk management, Center – invest Bank engaged with foreign advisors and organized the trainings of its specialists in Germany and Austria. Risk limits for business lines and capital adequacy ratio were calculated based on the strategy parameters and business plan. The calculations showed that Bank’s own equity is double that of economic capital which is necessary to cover the risks of contingent loss.

Sustainable development is a new ideology for business development, designed not only for earning current profit, but also for future generations. Within this ideology banks and enterprises employ new technologies, prevent social conflicts, and support environmental protection. New technologies and products enable companies to develop new market segments, attract new clients and quickly adjust to the new requirements of regulatory bodies. For instance, the introduction of energy saving technologies allowed Center – invest Bank to finance projects in the public sector successfully.

Consolidation of local banks. Local banks are able to manage effectively local risks but their ambitions require additional capital. Center – invest Bank is the first bank in Russia to manage this task successfully and to attract notable shareholders, such as EBRD and DEG, as well as portfolio investors Firebird Fund and Renaissance Capital. The Bank has managed to attract new shareholders and to enter global markets due to its timely implementation of a “gentlemen’s lot” of the world’s best practice standards. These standards can become a solid base for local banks to consolidate in Russia. Center – invest Bank is ready for cooperation with local banks interested in the development of their business.