



Lidia Simonova, Center-invest Bank: Our business model combines social responsibility and profitability

The inclusion of Russia's first issue of green bank bonds in the Moscow Exchange's Sustainable Development Sector was a landmark event for the Russian economy. For the issuer, Center-invest Bank, it was the logical next stage in its responsible financing of environmental measures. Chairman of Center-invest Bank's Executive Board, Lidia Simonova, notes that it was a major achievement in terms of the bank's strategy. It reinforced that ESG banking is not only the main trend in global financial markets; it can also be the guiding philosophy for a regional bank.

Interview by Ekaterina Kats for Banking Review

Lidia, when did Center-invest Bank turn its attention to green lending?

Our concern for the environment, energy saving and adherence to responsible finance principles did not arise overnight. Thanks to our international partners and shareholders, Center-invest Bank has access to international best practice. This allows us to learn about and introduce new products and methods before other financial institutions and to follow the latest development trends. Our work in this area originated with our partners: the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC) and the German Development Bank (KfW). They shared their practice in this area with us and they also helped us to develop an Environmental and Social Policy, which was approved by the bank's Board of Directors. In accordance with this policy, Center-invest Bank voluntarily undertakes to promote green, long-term sustainable development, together with cohesive social development.

It took more than ten years and a lot of awareness-raising, analytical and explanatory work for our innovations to be seen as standard. The most important thing was that

the bank led by example, testing these innovations and ensuring that they worked. We are grateful to our customers for being receptive to all of our innovative programmes, including our energy efficiency and modernization programmes.

Center-invest Bank began providing green loans in 2005 when it launched Russia's first energy efficiency loan programme, run in partnership with IFC. Initially, we provided preferential loans for small business to purchase new equipment or upgrade outdated equipment. The programme was then expanded to include loans to enable retail customers to carry out energy efficiency renovations and replace household appliances with more energy-efficient models. Lastly, we introduced energy efficiency loans for the housing and utilities sector. Since the programme began, we have provided 17.5 billion rubles in finance for energy efficiency projects.

One of the main results of our energy efficiency loan programme is an annual reduction in CO₂ emissions of more than 200,000 tonnes, equivalent to planting over eight million trees a year.

By using green bonds to raise finance (250 million rubles), Center-invest Bank became a banking pioneer. What steps preceded the listing on the Exchange?

We announced our intention to issue green bonds at the national Green Economy conference held in February 2019. Prior to this, in May 2018 the European rating agency Vigeo Eiris had commended Center-invest Bank's work on environmental and green products. It assigned us the maximum score for this component, higher than that of large European banks that are trendsetters in green finance.

Before we became the first in Russia to issue green bonds for the Moscow Exchange's Sustainable Development Sector, our specialists studied the experience of international issuers of green bonds. They discussed the prospects for this issuance with the bank's shareholders and partners who had already issued green bonds on European and world stock markets. They also produced a document entitled "Procedures and Principles for Issuing Green Bonds", which, in accordance with the rules of the International Capital Market Association (ICMA), disclosed all the details of the planned issue and obliged the bank to use the proceeds to finance or re-finance green projects (energy efficiency, renewable energy and green transport).

The rating agency Expert RA (Frankfurt) played a very important role in the successful issue and admission of these bonds. The agency analysed our Green Bond Framework and reported in an independent conclusion that the bond issue complied with the Green Bond Principles 2018.

I would like to mention that just a few days before the bond issue, Center-invest Bank became a signatory to the Principles of Responsible Banking of the United Nations Environment Programme Finance Initiative (UNEP FI), which unites leading financial institutions from around the world.

Center-invest Bank's green bond issue has strengthened its reputation as a bank for which the environmental and social return is a priority. The logical conclusion of this issuance was the inclusion of our bonds in the ICMA's list, bringing them to the attention of the international financial community.

Is there demand among investors for green bonds?

Absolutely! Today's investors genuinely care about environmental friendliness. Even before the official launch, during the marketing stage, we recorded a 2.5-fold oversubscription and the order book closed two hours after we launched the issue. Our green bonds were purchased by private individuals and corporate clients, as well as financial institutions. We were pleased to learn that a significant number of the investors who bought our green bonds were motivated not by the rate (8% per annum), but by the status of the bonds.

The terms for issuing green bonds are really quite strict. The bank guarantees that the proceeds will be used to finance energy efficiency projects in industry, agribusiness, the housing and utility sector and the service sector. And we have fulfilled our obligations. The full 250 million rubles raised from our first green bond issue has stayed in southern Russia and this money is helping to address environmental challenges in our region.

My sense is that there is already a pool of investors in Russia who are interested in responsible investing. This pool needs to be expanded, and socially-responsible banking products and services need to be better known and more accessible. Our successful green bond issue inspired us to create a new environmental deposit account. This "Green" deposit account conforms to ESG banking principles: stable profit, environmental responsibility, and transparent reporting on investments in the local economy. Every depositor receives a sustainable investor badge and certificate and we guarantee that all of the funds raised will be used to implement the Sustainable Development Goals and Russia's National Projects.

The Climate Bonds Initiative noted that Center-invest Bank's green bond issue was a highly significant event for the Russian green finance market.

The first issue of green bank bonds in Russia, with a par value of 250 million rubles, was sold on the Moscow Exchange on 15 November 2019.

There are many aspects to ESG banking. What does it mean for Center-invest Bank?

A modern bank is about more than just buying and selling risks; these risks need to be properly managed. The ESG banking concept expands the scope of risk management by including environmental, social and management factors. As well as moral and ethical obligations to customers, society, employees and shareholders, responsible finance means having finely tuned and effective business processes, requiring the investment of considerable resources to create a management system, make loans more affordable, and increase profitability by reducing customer defaults.

At present, compliance with ESG principles is voluntary. However, increasing numbers of companies from different sectors are adhering to these principles, integrating them into their corporate culture and operations. This practice is already quite widespread in Europe and the USA, and I really hope that ESG principles will soon become the new standards used by both investors and regulators in Russia.

Quite a lot has already been said about environmental responsibility. As for social responsibility, in Center-invest Bank's business model it addresses not only the traditional tensions of "rich versus poor" and gender inequalities, but also new tensions such as "innovation versus conventional thinking".

Our corporate culture is not just the set of rules contained in the Codes of Corporate Conduct and Ethics; it is also our financial reporting obligations, transparency, and the equality of all participants in terms of their rights and also their responsibilities: for their work, the work of colleagues, management.

You mentioned that financing social and national projects is part of responsible banking. Do you have any statistics?

The ESG model has proven effective for Center-invest Bank in terms of its social responsibility and financial performance: the bank's profits in 2019 were 1.8 billion rubles. Therefore, we are able to continue our social, educational, environmental and charitable programmes with confidence. These programmes aim to improve

the financial literacy of the general public and young people, encourage and develop entrepreneurship in the region, including youth and women's enterprise, promote a responsible attitude to the environment and consumption, and assist vulnerable groups of the population. To date, the bank has invested over 1.1 billion rubles in the social sphere.

Since 2019 our reports have included coefficients and indicators showing the scale of Center-invest Bank's contribution to the implementation of the United Nations Sustainable Development Goals (86.7 billion rubles invested by the bank in 2019) and Russia's national projects (79.3 billion rubles invested in 2019).

What tasks lie ahead for the modern bank and what role does digitalisation play?

Center-invest Bank's main development goal is set out in our 2019-2021 Strategy "The ESG Digitalisation of Center-invest Bank's Ecosystem". The bank currently plays an advisory role, acting as an intermediary between the state, business and the general population, providing services based on digital technologies. We are actively developing the sales channels for our bank products and services available in-branch and remotely. We are introducing new ways of working to make our services as accessible and convenient as possible for our customers. As it happens, the current global crisis has contributed to the broad penetration of online banking, and those customers who were opposed to the transition to remote banking now appreciate its manifest advantages.

How are ESG principles being applied amid the pandemic?

Responsibility for employees, customers and partners are fundamental to the ESG concept. We have long followed these principles, and the situation with the coronavirus shows once again that the bank and its team are prepared for any crisis. Even before the lockdown and other quarantine measures were officially announced, we recalibrated our customer services and all of our operations in line with the World Health Organization's recommendations on preventing

the spread of the virus. We equipped all of our front and back offices with protective screens and hand sanitiser. Within a week, we had switched as many employees as possible to remote working. We optimised branch opening hours, started quarantining banknotes, and informed our customers about the changes. Bank services are included in the list of “vital financial services” so we have kept our operations going throughout.

I would like to thank our customers who have responded to our request and switched to remote banking. The first things we did were to scrap fees for using online banking to pay utility bills, introduce a preferential business banking tariff with no monthly account fee, and increase the capacity of our contact centre so that we can be as close to our customers as possible, just a phone call away.

Center-invest Bank is a public joint-stock company, and we update our foreign shareholders and key partners about the current financial situation and other circumstances weekly.

Even amid the Covid 19 pandemic, Center-invest Bank provides a standout example of the successful implementation of ESG banking. The Global Alliance for Banking on Values (GABV), a network of over 60 responsible banks from around the world, considers our work to be among best practice.

Everyone has suffered from the crisis, both customers and banks. How does an ESG bank operate in this situation?

To retain customers during a crisis, you need to lower rates. More than one crisis has proven this to be true. Our funding is more expensive compared to large banks that are wholly or partly state-owned, but we offer loans on preferential terms. ESG customers give us a lower margin, but the rate of defaults is also lower. Unlike the speculative approach, we need long-term partnerships and long-term profit.

As for loan support, we are participating in the government’s interest-free salary loan programme and preferential mortgage programme. We have also developed our own

loan payment holiday programmes for business and retail customers, with significantly broader criteria than those suggested by the government.

A regional bank works with the real economy. When involving banks in government support measures, it is important to always remember that at the other end of a bank’s balance sheet are household deposits and companies’ funds. With regional banks, this means your neighbour’s deposits and money belonging to the companies where his family works.

Center-invest Bank is engaged in active dialogue with government authorities and business associations. Over 500 business people responded to our recent online survey “My Business Transformation”. Our customers understand that lockdown will end, and businesses already need to be working in a different way. Therefore, all our branches are continuing to finance spring field work, working capital for small business, and youth, women’s and social entrepreneurship. We are looking to the future with confidence.