

VALUE-BASED BANKING: MADE IN RUSSIA

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Sovereignty is not an autarky, but
global competitiveness.

About Center-invest Bank

Center-invest Bank has been a member of the GABV since 2019. It is one of the largest regional banks in Russia, which successfully applies the business model of Sustainable Banking.

It runs successful socio-educational projects for the benefit of current and future generations; creates unique products for small business with a focus on the new generation of entrepreneurs; and transforms the population's savings into support for the region's real economy.

In 2019-2023, Center-invest Bank invested RUB 447.5bn in implementation of the Sustainable Development Goals and RUB 394.9bn in the National Projects.

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1. BUSINESS MODEL OF REGIONAL BANK

1.1. Regional bank outlawed

There is no definition of “regional bank” in Russian legislation. Today, few people remember that the “maiden name” of the Association of Banks of Russia was the “Association of Regional Banks”. Many deputies and members of the Federation Council, who started their careers in regional banks, are not eager to consolidate the experiences, mistakes and successes of their youth in legislation.

The Bank of Russia considers regional banks in the context of its own classification: systemically important banks, banks holding universal licences and banks holding basic licences.

In the absence of a specific regulatory framework, regional banks are “outlawed” when it comes to “competitive” selection for participation in government support programmes, allocation of quotas and privileges, and setting of priorities for taking part in innovative projects for the introduction of new technologies.

The federal and local public authorities are pursuing a policy of governmentalisation of the banking system. That's why, they do not consider regional banks as equal partners, do not take into account the factors of investment attractiveness of regions and the introduction of new technologies, do not study the experience of regional banks well, and do not remember the advantages and opportunities of regional banks, which are most evident in the crisis, only when hard times come.

The new realities have reminded us that “small is beautiful” and require us to revise the segmentation of the banking business once again.

Systemically important banks have demonstrated the truth of the rule that “the bigger is the company — the more problems it has”.

Resource constraints and limited external support capabilities are forcing regional banks to become more flexible and efficient in order to operate successfully in a rapidly changing environment, responding dynamically to customer, environmental and regulatory needs.

As of the beginning of 2023, 82 regional banks in Russia held a universal license and 73 regional banks held a basic license. In 2022, regional banks maintained positive dynamics of all key indicators: net assets (+11.1%), corporate loans (+7.5%), retail loans (8.8%), deposit and settlement account balances (+14.8%), and made a profit of 48 billion roubles (26.3% of the net profit of all Russian banks). At the same time, the average return on assets (ROAA) and average return on equity (ROAE) were higher than in the banking system as a whole.

Regional banks have been less affected by sanctions, geopolitical factors and the international climate because they have been quicker to adapt their business models to the new reality and help their customers transform their businesses.

Statutory consolidation of the status of regional banks would strengthen their role not only as the second tier of the sovereign banking system, but also as a vanguard, a conductor of financial innovation and a partner of regional development institutions.

1.2. Creative business model of regional bank

Whatever advantages a regional bank may have, life requires that they must be monetised.

Many years ago...

Participants at the conference of the Global Alliance for Banking on Values (GABV) were surprised to learn that Centre-invest Bank is successfully addressing environmental, social and corporate governance issues in the region, while achieving strong financial results and paying dividends to its shareholders.

Large banks monetise their status through economies of scale in managing large cash flows, administrative resources or monopoly advantages in providing services to certain companies. A regional bank can only balance limited opportunities and ambitious goals by being profitable through creative solutions, growing sales of new products and services in new markets, reducing costs and managing risk in an effective way.

A regional bank is a unique path of creative development of banking in conditions of excessive regulation, governmentalisation and monopolisation, driven by the search for responses to constant challenges in the face of continuous crises.

It is during the crisis that regional banks are showing greater efficiency, focusing their business on regional growth points, formulating strategies for the post-crisis development of regions and transforming their customers' and their own business models.

The digitalisation of large players involves greater risks and costs that are not always justified. Regional banks have a keen eye on the digital marketplace, using both best practice solutions as well as innovative approaches in their target market segments. The regulatory environment places a disproportionate burden on regional banks compared to large banks, but encourages them to

accelerate digitalisation to introduce flexible approaches to operations, reporting and regulatory compliance, to speed up payments and settlements, and to mitigate digitalisation risks in the regions.

To do this, the regional bank:

- Deals mainly with the public in its operating regions with a functioning real economy, avoiding the risks of operations on the financial markets.
- Tailors its products to specific consumer groups, reducing the cost of adapting standardised products.
- Organises smooth payments and settlements, reducing business continuity, liquidity and default risks.
- Effectively invests the funds of private and corporate customers, attracts new resources for financing regional infrastructure projects and socio-economic development programmes, and for participation in international projects.
- Provides consulting services to customers, community and authorities to reduce risks and address routine and innovative financial challenges.
- Participates in programmes for training and enhancing financial literacy to reduce the risks of investing in future generations.
- Sets benchmarks of best practice in regional banking to be followed by out-of-town banks to reduce customer risks.
- Demonstrates healthy patriotism, promoting customers' business and developing its business along with the development of the regions in which it operates.

A regional bank's business model is inextricably linked to the specialisation, benefits and risks of economic development in the regions in which it operates. Lending to households and regional industry, agriculture, construction, transport and trade companies helps people in the region to live better and businesses to grow faster. A regional bank can have a significant impact on the investment climate in the regions in which it operates—the better a regional bank performs, the more interest external investors show in the region.

There are many examples where a regional bank is selected as a pilot bank to implement global financial institutions' programmes on corporate governance, small business lending, energy efficiency, ESG banking, and as a co-innovation partner to have innovations tested by major market players and to introduce digital technologies.

1.3. Independent responsibility

Almost all theoretical economists point out the operational independence of regional banks as a positive factor. In an over-regulated environment, such independence demands greater responsibility.

Regional banks with a universal licence are subject to common requirements for corporate governance, risk management, liquidity, planning, reporting, staffing, equity, information technology and business continuity.

It is useless to examine yesterday's events for compliance with the instructions of the day before yesterday; today's conditions must be examined to meet tomorrow's challenges. Inspection reports must include a section entitled "New good practice found during the inspection".

Proximity to customers and the lack of external support force the regional bank to make decisions in a fast, flexible and competent manner, taking into account customer interests and risks as well as regulatory requirements. The track record of such decisions builds the reputation of a regional bank.

The independent status of a regional bank allows it to avoid many of the redundant bureaucratic approval procedures that apply to the big players; however, no one forgives mistakes and you have to take full responsibility for them.

The economy of transformation is a new reality in which new challenges are constantly emerging in the face of ongoing crises. Living in a constantly hostile environment, the Cossacks have developed rules and approaches that are relevant to decision-making in the economy of transformation. Many advanced

methods and recommendations of flexible management, innovation, corporate culture and social responsibility have long been tested by the Cossacks and are successfully applied today.

As applied to the operations of a regional bank, the Cossack management principles are as follows:

- Respond quickly to global challenges (“be in trend, at the forefront and fully prepared”).
- Effectively manage regional risks using global best practices.
- In contrast to speculative banking (“buying and selling risks”), manage risks in cooperation with customers to reduce risks and rates in a crisis.
- Be the “last mile” to promote new product technologies, services, and business models.

1.4. Advantages of the region

In global practice, regional banks are defined as banks operating in a specific territory.

Established by the first privatised companies, Center-invest Bank has been a successful reform laboratory and sustainable bank for Southern Russia for 30 years.

Many years ago...

J. Lemierre, President of the European Bank for Reconstruction and Development (2000–2008), who visited the Rostov region, said, “The Southern Russia is the model of Russia's future — it features a diversified economy and an entrepreneurial spirit.”

Southern Russia:

- Has always been situated at the crossroads of trade routes and geopolitical events.
- Is located at the geographic latitude of the northern border of the United States and the capitals of many European countries.
- Its average air temperature is higher than in Moscow but lower than in Dubai, so there is enough sunshine and precipitation to grow grain, sunflowers, vegetables and fruits.
- Is the region with well-developed communications, transport infrastructure, road and railway network.
- Is a unique blend of different peoples, cultures, histories, national traditions, cuisines, temperaments and entrepreneurial spirit.

The Bank develops its branch network following the business of its customers.

Russia is a huge country where each region has its own development specifics well known to regional banks. A regional bank must be responsible for the development of the regions in which it operates, know how the industries are developing, inform the public, the business community and the authorities in a timely manner about emerging problems and new opportunities, and take into account regional risks in its operation by using regional statistics.

Key development indicators for the regions in which Center-invest Bank operates

Growth rate in 2022, %, compared to 2021		RF	RR	KT	VR	RA	ST	NNR
Industry	Ouput	-0.6	7.8	0.8	3.8	12.5	-0.9	0.1
	Manufacturers' prices	-3.3	9.8	7.2	-5.0	11.9	-4.4	9.5
Agriculture	Ouput	10.2	10.1	9.9	16.6	-2.9	3.3	12.0
	Manufacturers' prices	-4.1	-10.4	-1.7	-16.2	-12.3	-5.7	-1.9
Construction	Ouput	5.2	1.9	-9.5	18.2	41.7	12.1	29.1
	Manufacturers' prices	14.7	15.5	14.0	12.4	16.6	13.4	17.7
	Home construction	11.0	0.7	20.8	0.2	52.4	10.9	7.0
Trade	Retail turnover	-6.7	-2.0	-3.9	-2.3	-4.9	-10.7	-5.4
	Volume of paid services to the public	3.2	4.7	3.1	5.6	-5.5	2.9	2.6
Consumer prices	Products and services	11.9	12.1	11.0	11.4	11.9	11.2	11.5
	Services	13.2	11.8	14.7	9.3	13.6	12.8	11.8
	Housing services and utilities	10.7	12.2	11.5	10.4	11.8	9.0	9.0
Real income of population		-1.4	0.7	-0.6	0.7	-3.4	-3.1	-1.2
Fixed capital investments		4.6	2.1	7.1	3.2	14.3	1.8	0.9
Number of companies and organisations		-1.8	-6.2	-2.3	-4.8	-1.5	-5.0	-3.5
Number of individual entrepreneurs		4.0	3.0	4.0	1.6	-3.0	1.2	3.0

RF — Russian Federation, RR — Rostov Region, KT — Krasnodar Territory, VR — Volgograd Region, RA — Republic of Adygea, ST — Stavropol Territory, NNR — Nizhny Novgorod Region.

In 2022, Russia held out, and the South once again demonstrated its competitive advantages: the industry sector grew faster than the national average, and its products were in demand despite rising manufacturers' prices. Agriculture has grown at a lower cost than the national average, including through preferential loans to the agricultural sector. Construction companies of the South focused on building new homes, and banks helped them with

programmes. In the South, the decline in trade turnover went almost unnoticed. Investments remained in the country to ensure the structural transformation of the economy, the development of infrastructure and the improvement of defence capabilities. The Krasnodar Region has become a leader in investment growth, as it has realised its competitive advantages in the organisation of recreation and tourism in conditions when foreign destinations have become less affordable. Small companies have adapted to the new conditions by becoming more customised.

Competition in the regional market is a recurring theme among analysts. Contrary to pessimistic predictions, regional banks are alive and well, and are successfully solving their customers' problems. Ultimately, it is the customer who assesses the viability of the bank and the quality of its products and services.

1.5. Global role of regional banks

Regional banks are not about the size, but about truly effective regional risk management: front, back, internal, environmental, official and informal.

The mission of regional banks is not to grow risks along with scale, but to localise the best global practices, taking into account regional peculiarities and the regulatory environment. In addition, global best practices can be successfully developed in a neighbouring region or created by the regional bank itself.

Center-invest Bank — WAS, IS AND WILL BE THE BEST! This is not an advertising slogan, but a brief description of the business processes of Center-invest Bank, which operates in the best region, collaborates with the best partners, customers, employees and shareholders, and with the best next generation, based on the best global practices. Center-invest Bank's experience in localising the most advanced solutions, including sovereign ESG banking, responsible banking principles and the introduction of a values-based banking model, has itself become a global best practice.

Many years ago...

Center-invest Bank was the first regional bank to prepare IFRS reporting. Before the work began, the chief partner of the international auditing firm said, "You'll be shocked when you see your IFRS report." When the report was prepared, his colleagues said respectfully, "We are shocked that there is a competent bank in Russia that knows how to work according to global standards."

We have heard this assessment many times from our foreign partners. The regular review of global best practices allowed the bank to position its business and its vision of global transformation competently, to prepare the world's first bank balance sheet in the taxonomy of the Sustainable Development Goals, and to prepare the report under the UNEP FI principles for Responsible Banking.

2.FINANCIAL MARKET

2.1. Regional bank in the financial market

The new reality requires, on the one hand, import substitution and foreign investment substitution, and, on the other hand, provides an impetus for greater sovereign investments of domestic savings in the domestic economy.

The optimal individual strategy is to invest in yourself, your family, your health, your education, your business, technology and infrastructure for your business. The remaining funds can be deposited with Center-invest Bank, which has the same investment strategy for the region's residents, businesses and infrastructure. The above strategy is attracting other market players: over 30 years of its operation, Center-invest Bank has raised more than USD 1 billion and RUB 1 trillion from global players and the Russian financial market.

The experience gained confirmed the old principles and allowed the new ones to be formed.

A regional bank invests the funds from the household deposits, business deposits and account balances held with each of its branches to lend to retail and business projects in the same region.

The benefits of local investments:

- Local investors bear less risk because they can control the progress of the project.
- Investments provide local employment and economic activity.
- Investments in local infrastructure improve living standards, reduce costs and make the region more attractive for investment.

■ Combination of different projects in the field adds value to each project.

When these factors are taken into account, local projects, even those with lower levels of profitability, maintain and improve their investment attractiveness.

Personal income and expenditure per capita in 2022 in the regions where Center-invest Bank operates

Performance indicators in 2022	RF	RR	KT	VR	RA	ST	NNR	Moscow
Income of the population, roubles per capita	45,272	40,246	48,587	31,598	38,511	28,778	42,209	99,873
Consumer spending, roubles per capita	35,189	35,294	45,078	27,055	31,587	26,338	34,257	67,362
Consumer spending, % of income	78	88	93	86	82	92	81	67
Income, % of RF total	100	89	107	70	85	64	93	221
Consumer spending, % of RF total	100	100	128	77	90	75	97	191
Investments, % of RF total	100	1.7	2.5	0.8	0.2	1.0	1.7	21.2

2.2. Investments in public goods and services

Supply and demand for conventional goods are balanced by prices. Public goods and services (roads, communications, gas, heat, water, electricity, sewage, schools, hospitals, theatres, etc.) are needed by everyone, but no one wants to pay for them. Rising living standards increase the demand for public goods and services. Balancing new inelastic demand by tariff escalation leads to social tensions and the destruction of ageing infrastructure. The increase in demand can be effectively balanced by investing in infrastructure modernisation.

The investments in infrastructure modernisation can be provided by the budget, the population or the business community. There are different combinations of co-financing of such projects in the form of public and municipal private partnership, social private partnership, government contracts, private financial initiative, etc. But this creates new risks.

This situation led the Bank to take a more cautious approach to investing in regional projects and to build up its own positive track record of investing in regional infrastructure development.

Many years ago...

Center-invest Bank has engaged a global financial institution to modernise TEPTS Teploenergo OJSC (Taganrog), which has been recognised as the best heat supply company in Central and Eastern Europe. The modernisation has enabled the demolition of 26 old boiler houses, 24 of which were integrated into residential buildings, the construction of 12 new automatic remote-controlled boiler houses, the renovation of 3 remote-controlled central heating stations, the replacement of 124 pumps, and the installation of 100 variable frequency drives. These measures have reduced CO₂ emissions by 30%, cut staff numbers and electricity consumption, and switched to a water recycling system.

The successful experience of participating in this and other projects has helped us to assess the risks of investing in the public goods and services economy.

- Private investments compete with the established channels of government funding for public goods and services projects.

- Project efficiency and return on investment depend on tariff regulation, while concession agreements impose the cost of return on investment on consumers and can be revised at any time.

- Problems arise in collecting payments from consumers of public goods and services, as the law requires a number of services to be provided to citizens on a mandatory basis.

The scale of regional public goods and services projects requires large investments and cornerstone investors. The existing limits do not allow a regional bank to take large risks. Nevertheless, the involvement of a regional bank in an infrastructure project is a good, positive signal to the public that the bank is taking part in co-financing infrastructure to improve living standards.

In theory, markets operate with a large number of participants — sellers and buyers — to ensure the continuity of supply and demand functions for making a balanced decision. Regional markets are imperfect because the number of participants in a region is limited and supply and demand are not always elastic — there may be an excess demand for individual good regional projects, or a complete lack of funding sources for some regional projects. Digital technology is enabling a shift from point projects to “project list management” in the region.

3. SOVEREIGN ESG BANKING

3.1. ESG banking without fanaticism

The concept of ESG banking became popular as a response to the search for alternative business models in the wake of another speculative banking crisis.

Global financial companies:

- have used ESG rhetoric about humanity's global problems to protect themselves of personal responsibility for creating such problems;

- realised that it was cheaper to maintain the ESG hype than to solve these problems;

- offer a mirage of a bright ESG future, but only for those they have chosen;

- are heavily promoting business models of “Non-profit” capitalism, forgetting that profit is the source of funding for projects to solve environmental and social problems;

- cover up the real problems of unprofitable, inefficient business by “caring” for society in order to preserve the monopolies of large corporations from developed countries;

- use double standards for the sake of protectionism and neo-colonialism;

- have established intergovernmental structures and maintain an ESG bureaucracy that shapes requirements, procedures and reporting to cover up incompetence and real contradictions between and within ESGs;

- have turned ESG into a speculative asset.

National ESG banking should not copy those mistakes but help to introduce new technologies. Sovereignty is not autarky, but global competitiveness. The competitive advantages of Russian sovereign ESG banking should be the sovereign technology taxonomy, digitalisation and integration of financial and non-financial reporting.

2021–2022...

Taking into account the best global practices and its own experience in the new realities, Center-invest Bank has:

- *Developed methodological recommendations on the introduction of ESG banking in Russia;*
- *Built a comprehensive ESG banking model which is operational in multiple taxonomies;*
- *Published the world's first bank ESG balance sheet, submitted ESG reports on the bank's loan portfolios in terms of the UN Sustainable Development Goals and the National Projects of the Russian Federation;*
- *Developed an ESG rating methodology for SME lending;*
- *Submitted reports under the UNEPFI PRB project;*
- *Prepared methodological guidelines on digitalisation of ESG banking;*
- *Implemented measures to use solar energy (40% of the bank's energy consumption), continued to lend to projects that reduce CO₂ emissions, support youth, women, social entrepreneurship and business transformation.*

■ *Conducted a series of competitions and hackathons on ESG banking transformation among university students, compiled a task book on the Sustainable Development Goals, a problem book on the economics of transformation.*

■ *Actively participated in regional, national and international conferences to promote ESG banking and in compilation of statistical abstracts “Rostov Region — Moving Towards the Sustainable Development Goals”.*

The main competitive advantage of sovereign ESG banking is ESG digitalisation — not only because ESG banking is impossible without IT, but also digitalisation is meaningless without ESG. Digital technologies transform slogans, appeals and catchwords into algorithms, procedures and programmes; digital algorithms test the ESG hype for realism (compliance with the laws of preservation of energy, process rules and regulations, information support and reliability of reporting).

The ESG approach does not abolish the fundamentals of the banking business, but allows to strengthen the sovereignty, to find new creative solutions for a new range of risks and a new planning horizon, taking into account new alternatives, new opportunities, new tools for new adaptation to new challenges.

3.2. Loans and risks of climate changes

Banks lend to real projects in trade, agriculture, construction, transport and municipal infrastructure, but they always consider climate-related risks in their operations. The commercial bankers have never built complex models, but assessed weather and climate factors based on accumulated experience and expert opinions, took into account technological advances, and helped customers by providing loans for planting forest belts, building dams, irrigation canals, bridges, strengthening coastlines, switching to drip irrigation, replacing fuel oil and coal with natural gas, switching to recirculating aquaculture system, automating boiler houses, repairing apartment buildings.

This commitment and discipline of the banks are tempting to use the banks and the regulator once again as a means of solving problems that are principally outside the scope of banking activities: if climate change affects people's lives and businesses, then, as the mathematicians say, it is necessary and sufficient to propose new technologies and projects that reduce new climate-related risks, and to create incentives for transition to technological transformation and penalties for refusal to switch. Most green technologies are still in the implementation phase; artificial acceleration can only be explained by unfair marketing of innovations and double standards by politicians. If banks are penalised for underestimating transition risks, the easiest solution for them is to stop lending to the brown economy.

In spite of the “green euphoria”, it is important to remember that regulatory measures cannot override the laws of physics — heating a house in winter requires fuel, charging electric cars requires energy production: burning coal, gas... In addition to fundamental constraints, there are process constraints related to capacity redundancy and alternative sources for seasonal, peak and extreme loads due to uneven loading of solar panels, wind generators and water reserves for hydroelectric plants.

Center-invest Bank is implementing a carbon neutrality strategy: by financing more than 1,500 projects to replace old equipment with more energy-efficient equipment, it has already reduced CO₂ emissions by 260,000 tonnes, the equivalent of planting 10.3 million trees. The Bank's ambitious target for 2023 is to assess the carbon footprint of at least 2/3 of all loans granted.

Today's heightened attention to climate is not only related to long-term problems of humanity, but also to an extent to the desire of developed countries to maintain their competitive advantage under the slogan of overcoming climate risks, and to distract public consciousness from the struggle of developing countries against poverty, hunger, inequality, diseases, for health, clean water, efficient power engineering, resource conservation, comfortable cities, justice, partnership, and the achievement of other Sustainable Development Goals. This is why a disproportionately large amount of money is invested in advertising, information support and infrastructure for the pure climate agenda.

Carbon taxes should be channelled into green technology investments for developing countries.

3.3. Gender policy of regional bank

Many years ago...

At the Euromoney conference, Prof. E. Nowotny, Governor of the National Bank of Austria, while looking through the financial statements of Center-invest Bank, said that “the birth rate in the families of employees is the best indicator of the financial soundness of the bank”.

For many years, the birth rate in the families of Center-invest Bank employees has been 4.5 times higher than the Russian average.

Center-invest Bank ensures gender equality and happiness in life for all social groups.

The bank has created a level playing field for young men and women to start and develop their careers. The bank's sustainable performance creates reassurance for its employees, which stimulates fertility in their families.

Center-invest Bank became the first bank in the world to incorporate Sustainable Development Goals indicators into its operations and reporting. Since 2019, the bank has financed a lot of SDG projects totalling RUB 395.6 billion. Women's participation in these projects was 30%, with women's SDG projects being more socially responsible. The most “feminine” Sustainable Development Goal is SDG 4 — Quality Education, where the percentage of women is over 90%. In addition, women's contribution exceeds 40% in achieving goals: SDG 1 — No Poverty, SDG 5 — Gender Equality, SDG 10 — Reduced Inequalities.

3.4. Corporate governance sovereignty

Centre-invest Bank has unique experience in implementing the best global corporate governance practices:

■ *In 2002, Center-invest Bank and IFC have implemented a pilot project to implement corporate governance in a Russian bank, which has become the basis for implementation in other Russian banks*

■ *In 2021, the Bank, in cooperation with the Association of Banks of Russia, has developed the first Practical Recommendations of the Banking Community on the Introduction of ESG-Banking in Russia*

■ *In 2022, based on the already accumulated experience of implementing ESG banking in Russia and the best global practices, the Bank has compiled and published the Sovereign ESG Banking manual*

Current legislation cannot cover all the rules and options for behaviour in a joint stock company. In order to fill the gaps for unambiguous decision-making, each joint stock company defines its own internal principles and rules, which are reflected in the Corporate Governance Code, Corporate Ethics Code, internal risk management policies and other documents. Ultimately, it is only the practical implementation of these documents that creates corporate culture.

Many years ago...

Centre-invest Bank was recognised as the best bank in Central and Eastern Europe at the FT/IFC Sustainable Finance Awards 2013 and the Euromoney Awards 2020 for Corporate Governance.

Gradually, the experience is gained, public business associations and analysts summarise best practices and recommend that they be incorporated into new legislation. But again, new gaps appear that need to be filled in with updated internal documents.

The digitalisation of corporate governance recommendations will avoid the creation of artificial rules and transform wishes and appeals into a culture of corporate behaviour linked to financial results.

3.5. Integrating ESG risks and reporting

ESG factors and risks have to be reflected in financial performance indicators and stock exchange quotations. This process has already begun. The International Sustainability Standards Board (ISSB) has approved the first disclosure standards — IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information — and adopted the basic requirements entitled IFRS S2 Climate-related Disclosures. It is still difficult to talk about disclosing the mechanisms of climate impact on financial performance. But this does not cancel or postpone the desire to exploit the key advantages of sovereign ESG banking by finding creative solutions for a new range of risks and a new planning horizon, to harmonise risky dreams of a bright future with current realities. ESG banking is solving this problem by offering new solutions to new challenges.

Over 30 years of transformation, the regional bank has found solutions to many problems in the national and global markets, gaining experience and knowledge that are in demand today. That is why we prepared the first study book on transformational economics for hackathons and organised an international competition of student projects on transformational economics, in which 150 universities from 49 regions of Russia, as well as from the cities of Kazakhstan, Belarus and the People's Republic of China, took part. More than 400 projects were submitted to the competition and 50 winners were awarded prizes.

3.6. Regional bank in taxonomy system

Experience with the SDG taxonomy has shown that any other taxonomy can be handled in a similar way. Modern technology makes it possible to solve this task, and the level of digitalisation of banks is 4 times higher than the average digitalisation of industries in the region, including 1.5 times higher than the digitalisation of the “information and communication” activity. Indeed, banks have become the leaders in innovation, the drivers of growth. The Government approved criteria for selecting sustainable (including green) development projects in the Russian Federation, formed taxonomy of social projects, taxonomy of technological sovereignty and structural adaptation of the economy, and the Concept of Technological Development until 2030.

Banks cannot lend directly to climate or social policy, to scientific and technological progress. Banks finance the projects based on a taxonomy of new technologies in each sector. If these technologies are not yet efficient enough, the government and the regulator use support measures such as co-financing, subsidies, guarantees, and capital requirements. In purely mathematical terms, all forms of support are interchangeable — the proportions of switching from one form of support to another can always be recalculated. The problem of interaction between different government bodies should be solved using digital technologies, taking into account the interests of all banks lending to the real economy. The approved taxonomies make it possible to create systems of incentives, penalties and standards, to simplify, digitise and automate the procedures for the banks' lending to projects of different taxonomies.

To encourage the implementation of new technologies, the government can introduce targets, limits, tax incentives and penalties, subsidies and compensations. Without government

financial support, talks of any taxonomy will remain declarations and good intentions, or become the basis for fraudulent schemes. Banks are involved in these processes precisely because the evolution of the regulatory framework has not kept pace with political declarations.

In the support system, risk-sensitive incentives shift responsibility and initiative for implementing projects which involve new technologies from public administrations to the banks.

The regional bank cooperates with universities, public authorities and business associations to promote each taxonomy.

Technological sovereignty requires the participation not only of large companies, but also of small businesses. In order to lend to such customers, Center-invest Bank has developed an ESG rating which includes the participation of SMEs in projects to introduce new technologies based on national and global best practice in environmental, social and corporate governance, while maintaining the financial soundness of the business. As of 01.07.2023, more than 4,000 customer loans have been assigned such rating. This represents more than 60% of the Bank's SME loan portfolio. ESG-rated customers receive loans at lower interest rates.

4. TRANSFORMATIONS OF REGIONAL BANK

4.1. Transformation of regional bank strategy

A business plan is a search for the optimum within a set of limited resources or goal constraints. In a strategy, both resources and goals are variables. From a set of balanced strategy options, the one that corresponds to the Bank's mission, to the technologies for generating profit and increasing value as a result of the transformation of production, financial, human, information, investment, intellectual, social and natural capital.

A strategy is not a document on a shelf, but an electronic model that includes:

- Financial balance sheets (assets and liabilities, profit/loss, cash and capital flows)
- Balance equations of reproduction and transformation of all types of capital (financial, operational, intellectual, informational, personnel, social and natural)
- Restrictions (regulatory standards, limits, covenants)
- Probability of risks (operational, lending, market, regulatory, criminal, technogenic, social, capital) and risk allowances.

Consideration of ESG factors and other taxonomies expands the list of variables, equations, constraints and risks associated with natural, social and governance capital as well as technological sovereignty. At the same time, the mathematical model of the bank's business processes remains intact.

ESG and other taxonomies provide new insights into traditional planned performance and operational processes to reveal:

- New opportunities (linking strategies to global objectives)
- New business models (innovative, efficient, sustainable and inclusive)
- New customer categories (IT professionals, young people involved in ESG agenda)
- New markets (education, environment, struggle against poverty and inequality, defence of sovereignty)
- New solutions for new markets
- New communications (indicators, standards, reports, technologies)
- New stakeholders (non-profit institutions, media, academia)
- New mechanisms for interaction between business, society and public authorities
- New synergy between partners
- New rules for markets, institutions, and barriers
- New investments and capital for transformations
- New level of sustainability (value chains, brand, new legislation)

A new glance requires creative thinking skills. Monitoring information on different taxonomies from different sources expands the range of options considered in the strategy model. External and in-house expert assessments, model simulation techniques

and stress scenarios are used to quantitatively assess the risks and resources required to effectively take advantage of new opportunities, as well as to estimate the level of resources required and the mechanisms for interaction with stakeholders.

The results of the calculations based on the strategic development model should consider the industry, regional, operational, product and portfolio aspects of the strategy, taking into account environmental risks, the bank's risk appetite, capital allocation, the quality of the risk management system at the operational level, compliance monitoring and internal audit.

Strategic decisions should be translated into the KPIs (key performance indicators) for divisions and employees, and reflected in incentive and reward systems, accounting and performance reporting.

The information system should provide analytics and reporting of any indicators in different breakdowns.

Presenting strategy is an art in itself.

Many years ago...

Centre-invest Bank has understood that every crisis ends when there is a strategy for post-crisis development. A functioning strategy is the most important anti-crisis measure. As early as in March 2022, the bank published the concept of the post-crisis development of the bank and the creative identity of the region, in May — a review of programmes for anti-crisis transformation of customers' businesses, in June it presented a strategy for the development of the Don's digital capital, in August — talent management practices and an assessment of the region's potential, in September — a digitalisation programme of sovereign ESG banking, in October — a development of the region's scientific potential, in November — a case study book on the economics of transformation.

4.2. . Regional data analytics

The data analytics aims to simplify or deepen our understanding of the region's economy for decision-making by the bank, customers and public authorities.

It should consider a big number of object descriptions and a combination of data handling techniques, variation of assumptions and possibilities of data transformation. The interactive nature of the data review process and the “layered cake” of formal and informal methods of analytics techniques allow the mechanisms of interconnections to be revealed more deeply, but create the risk of endless data review (“data review is endless, but the forecast must be submitted by the deadline”) and presentation of review results in a clear, visual form.

In order to assess regional opportunities and risks, Center-invest Bank uses forecasts of global institutions and national centres, official regional statistics of the Federal State Statistics Service (Rosstat) and regional breakdowns of statistics issued by the Bank of Russia. Centre-invest Bank also initiates and supports the publication of statistics on performance indicators of Sustainable Development Goals, scientific potential, digitalisation and social development of the region by regional institutions.

The results of the regional data analysis are used to elaborate strategies, business plans, development forecasts for the bank, economic sectors, customer businesses and regional programmes. The experience gained in reviewing and developing forecasts opens up the possibility of automated reporting on the analysis of the risks, opportunities, threats and benefits of the regional economy.

4.3. SMEs as a creative edge of a regional bank

Center-invest Bank was the first to develop the Small Business Support Programme for the Don Region, which describes in details the bank's financial and non-financial infrastructure services for SMEs in the areas of accounting, auditing, legal support, insurance, leasing, foreign exchange operations, investments, consulting, information technology and human resources

Center-invest Bank's programme continues to develop successfully and has been recognised by global financial institutions, foreign banks and funds.

The experience gained was reflected in training manuals for small businesses and banking professionals from Russia and the CIS countries.

After all, even the large banks love small companies now because of their business concentration, risk diversification, homogeneous loan portfolio management, innovation and constant readiness for “blackswan events”.

4.4. Regional money turnover

A regional bank must provide the money turnover of the region in which it operates and process intra-regional, inter-regional and international payments and settlements in a timely manner, using cash and non-cash means of payment.

Bankers remember the following money-turnover formula they learned at university:

$$M * V = P * Q$$

In an attempt to curb rising prices **P**, the Bank of Russia tries to limit the growth of the money supply **M**. To solve a similar problem, in order to support real sector of the economy **Q**, the central banks of the Western countries conducted quantitative easing operations, buying up corporate debt, which in the end simply shifted the accumulated inflation over time.

If we look carefully at the formula for the turnover of money, we can see that, other things being equal, an increase in the velocity of money **V** to serve the same turnover of goods **P * Q** can be provided by a smaller money supply **M**.

Digital technologies are forcing banks to reject business models based on the use of “temporarily redundant cash”, the balances of average daily “overnight” funds. The modern law of money turnover says: “Happiness is not in money, nor in its quantity, but in the velocity of money circulation”.

The digital rouble will become a means of payment when companies will be able to pay taxes “digitally” and the Minister of Finance will receive its salary in a “digital” cash. There is nothing heroic or impossible about these events.

4.5. Talents for the region

Talent is a skill and courage to see non-obvious things, to do the impossible things and to achieve the unbelievable results in cooperation with other talented people.

In the past, these qualities were attributed to a selected few. Today, talent skills are necessary for everyone. A mass training of talented people with knowledge, ambition and creative thinking is needed. Unlike many federal initiatives that flush creative solutions and talented young people out of the region, Center-invest Bank creates the conditions for talented people to develop their skills in the region and to increase their global competitiveness.

Center-invest Bank actively cooperates with universities, public associations and public authorities to improve financial literacy, support science and technology, participates in social and educational projects, hackathons, webinars and conferences.

Center-invest Bank does not use headhunters, but nurtures and trains the professionals from scratch. More than 700 students are trained annually in the Financial Literacy Centres. The best of them are invited for internships and work placements in the Bank, in the companies of its customers and competitors, where they develop a responsible business conduct mentality.

Center-invest Bank has created and actively uses **the infrastructure for talent cultivation.**

The Endowment fund. Center-invest Bank increased the capital of the “Education and Science of the Southern Federal District” Endowment Fund to 207 million roubles. The Bank manages the endowment fund effectively: a conservative investment strategy has enabled it to avoid losses during the crises and to achieve an overall average return of 8.96–9.75% pa. Over the same period, the average annual inflation rate was 7.1% and the yield of the Government Bond Index was 7.94%.

The Smart Scholarship competition has been held by Center-invest Bank for the last 20 years. More than 30,000 students, undergraduates and postgraduates from 17 partner universities took part in these competitions and the winners were awarded a scholarship of 40 thousand roubles each.

Center-invest Bank's Accelerator is a platform for free training of entrepreneurs, which implements a creative formula for start-up business success: “Know your business, your markets, your advantages in these markets and follow your own growth strategy”. Center-invest Bank is currently implementing acceleration programmes in six domains: 1) for the first-time entrepreneurs, 2) for the self-employed persons, 3) for the teachers, 4) for the participants of marketplaces, 5) for the engineering students of the Don State Technical University, 6) for the participants of international economic activities. The courses are taught by more than 150 professionals and experts from different regions. The entrepreneurs who have completed this course increase their profit by an average of 20%. More than 7,000 people have been trained.

Financial Literacy Centre. Center-invest Bank was the first institution in the country to open a Financial Literacy Centre in 2014. The main objective of the project is to provide free access to the financial advice and to teach financial literacy to the public in the regions where the Bank operates. Today, the Financial Literacy Centres are very active in the South of Russia.

The advice provided by the Financial Literacy Centres cover all population groups, from the young to the retired, and are tailored to the interests and needs of each group, with trained students acting as advisors.

The Bank's main partners in the Financial Literacy Centres project were the largest universities of the region: Southern Federal University, Kuban State Technological University, Volgograd Institute of Business. More than 1.7 million people received advice, 140,000 people attended seminars and more than 4,500 people volunteered for the Banking course.

Lectures and webinars. Centre-invest Bank has held more than 5,600 training lectures and webinars on topical financial and legal issues for individuals and entrepreneurs. Seminars have been organised for the retired people on how to use financial products safely and how to avoid becoming a victim of fraud.

In 2021, Center-invest Bank became the first bank in Russia to have its financial education programmes voluntarily accredited by the Association by the Financial Literacy Development Association. The Bank of Russia regularly acknowledges Center-invest Bank's contribution to public financial education.

Hackathons. In cooperation with the largest universities in Southern Russia, Center-invest Bank regularly organises hackathons where practical tasks are used as case studies. Over 2021–2022, the bank has supported and participated in a number of regional hackathons: 1) Regional Hackathon II on Artificial Intelligence and Software Development held by Rostov state economy university, 2) BIG DATA, 3) Cyber Garden 2021, 2022, 4) Inter-university Hackathon of Rostov-on-Don, 5) Spring Hackathon 2021, 2022, 6) INDUSTRY 2022 Regional Hackathon II, 7) RinhHack Regional Hackathon V, 8) Autumn Hackathon 2021, 2022, 9) Human Hack Hackathon 2022.

Scientific techniques for talent development. In its cooperation with customers and employees, in risk management and all operational procedures, the Bank actively uses well-known methods of creative thinking (portfolio and market analysis, SWOT, GAP analysis, benchmarking, errors of the second kind, etc.) as well as its own developments: TRIZ Matrix, Rostov Foliage data analysis and design of economic mechanisms.

The bank has developed the principles of Cossack management in the transformation economy, implemented software support for invariant multi-reporting under RAS, IFRS and ESG, environmental reporting, as well as reporting in the context of various ratings, SDGs and national projects.

The bank is using modern, creative methods of agile management to digitise ESG banking, train IT specialists and improve ESG competencies among university students.

The factors for developing the talents of Center-invest Bank's employees are: innovative thinking of managers (87%) and employees (79%), experience of effective innovation (77%), brainstorming (79%), tolerance to high-profile issues (76%), cultivation of ideas (80%), monitoring of best practices (75%), willingness to experiment (79%), attention to employees' suggestions (88%), willingness to take risks (78%).

Working with Center-invest Bank opens up opportunities for talented people to be in trend, at the forefront and fully prepared.

4.6. Regional bank and creative development of the region

Rising standards of living encourage people to exercise their skills. Another important function of modern cities and towns is to provide services of the creative industries. Creativity is the ability to produce new forms, new ideas, new perceptions, new goals and non-standard solutions. These attributes are needed in all kinds of activities, and their role increases in the economy of transformation—ongoing changes in the face of ongoing crises.

Creative industries include activities based on the use of intellectual property, such as advertising and marketing; architecture; crafts; industrial and graphic design; fashion design; cinematography, television, video, radio and photography; development of software, services, applications, games; publishing and press; museums, galleries, libraries; music, theatre, art.

In such industries, a balance must be struck between inelastic demand (the creative atmosphere prevails in the cities) and inelastic supply (the uniqueness of the creative output). A lack of creative space can lead to an exodus of talented and/or young people.

In a creative economy, the transition from one equilibrium state to another occurs in jumps and in different directions. A smoother switch in any direction requires the constant formation of markets for creative products and services: competitions, festivals, concerts, presentations, exhibitions. The costs of creating a creative market in any field are also shared between the public, business community, government and the creative businesses themselves.

Why do we need a creative environment? Production transforms resources into products and services. Creative solutions improve production efficiency through the channels of emotion, information, knowledge, expertise, and tradition. A creative environment creates a cascade of production efficiency growth, and relatively small resources for creative solutions multiply the production results. For example, the results of basic scientific studies improve the performance of applied science; applied science provides the ground for technical developments, which in turn improve the efficiency of production. Other elements of the creative environment play the role of catalysts at all stages of performance growth chains. The creative urban environment should form a cascade of mutual influence between creative and economic factors.

When financing regional creative projects, Center-invest Bank:

- Provides information and advisory support.
- Refrains from funding organisations (everyone is responsible for the sustainability of its own business), but participates in projects and activities on a mutually beneficial basis.
- Supports cultural activities of socially disadvantaged groups: children from orphanages, low-income parents, schoolchildren, veterans.
- Provides targeted support for the educational component of cultural events, free visits to historical exhibitions, and educational lectures for schoolchildren. Over 15 years, more than 500 thousand schoolchildren have visited the exhibition “The Gold of the Don Steppes”, exhibitions of fine arts and history museums in Rostov, Stavropol, Pyatigorsk, Volgograd.

■ Organises visits to cultural institutions for its partners and customers as part of its operational activities.

■ Trains its employees in the basics of the theatre arts, organises the staging of plays, and making films and videos with their participation.

The accessibility of information on the long-term plans of cultural and artistic institutions and creative events enables companies to select the most appropriate events.

4.7. Digitalisation in regional bank

The modern bank consists of 90% of Information Technologies and 10% of the front office smiles.

Many years ago...

Center-invest Bank has selected SAP AG in a competitive process to implement a new operating system. For the global leader in banking digitisation, this was a first experience in Russia. Center-invest Bank has successfully tested new solutions and was awarded the status of co-innovation partner, while the bank's experts have mastered modern techniques for managing innovation in the bank's information policy.

Center-invest Bank has managed to expand and modify the software it has integrated, made it compatible with new foreign and Russian applications, embarked on the path of continuous IT transformation, and organised training in SAP technology for employees of other companies and organisations at two universities in the region. Regular monitoring and implementation of new software and technical tools enabled the Bank to respond promptly to the challenges with import substitution.

The Bank's unique skills and competencies in working with industry partners have enabled it to become a laboratory for collaboration and implementation of breakthrough financial technologies in a number of areas.

A key success factor for digitalisation in a regional bank is the business model of mutually beneficial partnership (win-win principle) with customers, employees, partners, universities, the region and the government. When implementing new digital technologies, the partners appreciate the competitive advantages of a regional bank — agility, linear management structure, faster feedback in response to the changing external

conditions. As a result, abrupt changes in conditions are seen as opportunities. During COVID-19, the bank quickly digitalised remote services, while the year 2022 gave opportunity to ambitious domestic manufacturers.

The Bank's projects consistently win IT competitions.

The digitalisation of the operational procedures of the ESG banking business model has made it possible to assess opportunities more realistically, to transform slogans and appeals into specific algorithms and programmes for calculating planned and reported ESG indicators, to implement the concept of sovereign ESG banking, and to develop standard solutions for handling taxonomies of the green economy, social tasks, technological sovereignty.

To promote digital transformation in the region, the Bank provides financial support for IT projects, promotes talented students and lecturers, organises training and experience exchange events and participates in the development of statistics on digitalisation in the region. The most prominent examples include:

- Running educational programmes in collaboration with leading universities in the region (courses in back-end development, web development, front-end development).

- Mentorship at hackathons (minimum 5 regional competitions per year).

- Holding lectures, webinars, trainings.

- Organising internships for university students.

4.8. Transformation paths of regional banks

The standard evolutionary path of a regional bank is either organic regional expansion or M&A.

Entering new regions should not be based on the ambitions of a regional bank, but on the customer needs, strategies and the business climate in the region.

It is the social responsibility of the values-based regional banking model that will become the basis of the whole banking system in the future. Ultimately, ideas rule the world.

In today's world, the expansion of ideas and the absorption of innovations are more important than the movement of capital.

Modern information technologies are increasingly freeing the assets and resources of regional banks from regional ties. A truly innovative regional bank should be in public domain, recognised by going through the listing procedure on the stock exchange and financial marketplaces.

The sovereignty of a regional bank can only be maintained if the following principles of the “invincible company” are fulfilled:

- Continuous generating of the new projects while the markets commercialise the previous ones.
- Cultivating innovation and culture of introducing new things.
- Being able to see non-obvious perspectives.
- Overcoming stereotypes and modifying standards.

Regional banks are safety net in the banking system. Between crises, the potential of regional banks should be used as a regulatory sandpit not only for digital technologies but also for other regulatory solutions. This process is now independent of the regulator. A regional bank is becoming an informal benchmark for transforming the banking business model for the most socially responsible investors.

Many years ago...

The current employees and customers of Center-invest Bank have often heard from their relatives and friends how Center-invest Bank had helped them to solve the problems of everyday life and production in the region, in business and private life; they were eager to take part in the Bank's competitions and projects and dreamed of becoming employees or partners of Center-invest Bank.

These dreams have come true and been translated into successful work and the preservation of the sovereignty of the bank and its customers in all crisis situations, into a "success story" of solving global sustainable development challenges at the regional level.

Life brings new challenges and new risks. The Bank and its customers manage new risks, find new opportunities, achieve new successes and remain ready for new challenges. This approach benefits all stakeholders in regional, national and global markets.

4.9. ESG-materials

[Annual report of Center - invest Bank, 2022](#)

[ESG-report of Center - invest Bank, 2022](#)

[Agile digitalization of ESG-banking, 2021](#)

[ESG-banking in Russia. Research, 2021](#)

[Cossack lava as a method to achieve ESG goals, 2021](#)

[Practical recommendations of the banking community on the introduction of ESG-banking in Russia, 2021](#)

[Distance Economy Design Concept, 2020](#)

[Business Women Success Stories, 2016](#)

[Positive Economy Forum, 2015](#)

[Transformational banking: made in Russia, 2014](#)

[Start up Don, Start up!, 2012](#)

[Southern Russia versus global crisis, 2009](#)

[Investment appeal of the south of Russia, 2006](#)

