

**Dr. Vasily Vysokov**

# ESG BANKING: MADE IN RUSSIA



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*I have found out  
that I have a huge family:  
a path and a grove,  
every spikelet in the field,  
the wild animals, birds and beetles,  
ants and moths...  
everything that is close by me,  
it is all mine, native!  
How can I help  
but care about it,  
my native land!*

*Vladimir Orlov  
Kolobok Journal, 1987, No. 10*

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# INTRODUCTION

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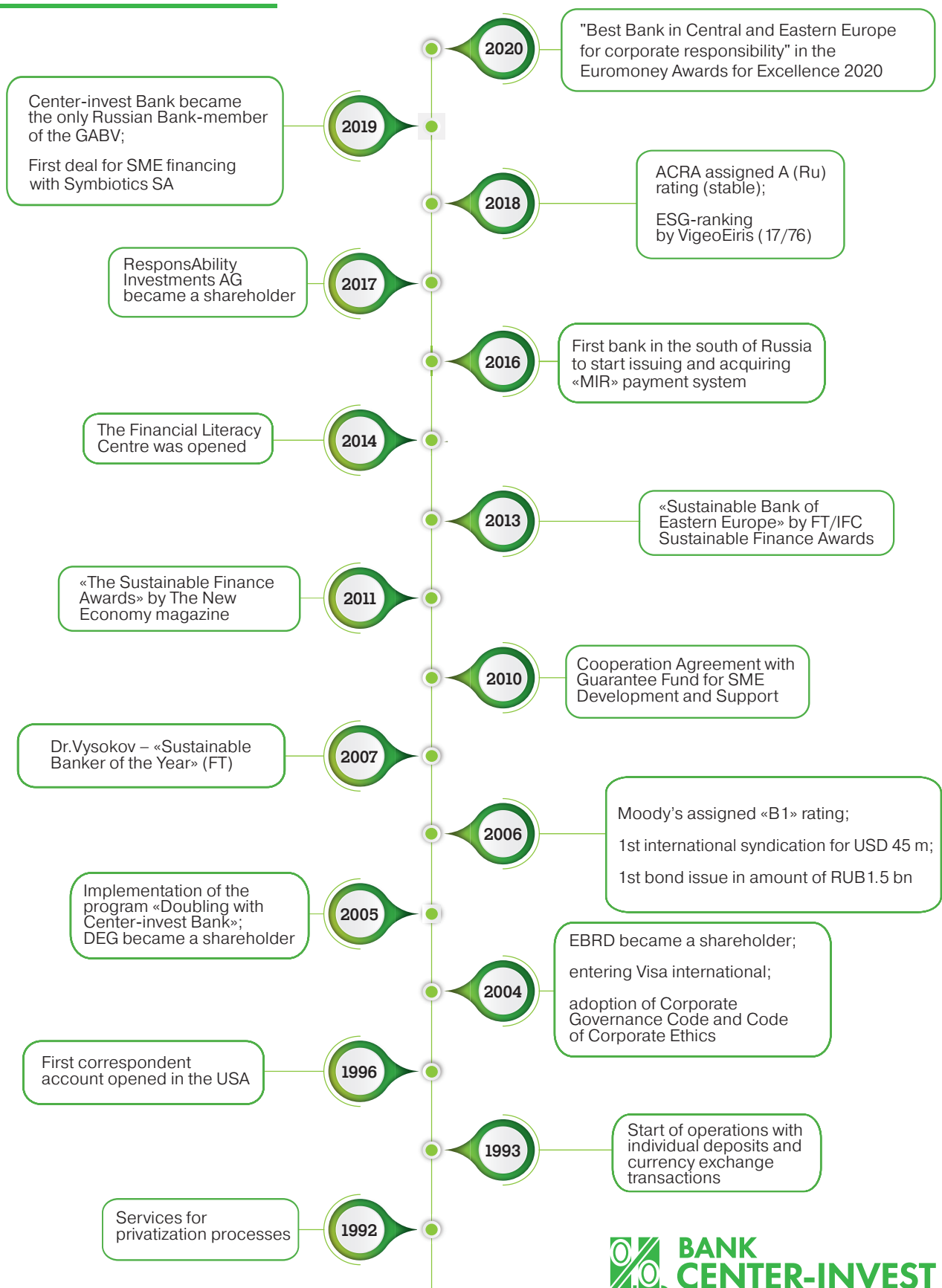
In May 2020, at the peak of the COVID-19 pandemic, the European Central Bank<sup>1</sup> and the Bank of Russia<sup>2</sup> published for consultation their plans for the regulation and supervision of ESG risks assumed by financial institutions. Prior to this, the Central Banks and Supervisors Network for Greening the Financial System had published a Sustainable and Responsible Investment Guide<sup>3</sup> for Central Banks' Portfolio Management.

In this book you will find a systematic review on the development of the modern banking with the focus on ESG banking and the experience of Center-invest Bank in solving the global problems through the prism of the local economy. This book can be a useful handbook for the bankers, managers, scientists, banking regulators and students for the deeper learning in the difficult, important and constantly transforming banking and financial activity.

I would like to take this opportunity to thank our shareholders and partners (IFC, EBRD, KfW, DEG, OeEB, FMO, BSTDB, EDB, Erste Group Bank AG, RLB Oo, responsAbility Investments AG and Symbiotics SA) for helping and supporting us in our work to promote modern approaches to banking and for their constructive discussion of ESG banking principles and practices.

Center-invest Bank is a regional bank, headquartered in Rostov-on-Don in southern Russia. Since its establishment in 1992 by southern Russia's first privatised enterprises, Center-invest Bank has been a "reform laboratory" for the localisation of best international practice.

# SUSTAINABLE DEVELOPMENT WAY



# ESG-TIMELINE TREE

Center-invest Bank (CIB) is the largest private regional bank in southern Russia with positive example of social responsible business based on ESG banking business model

**2019**

Bank hosted partners and investors on ESG-investors days

**2019**

Center-invest launched Russia's first green bank bonds on Moscow Exchange

**2019**

CIB became Signatory of the UN Principles for Responsible Banking

**2018**

CIB's new strategy 2019-2021 «ESG-digitalization of the Center-invest bank's ecosystem» was developed and launched. ESG-ranking by VigeoEiris (17/76)

**2014**

Internal Control Policy implementation. First Financial literacy center of CIB was opened

**2012**

CIB's success story exceeded 1,600 funded projects for the introduction of energyefficient technologies since 2005

**2013**

«Sustainable Bank of Eastern Europe» by FT/IFC Sustainable Awards

**2010**

The CIB's Environmental and Social Policy approved by Board of Directors. Jointly developed with the EBRD and IFC

**2007**

Information Policy implementation

**2004**

Implementation of first corporate rules and procedures. The CIB's Codes of Corporate Conduct and Ethics are taken together with EBRD and DEG

**2005**

CIB's first targeted loans program to increase energy efficiency

Banking strategy of CIB complies with:

- UN Sustainable Development Goals until 2030
- national development goals of the Russian Federation until 2024
- goals of the Bank of Russia development programs

# ESG BANKING AND ALTERNATIVES

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**ESG banking** implements Environmental, Social and Governance principles. In effect, it combines the many ideas about “green”, “ethical”, “responsible”, “sustainable” and “transformational” banking which complement each other<sup>4</sup> and have been developed as alternatives to speculative banking.

ESG banking is becoming increasingly popular: the assets of companies applying ESG principles exceed USD 80 trillion, and assets under management by ESG investment funds exceed USD 30 trillion. The number<sup>5</sup> of financial institutions applying ESG principles is growing, the infrastructure is being developed (special sections on stock exchanges, ratings agencies, consultants), and regulation and supervision are changing<sup>6</sup>. The new generation of customers prefer ESG banks, with their transparent sources of funding and positive social impact.

However, banking colleagues, even from very large international banks, often ask us to give specific examples to explain the advantages of ESG banking.

**1. Unlike speculative banking** which is concerned with buying and selling risks, ESG banking also manages risks. In a crisis, a speculative bank buys more expensive funding and passes the risks on to customers by increasing loan interest rates. In contrast, in a crisis an ESG bank will work together with customers to find ways to reduce risks. This means that the ESG bank can reduce loan interest rates, while its customers obtain competitive advantages and can repay their loans on time and in full.

The immediate profits of a speculative bank are based on the difference in risks volatility and on the hope that customers will not default. **An ESG bank takes all necessary measures so that customers do not default now or in the future, thereby avoiding loan losses due to customers defaults.**

## 2. The ESG banking business model considers a wider range of risks:

- Environmental risks (physical – accidents, natural disasters, climate change; and transformational – changes to legislation and standards);
- Social risks (inequalities based on income, gender, age and other characteristics, accessibility of new technologies and resources);
- Governance risks (transparency, efficiency, monitoring and reporting on the processes of reproduction of all types of capital – productive, financial, human, social, information, intellectual and natural).

**Each component of ESG risk management is important, and all the components are interconnected.** They are mutually reinforcing, and it is not sufficient neither efficient to focus on one component only, for example, on green finance.

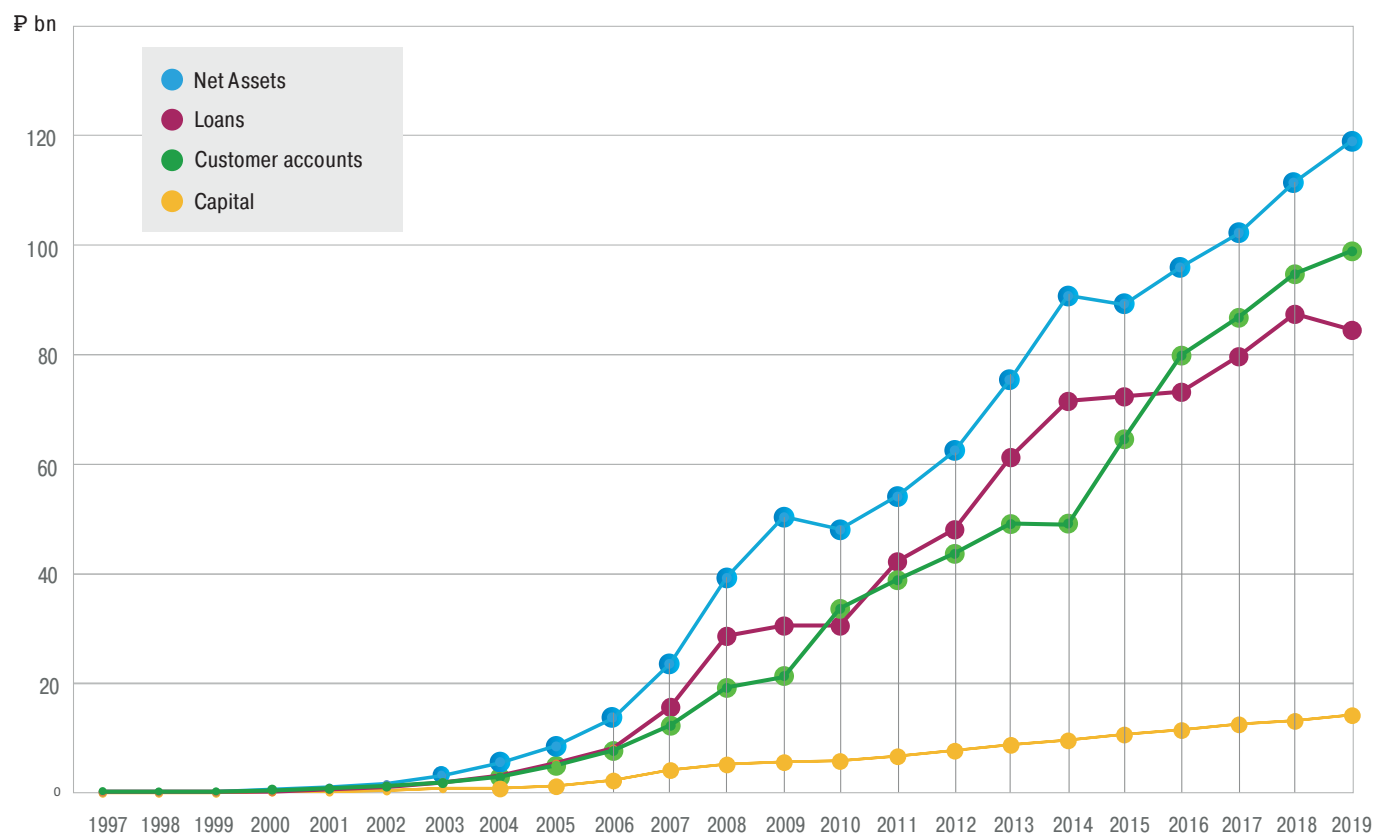


### 3. Ratings: financial and ESG

Banking colleagues believe that they have to make a difficult choice between ESG indicators and financial indicators. Of course, as with any vector optimisation task (“e.g. task of choosing a spouse”), there is no clear-cut solution for integrating ESG criteria (“intelligent – handsome”) into credit ratings (“healthy – rich”). The possible options: creating a unified scale, totalling ratings scores, creating models of the interplay between various ratings scales, and benchmarking – create the illusion that there is a correct choice, but it will always be subjective. **In ESG banking, credit and ESG ratings cannot contradict each other.**

Ratings based on financial indicators and ESG ratings are interconnected. This is confirmed by Center-invest Bank: its sustainable organic growth of the bank's financial indicators, its ratings from Moody's (Ba3, stable) and ACRA (A (ru) stable), which are high for a Russian bank, and its Vigeo Eiris ESG-ranking (17/76, Europe).

### Key financials as at 31.12 of each year



## 4. ESG banking as a standard

Center-invest Bank has chosen to evaluate its performance against the benchmark: CENTER-INVEST WAS, IS AND WILL BE THE BEST! We are implementing this model successfully – we continue to be a pilot project, benchmark, case study and success story for many innovations. It is important that we not only maintain this standard with respect to financial indicators and ESG criteria, but that we **use ESG approaches to gain competitive advantages for our financial indicators**.<sup>7</sup>



### In ranking of the largest Russian banks as at 01.01.2020:

<b>34</b>	Value of retail loan portfolio
<b>36</b>	Value of retail deposits
<b>43</b>	Value of corporate loan portfolio
<b>45</b>	Value of total loan portfolio
<b>52</b>	Value of total assets

<https://www.raexpert.ru/rankings/bank/monthly/jan2020>



### In ranking of largest mortgage banks as at 01.01.2020:

<b>17</b>	Value of mortgage loan portfolio
<b>19</b>	Value of issued mortgage loans

[https://raexpert.ru/rankings/bank/ipoteka\\_2019](https://raexpert.ru/rankings/bank/ipoteka_2019)



### In ranking of TOP-15 Russian banks for SMEs as at 01.01.2020:

<b>4</b>	Value of loan portfolio to individual entrepreneurs
<b>11</b>	Value of loan portfolio to small business
<b>14</b>	Value of total SME loan portfolio
<b>15</b>	Value of loan portfolio to medium enterprises

[https://www.raexpert.ru/researches/banks/msb\\_2019](https://www.raexpert.ru/researches/banks/msb_2019)



GLOBAL FINANCIAL INTELLIGENCE SINCE 1986

### TOP-50 Russian Banks by «The Banker»

<b>5</b>	Loans to Assets ratio
<b>20</b>	ROE
<b>23</b>	ROA
<b>28</b>	Profit
<b>29</b>	Cost/Income
<b>33</b>	CAR
<b>38</b>	Assets
<b>40</b>	Tier 1 Capital

<http://www.thebanker.com>

**5. Profit and social responsibility** This is another alternative, which bankers, businesses, and society all struggle with. The Friedman doctrine: “The social responsibility of business is to increase its profits”<sup>8</sup> has been criticised on various grounds. But the reality is:

- without profit there is no money to address social issues;
- profit cannot be obtained without meeting the constantly changing needs of society;
- “in pursuit of profit”, within the legal framework, businesses cannot avoid social expenditure that benefits society: paying salary to the staff, training staff, health and safety and environmental protection.

Moreover, in ESG banking, profit should be: long-term (reproduction of all types of capital: financial, productive, natural, intellectual, information, human and social), and resilient to risks (e.g. market, regulatory, criminal, anthropogenic and social).

**ESG banking finances real processes of transformation in its customers’ lives and businesses.** For many years now, Center-invest Bank has obtained 82% of its income from lending to the real economy and allocated its income to: the population (interest paid on deposits) – 36%; partners and suppliers – 23%; employees and the state – 19%; and shareholders (dividends and development) – 22%.

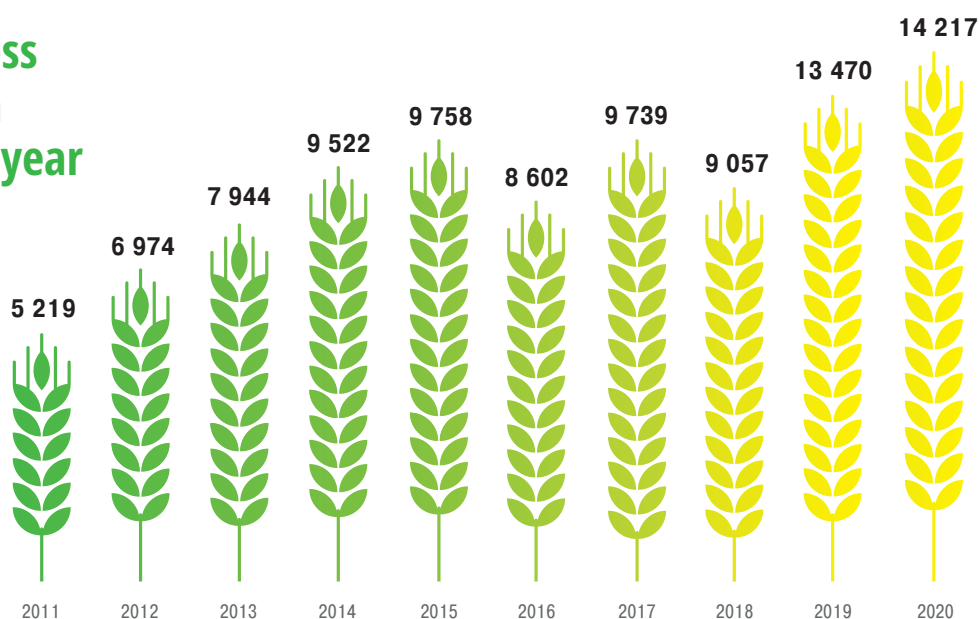


# ESG BANKING AND CREDIT RISKS

**6. Agribusiness** is considered a risky sector to lend to. Agribusiness lending accounts for 15% of the Center-invest bank's portfolio. In its ratings opinions, one of the reputable international rating agency has for many years noted that “Agribusiness is a risky sector, but Center-invest Bank is able to manage agribusiness risks effeciently.” It is true that if we focus only on the weather volatility, the risks of agribusiness lending are considerable. But if we consider as an aggregate: the more stable climate, the favourable natural environment and climatic conditions, the productive soil, and water resources, then the risks reduce. If you lend to agribusiness for a period of three years, two of those years might have poor harvests, resulting in losses for both customers and the bank. But over a five-year period, there will definitely be two good harvests, meaning that all loans can be repaid. **Using longer-term funding when lending to agribusiness not only reduces the risks of poor harvests, but also allows time for completing modernisation projects.** Center-invest Bank, together with its international partners and its customers, has supported the process of agricultural modernisation in southern Russia.<sup>9</sup> Thanks to the introduction of modern technologies in the years of reform (1990-2020), agribusiness has seen considerable changes. The table below uses the Rostov region as an example:

Product	Total yield	Productivity
Cereal crops and legumes	+29%	+7%
Sunflowers	+ 2.2-fold	+34%
Potatoes	+37%	+3.3-fold
Vegetables	+10%	+60%

## Value of Agribusiness loan portfolio, ₴ m as at 01.01 of each year



**7. SME business** is also considered a risky sector for lending. SMEs account for one third of Center-invest Bank's total loan portfolio. To reduce risks, **since 1997 the bank has provided entrepreneurs with non-financial services in addition to loans:** consulting, audit, outsourced bookkeeping, legal support and tax advice. The modest expenditure on this support reduces the risks of lending to small businesses that are operating legally.

The bank is a market leader for SME lending in Russia: we rank 4th for lending to individual entrepreneurs and 11th for lending to small business<sup>10</sup>

The bank's experience of working with SMEs has deservedly received international and national recognition<sup>11</sup>. Increasingly, banks are realising that lending to SMEs is not only responsible, but also attractive. SME customers allow banks to diversify risks and reduce risk concentration, and costs can be reduced by managing a portfolio of homogenous loans.

The “long-tailed” distribution of SME customers – it is a fairly sizeable market, it is first to embrace innovation, and it is always prepared for “black swans” events and business transformation. There are various groups within the small business sector: for each sector, ESG banking develops special products, reflecting the different lending risks.

**8. Women in business** Lending to female entrepreneurs promotes the principle of gender equality and benefits from their lower risk appetite<sup>12</sup>. As female entrepreneurs manage risks more carefully, we can lend to them at **lower rates**. At the same time, we can focus more on the quality of bank services and on establishing trusting relationships between the bank and its customers. We can also attract female mentors. In accordance with the best national traditions: “The secret of women's success in business is love.” There has not been one single default in the whole time that Center-invest bank has been lending to female entrepreneurs<sup>13</sup>

**9. Youth enterprise** is expected to implement the creative ideas of the next generation within the existing rules and the barriers to entrepreneurial activity. To support this, the bank provides training for new entrepreneurs, preferential terms for business bank accounts and loans, and **free advice and mentoring**<sup>14</sup>. The bank actively participates in sociological research into the challenges faced by young entrepreneurs<sup>15</sup>, and it implements projects together with university students.

**10. Social enterprise:** 1) addresses community needs in a given market on the basis of more effective approaches, cost-recovery and financial sustainability; 2) is scalable (“a good programme works even without the develop”); 3) effectively manages risks<sup>16</sup>

**Integrity is the best asset of a social entrepreneur**, while continual reproduction based on best international practice and collaboration with partners in the ecosystem is a brilliant strategy. The marketing strategy of social enterprises is to provide services for all, without being ostentatious, in contrast to philanthropy (targeted, discreet), sponsorship (targeted and brash) and show business (for everyone and brash).

**11. Innovative enterprise** is based on creative approaches and **should be an integral part of any entrepreneurial activity**<sup>17</sup>. A wide range of methods and approaches is used to generate creative solutions: “for” and “against”, type II error, SWOT analysis, zero-based budgeting, functional cost analysis, GAP analysis, benchmarking, portfolio analysis, market analysis, theory of inventive problem solving (TRIZ) and Agile.

Quite often, **entrepreneurs sell the interim outcomes of their creative approach: an idea, project, prototype or start-up**. The selection of interim stage and the method for attracting investment depends on the specific conditions on the innovation and investment markets.

## **12. Loans for business transformation**

In response to COVID- 19, government support for small business has been scaled up. Center-invest Bank is actively participating in the employment support programmes offering subsidised rates and preferential lending for specific economic sectors. In addition, recognising its responsibility for its customers' futures, the bank has produced a post-crisis development programme.<sup>18</sup> **In a distance economy, the future of business will depend not on government support, but on business transformation**, for which the bank has introduced transparent, preferential loan terms (one-year unsecured loan, 9.5% per annum, online application).<sup>19</sup>

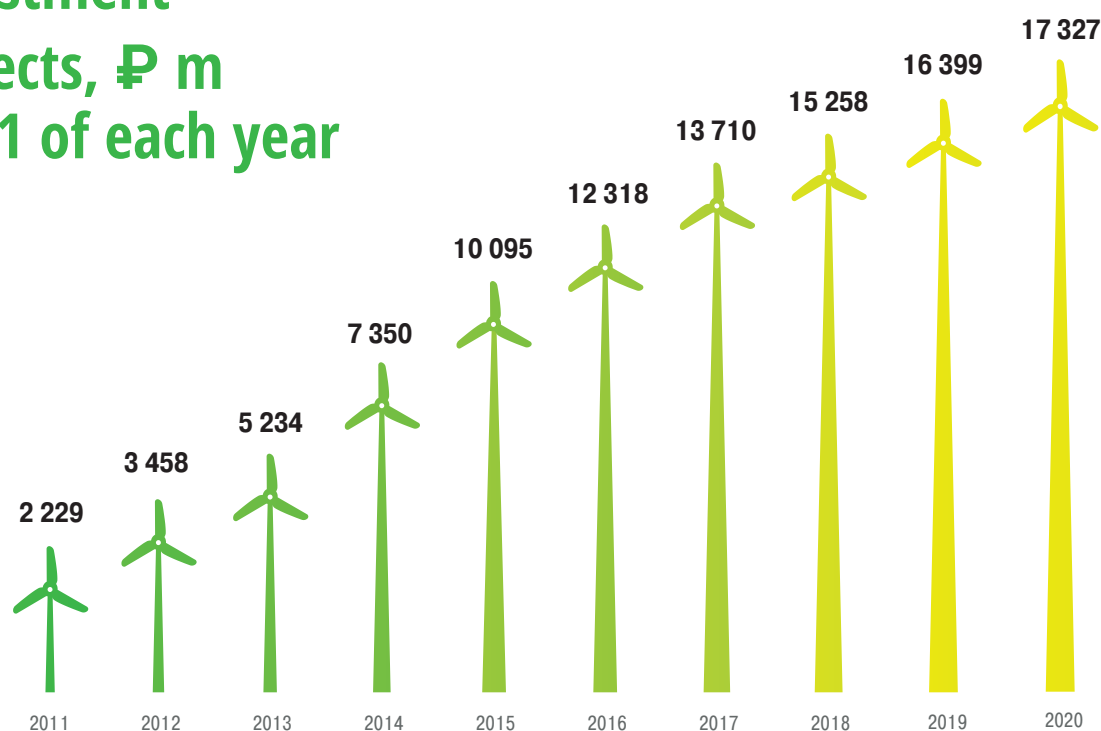
## Total investment in Special ESG loans as at 01.01.2020

Special ESG loans (programm start)	Number of projects	Value, RUB m
Business loans for women, 2012	746	1191
Youth enterprise, 2011	778	964
Social responsibility, 2017	54	142
Accelerator, 2018	9	12
Energy efficiency, 2005	22 214	17 327
Renovation of apartment buildings, 2009	167	276
Business transformation (Online loans*), 2019	30	50

\* Loan decisions are based on open source information.

**13. Energy efficiency** Modern energy efficient (EE) technologies reduce energy consumption and cut CO<sub>2</sub> emissions. With the regulation of energy tariffs, simply reducing energy consumption will not deliver rapid payback of project costs. A more detailed ESG risks analysis has shown that the **comprehensive introduction of new technologies allows not only saving energy resources, but also salary savings and other resources savings and reduces losses. This results in only 2-3-year payback period for replacing equipment.** When the bank conducts this analysis together with the customer, the customer chooses the energy efficient option. When they also learn how their project will reduce CO<sub>2</sub> emissions, they become a proponent of ESG principles.

## Total investment in EE projects, ₪ m as at 01.01 of each year



## 14. Financing the renovation of apartment buildings

Everyone needs public goods and services, but no one wants to pay for them. For the renovation of apartment buildings, the government proposes that residents save up money by making monthly contributions to a communal fund. But the best way to keep money for renovations is to take out a loan, do the renovation, and use the monthly contributions to pay back the loan. ESG banking has a simple solution: Center-invest Bank has made loans for the renovation of 167 apartment buildings, improving living conditions for 51 900 people<sup>20</sup>.

**15. Retail lending** comprises 62% of the bank's loan portfolio. Together with the interest paid on deposits, retail lending is another aspect to the social responsibility of ESG banking. Center-invest Bank's ESG retail lending focuses on traditional secured consumer loans, mortgages and car loans. **ESG banking finances the happiness of ordinary people.** It does not require customers to pay extra fees or take out loan protection insurance; the loan interest rates are attractive in a competitive market; and the decision-making process is quick and clear. All of these advantages allow the bank to maintain customer confidence and increase its customer numbers.

ESG risk management requires a bank to consider the specific characteristics of different groups of the population. Center-invest Bank offers over 20 different types of retail lending, including preferential loans under various government programmes.

Mortgage loans, which are the most popular and the least risky loan product, account for two thirds of the bank's retail loan portfolio. The bank helps customers to find the best option for purchasing a property, considering incentives under government programmes, the environmental conditions of different locations, and energy efficiency solutions for new homes. In particular, the bank actively participates in a government programme for rural mortgages.

Questions in the bank's online loan application form help the customer to independently assess the purposes and risks of the loan requested.



# ESG BANKING AND OPERATIONAL RISKS

## 16. The strategy and business plan of an ESG bank

Both documents are a mathematical model which describes business processes, factoring in all the regulatory requirements and risks. Although ESG risks are not included in the official regulatory list, drawing on international practice and the bank's own experience, **stress testing scenarios can be used to consider ESG risks (broken down by: customers, products, transactions, and decision-making processes) and their impact on regulatory compliance and financial indicators can be assessed.**

Unlike the business plan, the ESG strategy views the limits of the resources in a mathematical model not as predetermined, but as variables. This allows for a range of growth trajectories balanced in terms of assets and liabilities. Taking into account geopolitical, environmental and social factors, as well as oversight and supervisory practice, from among the balanced solutions, we select those that are realisable. As a result of this process, the strategy:

- is not a static document, but the starting point for practical work;
- is based not on trends, but on continual transformations;
- does not force us to change indicators and ratios, but rather the rules for their alteration.

The relationship between the rules plays a particularly important role in the selection of the next post-crisis growth trajectory.

## 17. ESG banking in the transformation economy

The transformation economy involves constant change amid continual crises. At a time of transformations, Center-invest Bank uses the ESG principles of an open information policy to explain to its customers, employees, partners and shareholders the real situation and the risks, the measures being taken, and the anticipated results. ESG principles are very much alike with the hard-won anti-crisis principles of the Don Cossacks:<sup>21</sup>

### **A CRISIS**

- **is the painful process of giving up the addiction to making lots of money, quickly and cheaply**
- **is not the first, nor will it be the last: it is just the latest one**
- **only exists for foolish people**
- **will be over as soon as you have your own post-crisis development programme**

**Even the deepest crisis is not universal.**

**Enough talk about the global crisis: we have enough foolishness of our own!**

**When you give an instruction, you should teach how to do it, supervise, and finally, do it yourself!**

**Anti-crisis principles  
of the Don Cossacks**

## 18. Risk and capital management

For Center-invest Bank, ESG banking risk management entails:

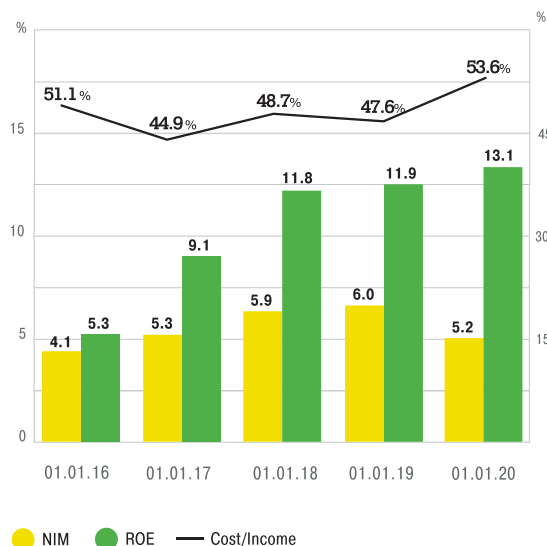
- balancing profitability, organic growth and risk;
- a focus on long-term profits;
- knowing the target markets and regional risks so as to avoid excessive risks;
- rejecting speculative transactions and prioritising growth in lending to the real economy;
- nurturing customers and actively managing risks on the basis of detailed analysis of borrowers' businesses;
- regularly re-assessing risks and covering risks with sufficient provisions and capital;
- minimising risks by diversifying sources of funding and prioritising lending to the local population and small business in the regions where the bank operates;
- continually improving the risk management system; combining formal and substantive risk assessment procedures; transparency of deals and transactions;
- stimulating demand for loan products by improving the financial literacy of the population and providing free business advice;
- reducing the level of defaults (fraudulent or due to social and economic factors) by using stimulatory interest rates;
- continuous innovation to tackle new challenges.

Implementation of our ESG risk management strategy is underpinned by Bank of Russia recommendations and requirements, Basel Committee recommendations, best international practice, shareholders' recommendations, the bank's 28 years' experience in managing regional risks, and the lessons drawn from the crises in 1998, 2008, 2014 and 2020...

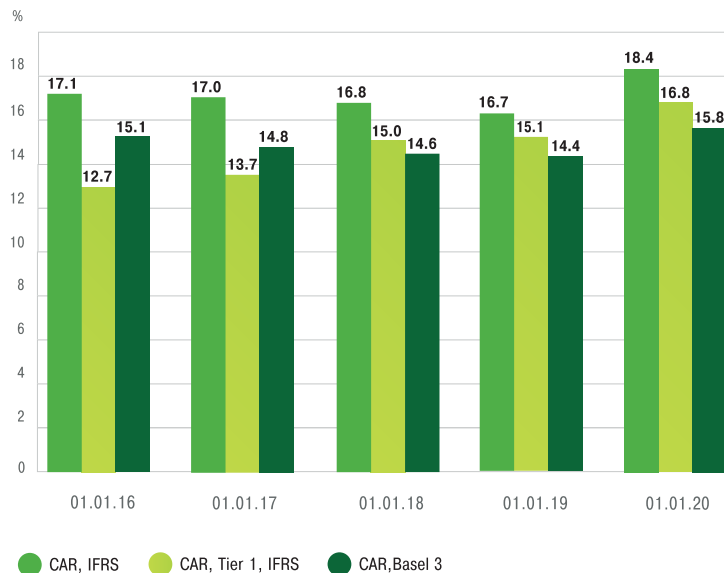
**ESG banking risk management is not a “product”, but a continuous process**, which takes into account changes in the operating environment, innovations in products and services, and regulatory requirements which are continually being updated.

## Operational efficiency

### Profitability



### Capital adequacy



## 19. ESG banking and the 3 “C” risks (corruption, competition and criminality)

As well as the Bank of Russia, other agencies are also involved in checking banks' operations. These include agencies responsible for natural disaster response, transport safety, occupational safety and health, IT security and many others. In 2019, inspectors from various bodies spent a total of 3,920 days at Center-invest Bank. The bank is obliged to comply with all the requirements specified in the inspection reports. Looking at the statistics from many years, we have produced **a model for the “artificial intelligence” of inspectors: 50% of inspections verify that the bank’s operations comply with applicable law; 20% make recommendations on business improvements and reducing risks; 15% make corrupt requests; 10% act on behalf of competitors; and 5% act on behalf of criminals.**<sup>22</sup> Many bankers and business people from other industries and other countries, and even the inspectors themselves, agree with this breakdown.

For ESG banking:

- It is important to comply with applicable legislation on all aspects of operational risks;
- It is even more important to implement recommendations that will reduce operational risks;
- When it comes to the 3 “C” risks, as a point of principle, there can be no compromises.

This refusal to compromise limits the scale of the business in the short term, but over time it benefits the business's reputation and is a competitive advantage. And even the impact of fake news on an ESG bank lessens over time. That said, this does require an effective communications policy based on ESG principles.

Advisory oversight not only reduces the risks of unlawful conduct during inspections, but also increases the scope for best practice recommendations to improve operational efficiency.

Given the absence of a legal and regulatory framework of the ESG banking, and that inspectors are yet to acquire even basic competency in this area, the direct inclusion of ESG banking issues in banking supervision would automatically increase the risks of corruption and criminality in inspections threefold. It would be more useful to monitor and replicate best ESG banking practices. Both the regulator and independent ratings agencies could fulfil these functions.

## 20. ESG banking and liquidity risk

An ESG bank's business model **intrinsically limits its speculative transactions**. Business plans, internal policies on liquidity risk management, and liquidity crisis management plans allow the bank to consider both ESG risks and also the conduct of employees in possible extreme situations, irrespective of whether they are caused by a natural disaster, social shocks or management mistakes.



## 21. ESG banking and market risks

In line with ESG principles, Center-invest Bank **does not take on currency or securities market risks**. The bank rarely provides foreign currency loans, and then only to customers who have stable foreign currency earnings. The bank does not gamble on the securities markets. This strict ESG position makes the bank straightforward, transparent and attractive for other market participants, who since the bank's establishment, have provided funding in excess of USD 1 billion and RUB 1 trillion. In November 2019 Center-invest Bank successfully listed the first issue of green bonds on the Moscow Exchange.

### CIB on financial markets

 <b>IFC</b> International Finance Corporation World Bank Group <b>2.9 bn</b> Subordinated loan SME, EE, Agriculture <b>2002-2014</b>	 <b>European Bank</b> for Reconstruction and Development <b>17.5 bn</b> SME, Agriculture, EE, Trade Finance <b>2002-2014</b>	<b>National City</b> <b>1.2 bn</b> Loan for retail lending development <b>2006</b>	 <b>Black Sea Trade &amp; Development Bank</b> <b>4.5 bn</b> Subordinated loan, SME <b>2007-2019</b>	<b>KfW</b> Bank aus Verantwortung <b>1.4 bn</b> SME <b>2008</b>	<b>KfW DEG</b> <b>19.2 bn</b> Subordinated loan, SME <b>2008-2009</b>	 <b>ERSTE</b> <b>6.4 bn</b> Senior loan <b>2008-2019</b>
<b>CeEB</b> <b>2.5 bn</b> SME, EE Agriculture <b>2009-2012</b>	 <b>Raiffeisen Landesbank</b> Oberösterreich <b>36 m</b> Trade Finance <b>2012</b>	<b>SME Bank</b> <b>700 m</b> SME <b>2012-2015</b>	 <b>Eurasian Development Bank</b> <b>1.5 bn</b> SME, EE Agriculture <b>2012-2018</b>	<b>responsAbility</b> <b>2.2 bn</b> Seniors, Subords <b>2013-2020</b>	 <b>INTERNATIONAL INVESTMENT BANK</b> <b>1.3 bn</b> EE <b>2014</b>	 <b>sympiotics</b> <b>611 m</b> SME <b>2019</b>

\*Amount in rubles at the exchange rate of the Bank of Russia on 01.04.2020

Given the structure of southern Russia's economy, market risks are secondary to the weather for future harvests. However, as noted above, long-term loans for agribusiness allow us to reduce the risks of poor harvests.

# ESG BANKING AND GOVERNANCE RISKS

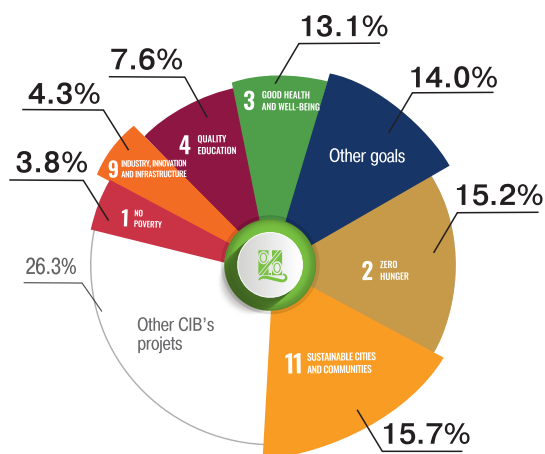
## 22. Profit and loss of ESG governance

In 2002, Center-invest Bank became IFC's partner for a pilot programme to introduce best practice of corporate governance in Russian banks. This project enabled us to eliminate ambiguities in corporate rules and procedures within the framework of applicable legislation, to optimise many procedures, improve the quality of governance, and gain competitive advantages, despite the costs of meeting the stricter requirements. Ultimately, the bank not only approved new rules and procedures – it **established a new corporate culture**.

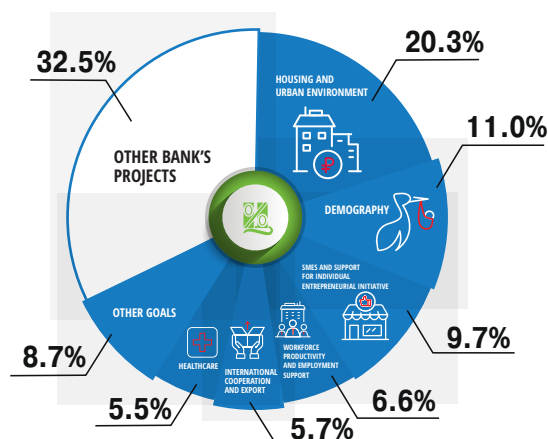
## 23. ESG reporting

Thanks to its transparent reporting under Russian and international standards, Center-invest Bank avoids the risks of unreliable reporting and is able to produce timely information about its participation in international programmes and national projects. The bank records the impact of its products on implementation of the United Nations Sustainable Development Goals and Russia's National Projects. It can readily inform its depositors about how their money, entrusted to the bank, is being used to achieve global and national goals.

For every ₹ 100 of deposits for SDGs:



For every ₹ 100 of deposits for National projects:



Equally, the bank informs its customers about the outcomes of energy efficiency lending, including reductions in CO<sub>2</sub> emissions. The bank also reports on its participation in government programmes to support small business and provide preferential mortgages for large families, young people and rural inhabitants.

By using integrated reporting rather than just financial reporting, the bank has been able to assess in a new light:

- the impact of the bank's income on the interests of other stakeholders: the local population, employees, shareholders, customers and partners;
- the bank's development as a process of reproducing operational, financial, information, intellectual, human and social capital.

Our independent financial ratings from Moody's (Ba3, stable) and ACRA (A (ru) stable), and our Vigeo Eiris ranking (17/76, Europe) have shown that an **ESG bank remains consistent within any frame of reference.**

## 24. Internal audit and compliance

Internal audit in ESG banking has to evaluate current operations for compliance with internal rules and regulations and **national laws, and also consider global trends in regulation.** In particular, regulators are increasingly paying attention to ESG banking. The bank's experience clearly shows that it is becoming a competitive advantage when working with customers, employees, partners, the regulator and shareholders to have a more advanced knowledge of best international practice. Center-invest Bank's international shareholders actively help to ensure that the bank is not only aligned with current trends, but also ready for future transformations.

## 25. ESG banking and personnel policy

Speculative banking uses headhunting. In contrast, Center-invest Bank nurtures potential employees. Every year, over 400 students are trained at the Financial Literacy Centres opened by the bank, in partnership with universities, in Rostov-on-Don, Krasnodar, Taganrog, Volgodonsk and Volgograd<sup>24</sup>. The best students are invited for work placements at the bank, and the best interns are offered a job with the bank. We also maintain contact with those students who go on to work for other companies. A speculative bank trains young employees solely for its own needs. **An ESG bank is glad that its professionals, who have benefited from its knowledge, are in demand in the employment market, including among headhunters.**

The bank uses various methods to nurture future employees and customers. For over ten years, the Endowment Fund for Education and Science in the Southern Federal District<sup>25</sup> has held a scholarship competition "Smart scholarship" for university students. To date, 20,000 of the region's top students have entered this competition.

Almost 50,000 people have completed our online training course in the basics of entrepreneurship.

The Financial Literacy Centres have:

- trained **2,150** volunteers to improve the financial literacy of the population;
- advised **304,000** people on managing their personal finances;
- helped **830** start-ups to get their business off the ground;
- organised **3,877** events;
- held the largest online financial literacy lesson for schoolchildren, in which **280** Russian schools participated.

Over **1,800** students participated in the “Me and the World in 2030” project.<sup>26</sup>

To promote modern banking technologies and ESG banking, the bank actively participates in educational seminars, hackathons, conferences and science festivals.

## 26. ESG self-assessment

Recent years have seen an increase in the phenomenon known as “greenwashing” (a play on the word “whitewash”). This is when a company uses “green” advertising to present itself and its products as environmentally friendly and socially oriented, when this does not correspond to its actual business practices. It is easy to spot greenwashing when there is a disconnect between management’s rhetoric and employees’ actions. Center-invest Bank conducted a blitz survey of over 300 of its employees. They were each asked to write a short essay about their vision and the extent of their involvement in work based on an ESG banking business model.

At Center-invest Bank, **ESG banking is RESPONSIBILITY and ACTIONS** in the following areas (the figures show the percentage of the essays containing these responses):

- Concern about the environment and the rational use of resources in the interests of future generations and long-term development (94%);
- A socially oriented business based on new values and mutually beneficial collaboration (win-win paradigm, no losers) (82%);
- Responsible governance and corporate culture (59%) in the interests of customers, partners and employees (48%);
- Financial sustainability and profitability based on risk management using international standards and resilience approaches (64%);
- Work satisfaction and involvement in global development processes and in the country and region’s development (93%);



- Competitive advantages based on reputation and investment appeal (48%);
- Innovative banking based on accessibility and digitalization of banking services (35%);
- ESG banking products and services (56%): loans for energy efficiency, SMEs, youth, women's and social enterprise, renovation of apartment buildings, agribusiness and retail customers;
- Accessibility of the bank's financial services (31%), thanks to socio-educational projects and non-financial services for customers.

It's important to emphasise that at Center-invest Bank all of the aforementioned components of ESG banking are closely interlinked; the correlation between them is over 67%. The majority view can be summarised as, "I am proud that working in the bank allows me as a professional to address global problems in my own region!"

The survey showed that our employees have a good understanding of ESG banking and that it is an important part of their practical work. Our staff training and development programmes include current issues in ESG banking.

## 27. ESG banking and gender policy

In accordance with Russian legislation, national traditions and established practice, all of the bank's employees have equal rights, equal conditions and equal opportunities for career growth. Our support and respect for motherhood is reflected in the fact that **the birth rate among our employees' families is four (!) times higher than the national average for Russia**. Every employee knows about their right (and obligation!) to address any question to any level of management and to receive a comprehensive answer. This is not only a right – it is the culture of reciprocity in an ESG bank.

## 28. ESG banking and communications policy

ESG banking requires **regular communication with all stakeholders** (regulators, shareholders, employees, customers and partners) not only about official reporting and positive events, but also about risks. There are more positives in the work of an ESG bank, but even this information must be presented to each of the stakeholders in an accessible and clear format, using specific messaging, slogans and catchphrases for each group.

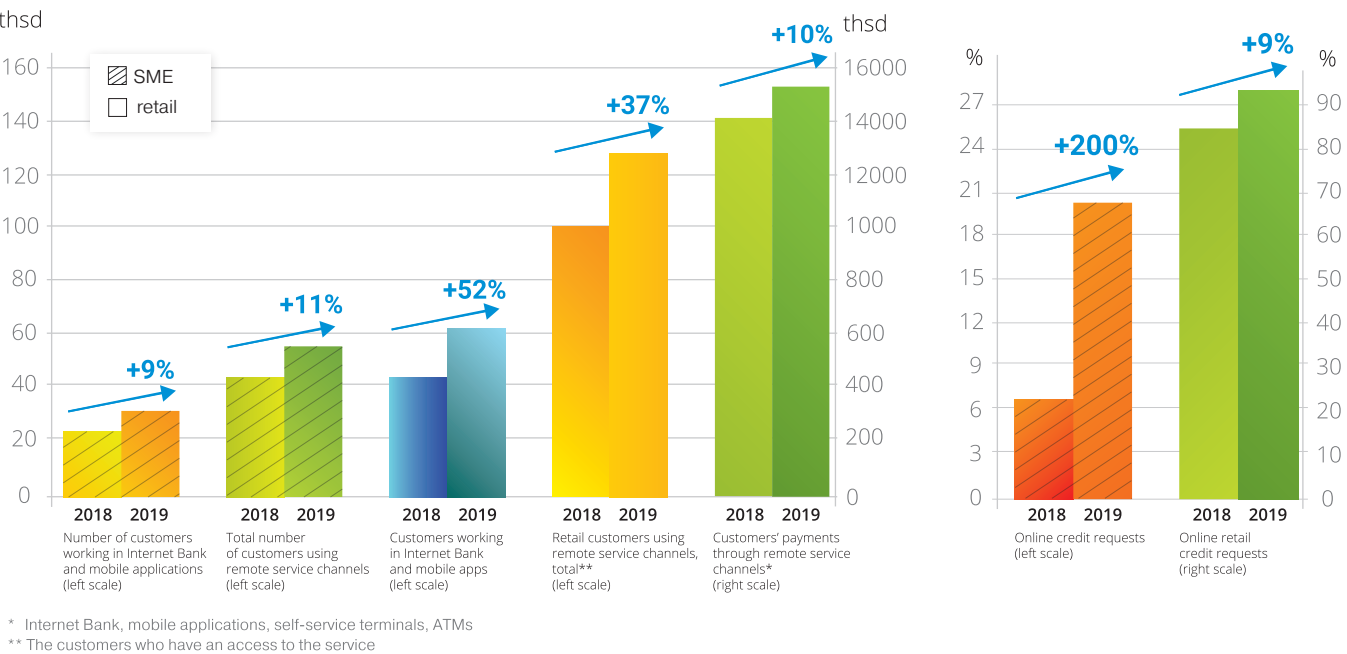
**29. ESG-digitalization** It is first of all a moral choice between risks and efficiency when using modern financial and digital technologies to support the long-term development of the bank and its customers through the creative use of quantitative assessments and continuous innovations.

First and foremost, **ESG banking ensures data protection and safe payments when introducing any new technology.** To rapidly introduce new digital technologies, an ESG bank will actively collaborate with market leaders as a co-innovation partner. Big data integration and processing is used to create an electronic profile of customers and to automate product and service management.

Large companies working to introduce new information technologies greatly value Center-invest Bank as an innovation partner with whom they can test new ESG-digitalization solutions and assess their effectiveness, accessibility and security.

Center-invest Bank actively collaborates with the Bank of Russia and government bodies in the following areas: the introduction of new payment technologies based on the “MIR” National Payment System, integration with the services of local government multifunctional centres, automation of reporting, and electronic exchange of information. The bank is introducing online technologies for working with customers and marketplaces.

### ESG-Digitalization



## 30. ESG banking in the ESG market

In 2017 the Swiss fund responsAbility Investments AG became a shareholder in Center-invest Bank. When the Swiss bankers were asked what had attracted them to a Russian regional bank, they explained candidly that their stated investment policy is to invest only in small business, agribusiness and energy efficiency projects, and Center-invest Bank has all of these “rolled into one”.

The participation of an ESG shareholder required public disclosure of the provisions of our dividend policy on payment of 50% of net profits in dividends, while meeting regulatory requirements.

Center-invest Bank is:

- a member of the Global Alliance for Banking on Values (GABV)<sup>27</sup>, which brings together 63 banks from around the world, whose aim is to use finance to deliver sustainable economic, social and environmental development;
- a signatory to the Principles of Responsible Banking of the United Nations Environment Programme Finance Initiative (UNEP FI)<sup>28</sup>, bringing together more than 290 financial market participants.

The bank maintains relationship with and regularly informs participants of the ESG investment market about its work<sup>29</sup>.

# ESG BANKING: REGULATORS' EXPERIENCE, EXPECTATIONS AND QUESTIONS

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## 31. The experience of the Central Banks that set up the Network for

Greening the Financial System (NGFS)<sup>30</sup> has shown that the majority (60%) of banks do not limit themselves to climate issues, but take a broader approach based on ESG principles. In practice, regulators use five main strategies when considering where to invest their assets<sup>31</sup>:

- negative screening (restrictions on companies, sectors and countries);
- positive screening (investment in the best companies applying ESG principles);
- integrating ESG criteria and traditional financial analysis when forming an investment portfolio;
- impact investment (special standards for investments in green and social bonds);
- voting on the basis of ESG principles when central banks are represented in companies' governing bodies.

Most often, central banks use positive screening and criteria integration.

## 32. Expectations of the European Central Bank

To assess differences in opinion about the application of ESG principles, the European Central Bank (ECB) has published for consultation a Guide on Climate-Related and Environmental Risks<sup>32</sup>. It takes the form of a list of supervisory expectations relating to the management and disclosure of climate risks by financial market participants.

Financial institutions already report on their corporate social responsibility efforts, but they are yet to develop a comprehensive approach to managing climate risks and capturing these risks in their balance sheets. Only a limited number of banks have sustainable development strategies, use stress-testing and scenario analysis, are actively participating in work to develop methodologies and obtain the necessary data, and even set lending limits based on environmental criteria. Climate-related risks are usually integrated into existing risk categories (credit risk, business/strategic risk or operational/reputational risk). Disclosure of climate-related and environmental risks remains infrequent and heterogenous. The recommendations are not yet binding. Therefore, the summarised recommendations below are presented as “expectations”.

**1) Business environment** Financial institutions will consider the impact of climate-related and environmental risks on the business environment and this impact will be documented and reflected in the decisions of management bodies.

**2) The business strategy** will take account of climate-related and environmental risks and use historical data, forecasts and expert assessments of impact on portfolio indicators (CO<sub>2</sub> emissions, energy efficiency in mortgages and housing renovations, projects based on issuing green bonds).

**3) Procedures and management bodies** will assign roles and responsibilities relating to the inclusion of climate-related and environmental risks in the business strategy for each sector and product, and to the proper oversight and monitoring of key performance indicators and risks.

**4) Risk appetite** related to climate and the environment will be reflected in indicators and regularly reviewed on the basis of the International Energy Agency's scenarios and sector forecasts. Remuneration policy and practices will stimulate behaviour consistent with the risks assumed.

**5) The organisational structure** for the management of climate and environmental risks will be documented in governance documents, assigning responsibilities, authority and functions, in accordance with the three lines of defence (operational management, risk management and compliance, internal audit).

**6) Reporting** will provide aggregated data about risks, including climate-related and environmental risks, for decision-making. The system for managing data, identifying, measuring and monitoring risks will enable assessment of risks and risk appetite. For this purpose, market participants will adapt their IT systems, business models, strategies and profile to reflect climate-related and environmental risks.

**7) The risk management framework** will incorporate climate-related and environmental risks so that these risks can be identified and quantified within the overall process of ensuring capital adequacy (ICAAP)<sup>33</sup> using risk mapping, scenario analysis and stress-testing, based on an institution's own experience and on publications and standards for sectors, government bodies, companies or real estate, for borrowers, customers and partners, and based on ESG ratings, and will provide appropriate overviews.

**8) Credit risk management** will consider climate-related and environmental risks at all stages of the lending process, in terms of sectors and regions, risk classification, collateral valuation factoring in default risk, analysis and assessment of portfolio concentrations, exposure limits, borrowing strategies, scenario analysis and / or stress testing.

Loan pricing will reflect the various risks and costs resulting from climate and environmental risks through various cost drivers (cost of capital, green (covered) bonds, funding or credit risk).

**9) Operational risk management** will consider the impact of climate and environment on business continuity, reputational risks and/or risks to timely disaster recovery of physical assets, including IT-systems, considering the geographical location of the financial institution, its partners and service suppliers and their impact on reputation.

**10) Market risk management** will entail stress testing to assess the impact of climate-related and environmental factors on current market positions and future investments for foreign exchange, commodities, and financial instruments.

**11) Scenario analysis and stress testing** will include climate and environmental risks (physical risks and transition risks), taking into account historical data and expert assessments for a time horizon of at least three years.

**12) Liquidity risk management** will assess whether the impact of climate and environmental risks could cause cash outflows or depletion of liquidity buffers.

**13) Disclosure policies and procedures** will require the publication of meaningful information and key metrics on climate-related and environmental risks, as a minimum, in line with the European Commission's Guidelines on non-financial reporting (non-financial reporting Directive - NFRD)<sup>34</sup>. The financial institutions will themselves determine the materiality of climate-related and environmental risks, as well as the frequency and means of disclosures. In addition to figures, metrics and targets, the methodologies, definitions and criteria associated with them should be disclosed or referenced. One such methodology is the recommendations of the Task Force on Climate-Related Disclosures (TCFD)<sup>35</sup>:

- **Management** (principles, oversight and management's role in assessing and managing climate risks and opportunities);
- **Strategies** (impact on business, strategy, planning);
- **Risk management** (processes for identifying, assessing and managing climate-related risks are integrated into the overall risk management system);
- **Indicators and targets** to assess the opportunities and purposes of climate risk management.

**Longer time is required to develop methodologies and instruments for disclosure of climate-related and environmental risks.** After discussion and final publication of the Guide, it will be applied by the ECB in its work with systemically important banks. National regulators will use the Guide for their work with smaller banks.

### 33. Questions from the Bank of Russia

The Bank of Russia, in its consultation paper “Impact of Climate Risks and the Sustainable Development of the Financial Sector of the Russian Federation”<sup>36</sup> has presented an overview of the existing international and national legislation, regulations and guidance that should be taken into account when assessing the impact of climate risks on the operations of banks and insurance companies. To determine the next steps, the Russian regulator has put together a fairly large list of questions for market participants. The intention is that the responses will be used to gain an initial understanding of how Russian market participants are taking account of climate risks in their work. In particular, the regulator wants to know to what extent participants systematically take account of climate risks and reflect these risks in business strategies and organisational structures, and also the reactions of their customers and partners. The question about the competency of the staff carrying out this work in banks and insurance and investment companies is very relevant.

Also of interest are the questions about quantitative risk assessment methods and the impact of risks on investment portfolios, assets and liabilities management and product structure. The central bank wants to ascertain the market's stance on the status of regulatory requirements (recommendations, standards, laws) concerning climate risk assessment and disclosure, and whether a risk office for natural disasters is required.

In light of the first steps in the Russian market for green and catastrophe bonds, the regulator is interested in participants' views on stimulating this market and on the creation of a working group for technical support and sharing of experience with regard to regulating climate risks and developing green finance.

The Bank of Russia's first publication of this consultation paper on the impact of climate risks provides **a good basis for the sharing of experience and for the regulator and market participants to establish their positions.**

Ahead of receiving feedback from the banks, Bank of Russia has sent to the market participants an informational letter with the Recommendations on implementation of the principles of sustainable investment. However, these are general recommendations and they are still voluntary.

# ESG BANKING IN THE GLOBAL ECONOMY

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## 34. ESG infrastructure

Internationally, many initiatives relating to the environment, social development, best practice corporate governance and human rights are gaining ground. These include: the Positive Impact Finance Initiative, the Sustainable Development Goals, and the UN Global Compact<sup>37</sup>.

Corporate reporting on voluntary observance of ESG principles is increasing (ISO 14097, ISO 26000 and GRI Standards)<sup>38</sup> and guidelines on the corporate social responsibility of businesses in Russia have been adopted (Social Charter of Russian Business, the Code of Business Ethics of the Russian Chamber of Commerce and Industry).

We now have ratings agencies which compile ratings based on non-financial reporting so that the sustainability of corporations and financial institutions can be assessed. These include: MSCI, ISS Oekom, Sustainalytics, RobecoSam, Vigeo Eiris, Ethifinance and RAEX. The leading international ratings agencies (S&P, Fitch and Moody's) include ESG issues in their assessments.

Almost all international stock exchanges have set up sustainability sectors. The London Stock Exchange has published Guidance on ESG Reporting<sup>39</sup>. Equivalent documents have been adopted in China and Brazil. The Moscow Exchange set up a sustainability sector in 2019<sup>40</sup>. Center-invest Bank was the first issuer to place green bonds in this sector<sup>41</sup>.

The gap between political declarations and current legislation requires banks to decide for themselves the extent of their engagement with the ESG agenda and whether to include ESG principles in their business model.

## 35. GABV

In February 2019 Center-invest Bank became a member of the Global Alliance for Banking on Values (GABV). Established in 2009, GABV comprises 63 banks from countries across Asia, Africa, Australia, Latin America, North America and Europe. Collectively, these banks serve more than 70 million customers, have over USD 210 billion in assets, and are supported by more than 77,000 co-workers.



The banks that belong to GABV are implementing ESG banking business models based on the 5+1 Principles:<sup>42</sup>

1. Social and environmental impact and sustainability.
  2. Grounded in communities, serving the real economy, and enabling new business models to meet the needs of people.
  3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved.
  4. Long-term, self-sustaining, and resilient to outside disruptions.
  5. Transparent and inclusive governance.
- + All of these principles are embedded in the leadership and the culture of the member financial institution.

In recent years, GABV has evolved from being an incubator of ideals, concepts, initiatives, connections and partnerships into a generator of sectoral and systemic positions, collaborations, operational alliances, and policy influencers. Unique research conducted by GABV<sup>43</sup> demonstrates very convincingly the **global competitiveness of banks with ESG banking business models** compared to large, systemically important banks, especially during global crises.

## 36. The Principles for Responsible Banking

This new initiative under the aegis of the United Nations (UNEP FI)<sup>44</sup> aims to engage banks in addressing challenges relating to environmental and social responsibility and implementation of the Sustainable Development Goals, the Paris Climate Agreement and equivalent national and regional initiatives.

The signatories to the Principles (over 180 banks) commit to the following:

- 1. Alignment.** We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.
- 2. Impact & Target Setting.** We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

**3. Clients & Customers.** We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

**4. Stakeholders.** We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

**5. Governance & Culture.** We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

**6. Transparency & Accountability.** We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

The UNEP FI undertakes to share the experience of banks and promote best practice.

## 37. Localisation of ESG banking

Center-invest Bank is primed to replicate its experience of applying ESG banking principles and also to use the best practices of other signatories to the Principles of Responsible Banking:

- The bank has adopted all the necessary documentation to implement ESG principles;
- The goals and indicators for our social programmes and our programmes to support small business, agribusiness and energy efficiency are included in our Strategy and business plans;
- Our customers and suppliers, depositors and borrowers actively support the bank's ESG work and they are building their own businesses on the basis of responsible principles;
- The bank actively works with its customers, government bodies, public associations and professional associations to promote ESG principles;
- Center-invest Bank's many years' experience in applying Russian and international standards and its considered personnel policy have created a management culture conducive to continuous innovation amid constant challenges. This allows us to be "at the forefront of trends and in a state of permanent full combat readiness";
- Inspections by various bodies, lasting a total of almost 4,000 days a year, confirm the bank's high level of transparency and accountability.

Many challenges on global markets sometimes have simpler solutions at the local level. Therefore, **as recognised by our international partners, by introducing international best practice, Center-invest Bank has itself become an example of best practice in the localisation of global experience** in new business models, technologies and products.

## 38. ESG trends in Russia

In the Russian Federation a fairly wide range of organisations are involved in promoting ESG principles. The bank actively engages in partnerships. The **Russian Union of Industrialists and Entrepreneurs (rspp.ru)** verifies companies' publicly available non-financial reports. It maintains a register of reports, produces analysis of non-financial reporting, and index funds use its sustainability indices. On the suggestion of Center-invest Bank, the **Association of Banks of Russia (asros.ru)** has included in its Main Areas of Activity for 2020-2022 a section on "Risk management, financial sustainability of the banking system and ESG banking". The Russian Federation has published a **Voluntary National Review of Progress in Implementing the Sustainability Agenda for the Period to 2030**,<sup>45</sup> to which Center-invest Bank experts contributed. A Shadow Report on Implementation of the Sustainable Development Goals in Russia has also been produced.<sup>46</sup> The **Accounts Chamber of the Russian Federation** has published a bulletin "Sustainable Development Goals"<sup>47</sup> which references the first regional overview, "The Rostov Region – Progress Towards Achieving the Sustainable Development Goals".<sup>48</sup> This regional report was produced on the initiative of Center-invest Bank and with its support, and it confirmed southern Russia's competitive advantages in tackling global challenges. The ESG finance working group of the Bank of Russia's Expert Council on Long-Term Investments has produced a **Framework for establishing in Russia a methodological system to develop green financial instruments and responsible investing projects**.<sup>49</sup> Center-invest Bank is actively involved with the work of the Expert Council and also with that of the Russian State Duma working group responsible for the legislative and regulatory framework to support the creation of a standardisation and verification system for green financial instruments.

As a regional bank applying ESG principles, Center-invest Bank sets the standard for federal banks.

The bank actively participates in national and international events to promote ESG banking. In 2019, at the FINOPOLIS forum of innovative financial technologies, The Bank had a stand showcasing ESG digitalization. The Bank were an official partner for the forum's FINODAYS Youth Programme, and we also held a series of masterclasses.



The bank is actively involved in events held by the independent European ratings agency, **Rating-Agentur Expert RA GmbH (RAEX-Europe)** to promote ESG ratings.

### 39. ESG banking against COVID-19

The COVID-19 pandemic is a typical “black swan” event – an unexpected phenomenon of large magnitude, with catastrophic consequences. These are exactly the kind of risks that banks applying ESG principles should consider. Even before the Russian government announced official measures, we had asked our shareholders to inform us about the measures being taken in other countries and by other banks. This timely information and the analysis of the different experiences meant we could plan, prioritise and implement appropriate measures. These included:

- **for retail customers:** enhanced contact centre service, 24/7 response on social networks, remote services, fees scrapped, free delivery of bank cards to customers aged over 65, preferential mortgage rates;
- **for businesses:** loan repayment holidays, interest-free loans to pay salaries, loans for business recovery and transformation (the bank's own loan programmes and government-subsidised programmes);
- **for staff and customers:** hygiene and infection control measures, two thirds of employees transferred to remote working, corporate transfer for employees;
- **for shareholders:** regular updates on the financial situation, monitoring of measures taken by government authorities.

Our response has been highlighted as an example of best practice among signatories to the Principles of Responsible Banking<sup>50</sup>.

Center-invest Bank has participated in all the government programmes to support businesses and households, and it has also offered its own programmes. The ideas put forward in the publication “Design Concept for the Distance Economy”<sup>51</sup>; produced together with postgraduates from Rostov State Economics University<sup>52</sup>; will be important to the accelerated post-crisis recovery of our customers' businesses. This publication was presented at the ASECU international academic conference<sup>53</sup>.

On the basis of the new understanding of the future, the bank:

- surveyed customers about their business transformation plans<sup>54</sup>;
- held an online marathon “Time of Transformations” for entrepreneurs, government bodies and business associations (Rostov-on-Don, Krasnodar, Stavropol, Nizhny Novgorod, Moscow and London)<sup>55</sup>;
- produced a series of publications, the “Start-ups Parade”, about new entrepreneurs<sup>56</sup>;
- participated in a study about youth entrepreneurship<sup>57</sup>;
- arranged a television interview on southern Russia's development post COVID-19<sup>58</sup>;
- offered customers a new “Business Transformation” loan product<sup>59</sup>;
- arranged a series of publications in the media on ESG banking amid COVID-19<sup>60</sup>.

During the pandemic, our employees have appeared in the media, and they have been actively participating in webinars and videoconferences. The bank's call centre has handled 500,000 customer calls.

All of these measures to manage the risks of the pandemic have enabled the bank to confidently navigate the peak of the crisis and proceed with helping its customers to transform their businesses in a distance economy.



# ESG BANKING: CHALLENGES TO FUTURE DEVELOPMENT

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## 40. Methodology

Attempts to make ESG banking fit into a procrustean bed of indicators, methods and procedures cannot be solved with pure strategies, to use the language of mathematicians. A more appropriate task would be to study the practical experience of people who actually apply ESG banking principles and to gather examples of best practice for its subsequent replication and the establishment of an ESG culture among market participants, regulators, academics and broad sectors of society.

## 41. Economic policy

Addressing the challenges of reducing environmental, social and governance risks lies beyond the bounds of pure banking. It requires the implementation of political decisions on economic restructuring, the introduction of new approaches, and the redistribution of public money. As with any transformation, such decisions affect the interests of the very people whose job it is to put these decisions into practice. So there is a great desire to shift these decisions on to banks. Banks have limited resources and also limited scope to finance such large-scale transformations. Therefore, banks must have an open dialogue and inform society.

## 42. Science and technology policy

Science dictates the laws of the conservation of energy and mass. Likewise, the ecological, social development and corporate governance problems will eventually be solved after gaining new knowledge and technological innovations. The social aspect of the innovations is not only that it exacerbates the well-known problem of income inequality, but it also causes a new range of conflicts between the innovative ideas and existing stereotypes.

## 43. Promoting ESG banking

Everyone loves money. No one loves bankers, since the work of bank reflects, as a mirror, the problems of society. Banking today is a much more regulated and much more responsible sector of the economy, and in terms of modern digital technologies, it is fairly advanced. ESG banking can and should use all of these qualities to promote environmental, social and governance principles, not only for its customers, but also in the work of government bodies, banking supervision and regulatory authorities, as well as in the life of the community.

# LINKS

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