

# ESG investments



30 years of Center-invest Bank's successful work, have proved the viability and efficiency of business model based on ESG principles for sustainable development of southern Russia in the environment of any transformations.

ESG banking is not an addition or alternative to existing banking practices, but a global trend that is gaining popularity among politicians, regulators, investors, customers, management and bank employees. In the interests of current and future generations, ESG banking considers a wider range of risks (environmental, social and governance) and expands the decision-making time horizon. While this approach requires expenditure, it enables a bank to examine a wider variety of options and instruments, and to adapt more quickly to constant change amid continual crises.

In 2020, Center-invest Bank won the category Best Bank in Central and Eastern Europe for corporate responsibility in the Euromoney Awards for Excellence 2020. The Bank was selected for its transparent reporting in accordance with Russian and international standards, environmental and social responsibility, and successful localization of the ESG banking business model.



Thanks to the best international practice and accumulated experience, the Bank uses integrated reporting and considers its development as a process of reproducing operational, financial, information, intellectual, human and social capital, taking into account its impact on the environment, society and governance. In ESG principles, it is important to assess the impact on society, ecology and ecosystem development.

# ESG<sup>1</sup> – balance of Center-invest Bank

Among the various ESG taxonomies, the Sustainable Development Goals (SDG)<sup>2</sup> indicators are the most popular, consistent, and regularly used globally<sup>3</sup>, nationally<sup>4</sup> and regionally<sup>5</sup>. It allows to use the SDG indicators for compiling bank statements in SDG metrics.

Center-invest Bank is successfully implementing the ESG banking business model<sup>6</sup> and is actively involved in promoting ESG banking in Russia<sup>7</sup>.

Based on methods of analysis and automated data processing, Center-invest Bank has developed an innovative methodology for assessing the balance sheet, loan portfolio, customer payments in metrics of SDGs and Russia's National Projects.

Taking into account the national system of SDGs indicators<sup>8</sup>, the portfolio of loans for individuals and legal entities, the Environmental and Social Policy<sup>9</sup>, the Procedure and Principles for the placement of funds raised within the framework of "green" bonds issue, a reference book was formed on the correspondence of lending objectives and SDG indicators. When diagnosing compliance, positive screening was used to unequivocally assign loans to the SDGs and negative screening for loans that cannot be included in the SDGs classification.

The main part of the Bank's borrowers are small and medium-sized businesses and the population.

1. The classification of loans to legal entities was carried out on the basis of the OKVED<sup>10</sup> of the borrower and the compliance of the type of activity with specific SDGs. Since not the entire loan amount was used by borrowers for specific SDGs, a discount was applied - a coefficient that reduced the allocation of funds to SDGs. Testing the proposed approach from the beginning of 2020 made it possible to automate the process of identifying loan goals and SDGs. If the loan was simultaneously aimed at achieving several SDGs, the SDG directions were automatically normalized to avoid double counting.

2. The classification of loans to individuals has been carried out since the beginning of 2020 on the basis of the analysis of lending purposes (treatment, education, ...), analysis of the borrower (income, gender, age, marital status, presence of children), as well as analysis of the type and amount of loans, taking into account the negative screening (1/3 of all credits).

3. The payments of legal entities were allocated according to the SDGs taking into account:

- negative screening for non-SDGs activities;
- positive screening for activities that are clearly related to the SDGs based on the purpose of payment (payment of taxes, charity, payment of medical protection funds) or OKVED of the payee refers to the SDGs (for example, educational and medical institutions).

4. The payments of individuals (by cards or in self-service terminals) were allocated to the SDGs when paying for goods from the consumer basket (with additions and restrictions). The consumer basket has always been the main criterion for calculating the minimum wage, i.e. determined the level of poverty and was a benchmark for the distribution of social transfers. For all types of goods and services the following approaches were used:

- negative screening and limits for attributing payment to SDG2 (zero hunger), SDG3 (good health and well-being), SDG1 (no poverty), SDG9 (industry, innovation and infrastructure), SDG4 (quality education);
- Merchant Category Code<sup>11</sup>, which helps to distinguish retail outlets that are definitely related to the SDGs (for example, medical centers);
- product category code based on the analysis of outlets' receipts, where the MCC code does not provide an unambiguous classification of the SDGs (for example, universal hypermarkets).
- by the purpose of payment, when payment is made at cash desks and self-service terminals, based on approaches similar to those of legal entities;

<sup>1</sup> ESG (Environmental, Social and Governance)

<sup>2</sup> <https://www.un.org/sustainabledevelopment/ru/sustainable-development-goals/>

<sup>3</sup> [https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202019%20refinement\\_Rus.pdf](https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202019%20refinement_Rus.pdf)

<sup>4</sup> <https://rosstat.gov.ru/storage/mediabank/ERqplbXV/Цели%20устойчивого%20развития%20в%20Российской%20Федерации.%202020%20-%20сборник.pdf>

<sup>5</sup> [https://rostov.gks.ru/storage/mediabank/7Dwl4Sd7/Льв\\_2021\\_сайт.pdf](https://rostov.gks.ru/storage/mediabank/7Dwl4Sd7/Льв_2021_сайт.pdf)

<sup>6</sup> [https://www.centrinvest.ru/files/smi/pdf/ESG\\_BANKING\\_2020.pdf](https://www.centrinvest.ru/files/smi/pdf/ESG_BANKING_2020.pdf)

<sup>7</sup> <https://asros.ru/upload/iblock/164/Practical-recommendations-of-the-banking-community-on-the-introduction-of-ESG-banking-in-Russia.pdf>

<sup>8</sup> <https://rosstat.gov.ru/sdg/national>

<sup>9</sup> <https://www.centrinvest.ru/files/about/pdf/ESPolicy.pdf>

<sup>10</sup> All-Russian Classifier of Economic Activities

<sup>11</sup> <https://mcc-codes.ru/>

As a result of the established compliance of the bank's activities with the SDGs and Russia's National Projects, the following quantitative characteristics were obtained:

Bank's balance sheet

Loan portfolio.

Payments and settlements.

Retail deposits.

These characteristics make it possible to evaluate the importance of following spheres for the development of banking<sup>12</sup>:

- new opportunities (linking strategies with global priorities);
- new business models (innovative, efficient, sustainable and inclusive);
- new markets (education, ecology, fight against poverty, inequality);
- new solutions for new markets;
- new communications (indicators, standards, reporting, technologies);
- new stakeholders (NGOs, mass media, Science);
- new mechanisms of interaction between business, society, government;
- new synergy of partners;
- new rules for markets and institutions, barriers;
- new investments and capital for transformations;
- new sustainability (value chains, brand, new legislation).

**The Bank's balance sheet** allows assessing the effectiveness of the ESG business model in achieving the SDGs. Center-invest Bank multiplies the funds of shareholders (14% of liabilities) who have invested in the bank to implement ESG - principles, and attracts funds from other ESG - investors (4% of liabilities) to transform customer funds (82% of liabilities) - population and entrepreneurs of southern Russia - into ESG projects, SDGs and Russia's National Projects. Thus, each ruble of ESG shareholders' investments is transformed into 5 rubles of investments for the SDGs and Russia's National Projects.

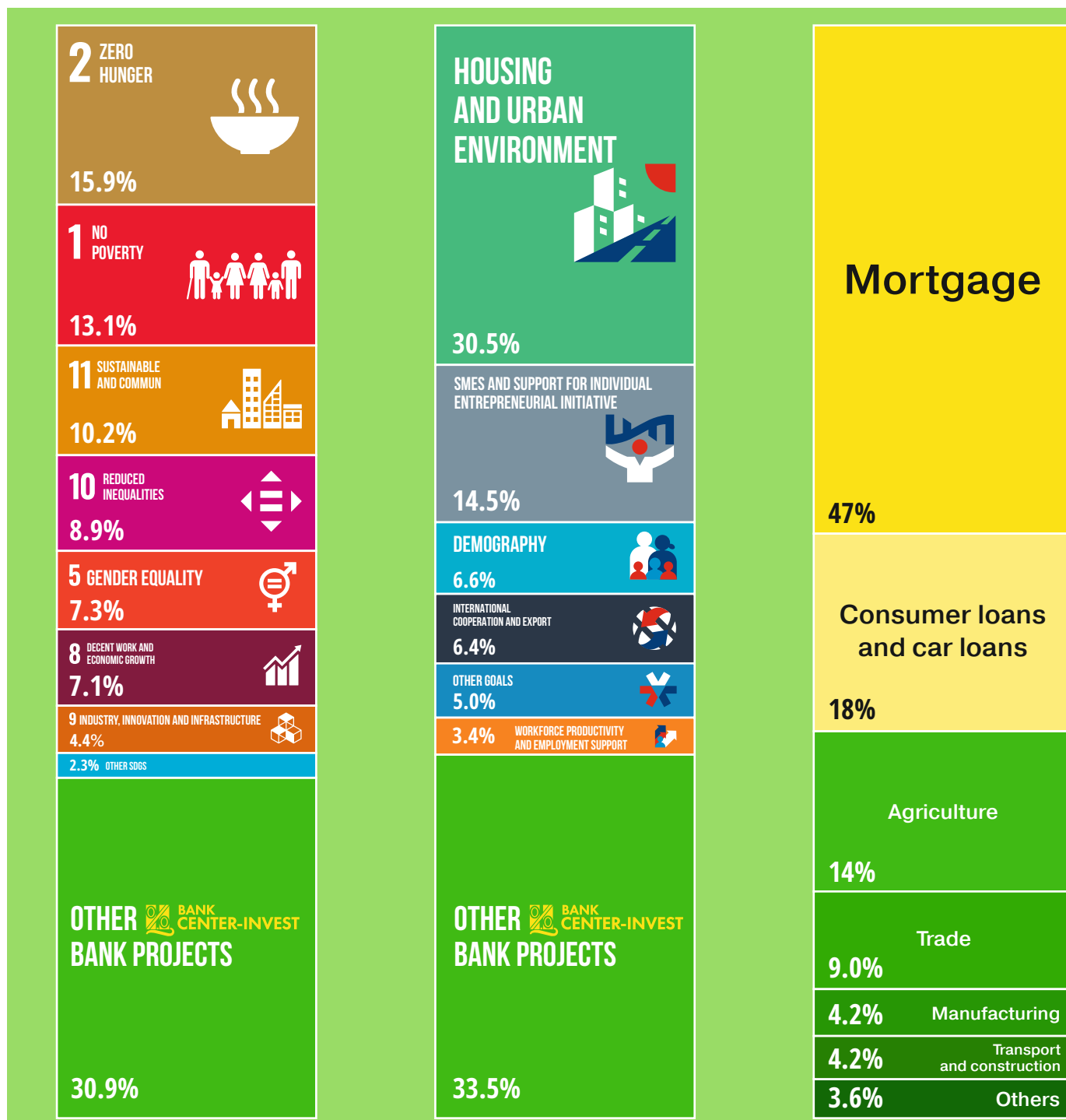
To ensure sustainable development and effective risk management, the Bank uses other assets (3% of assets), fixed assets and intangible assets (3% of assets), places available funds with the Bank of the Russia (10% of assets) and other banks (2% of assets). The remaining 82% of the Bank's funds work in the real sector of the economy:

- for improving the living standards of the population through mortgages (47% of the loan portfolio), consumer and car loans (18%);
- development of the agro-industrial complex (14% of the loan portfolio), trade (9%), industry (4%), transport, construction and other industries (7.8%).

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<sup>12</sup> [https://sdgcompass.org/wp-content/uploads/2015/12/019104\\_SDG\\_Compass\\_Guide\\_2015.pdf](https://sdgcompass.org/wp-content/uploads/2015/12/019104_SDG_Compass_Guide_2015.pdf)

# ESG-balance of the Bank



The bank, based on the data analysis method, has developed an innovative methodology for assessing loans issued for achievement of SDGs and Russia's National Projects.

As at 01.07.2021, Center-invest Bank has invested RUB245.2bn in implementation of the UN SDGs and RUB213.5bn in Russia's National Projects.



## Assets as at 01.07.2021

Net Loans and Lease

**82%**  
RUB93 015bn

Cash and mandatory  
reserves with  
the Bank of Russia

**10%**  
RUB10 937bn

**3%** RUB3 314bn

**3%** RUB3 348bn

**2%** RUB2 100bn

## Liabilities as at 01.07.2021

Customer accounts

**82%**  
RUB92 879bn

Total shareholders equity

**14%**  
RUB15 258bn

**4%** RUB4 576bn

The Bank attracts customers' funds on profitable conditions for the implementation of the UN SDGs and Russia's National Projects in the southern Russia. In 2020, Center-invest Bank introduced a new "Green" deposit account for responsible investors. All of the funds deposited in Green deposit accounts are used for projects that contribute towards the UN Sustainable Development Goals and Russia's National Projects.

### Bank's shareholders invest in the UN SDGs and ESG development



Bank's founders - Dr. Vasily Vysokov  
and Tatiana Vysokova 22.06%  
ESG Banks and Funds 53.51%



Other shareholders 24.43%

### Loans from banks and development institutions



### Green bonds, other bonds, bills and others obligations.

Since 2015 the Bank has formed  
its "green portfolio" and has  
invested over RUB19bn in 21,972  
customer projects.

The environmental impact of this  
work is equal to the annual  
reduction of CO2 emissions by  
225 550 tons.



Carrying out its usual functions, the regional Center-invest Bank is solving global challenges related to the achievement of the SDGs:

- SDG2 - Eliminating hunger, ensuring food security and improving nutrition, promoting sustainable agricultural development (16% of the loan portfolio) as the Bank lends to the development of the agro-industrial complex of southern Russia, which products are exported to developing countries,
- SDG1 - Eradication of poverty in all its forms everywhere (13%) through loans for the production of essential goods for the poor people;
- SDG11 - Ensuring openness, safety, resilience and environmental sustainability of cities and towns (10%) through the implementation of housing construction projects, improvement, renovation of apartment buildings;
- SDG10 - Reducing inequality within and between countries (9%): the Bank's projects increase the income level of the population of southern Russia, which is still lagging behind the national average level;
- SDG5 - Ensuring gender equality and empowering all women and girls (7%) is achieved through special bank loans for the development of women's entrepreneurship at preferential rates, high quality banking services, creating an atmosphere of trust between the Bank and customers, attracting mentors-women;
- SDG8 - Promoting progressive, inclusive and sustainable economic growth, full and productive employment and decent work for all (7%) includes lending to the real sector of the economy, special business transformation programs;
- SDG9 - Creating resilient infrastructure, promoting inclusive and sustainable industrialization and innovation (4%) is inextricably linked with the digitalization of the Bank itself and the businesses of its customers, the development of new markets, youth social entrepreneurship, support for innovation, financial literacy of the population, educational projects.

Center-invest Bank actively participates in the implementation of national goals, directing financial resources to the implementation of Russia's National Projects:

- Housing and urban environment (31% of the loan portfolio), actively lending mortgages, including rural mortgages, improvement of cities and villages, introduction of energy efficient technologies;
- Small and medium-sized businesses (15%), working closely with the infrastructure of state support for entrepreneurship at all stages of its development and offering the Bank's own programs and non-financial services to entrepreneurs: consulting, audit, accounting by a specialized company, legal support, business planning, business digitalization, tax advice;
- Demographics (7%), creating conditions for supporting motherhood and childhood in the bank, lending preferential mortgage programs for young families and families with children;
- International cooperation and export (6%), servicing foreign trade operations and lending to trade finance clients;
- Increase in labor productivity (3%) through loans for modernization and technical re-equipment of customers' businesses.

# Loan portfolio

The used methods of big data analysis allow us to assess the achievement of the SDGs for different segments of the loan portfolio.

**The loan portfolio of legal entities is aimed at solving the following global goals:**

- SDG 2 (Elimination of hunger) – 47% of the loan portfolio, since the bank successfully lends to the sustainable development of the agro-industrial complex of southern Russia on the basis of new technologies to meet the demand for food products in the country and abroad;
- SDG 8 (Decent work and economic growth) – 21% of the loan portfolio, since the bank's lending to the transformation of small and medium-sized businesses, the introduction of new technologies;
- SDG 9 (Industrialization, innovation and infrastructure) – 4% of the loan portfolio are aimed at the continuous innovative development of the bank's operations and customers based on new technologies, localization of the best international practices, training of personnel;
- SDG 11 (Sustainable Cities and Settlements) -6% of the loan portfolio, which reflects the bank's role in lending to housing construction, modernization of housing and communal services, Homeowners ' Associations;
- SDG 3 (Good health and well-being) - less than 3% of the loan portfolio, loans to medical institutions, fitness clubs, health organizations;
- SDG 12 (Responsible consumption and production) -more than 1% of the loan portfolio, lending to the energy-saving and resource-saving technologies;
- SDG 4 (Quality Education) – 0,2% of the loan portfolio, lending to educational institutions, including social ones.

## Distribution of the loan portfolio of legal entities as at 01.07.2021



## The loan portfolio of mortgages of individuals contributes to the achievement of the following goals:

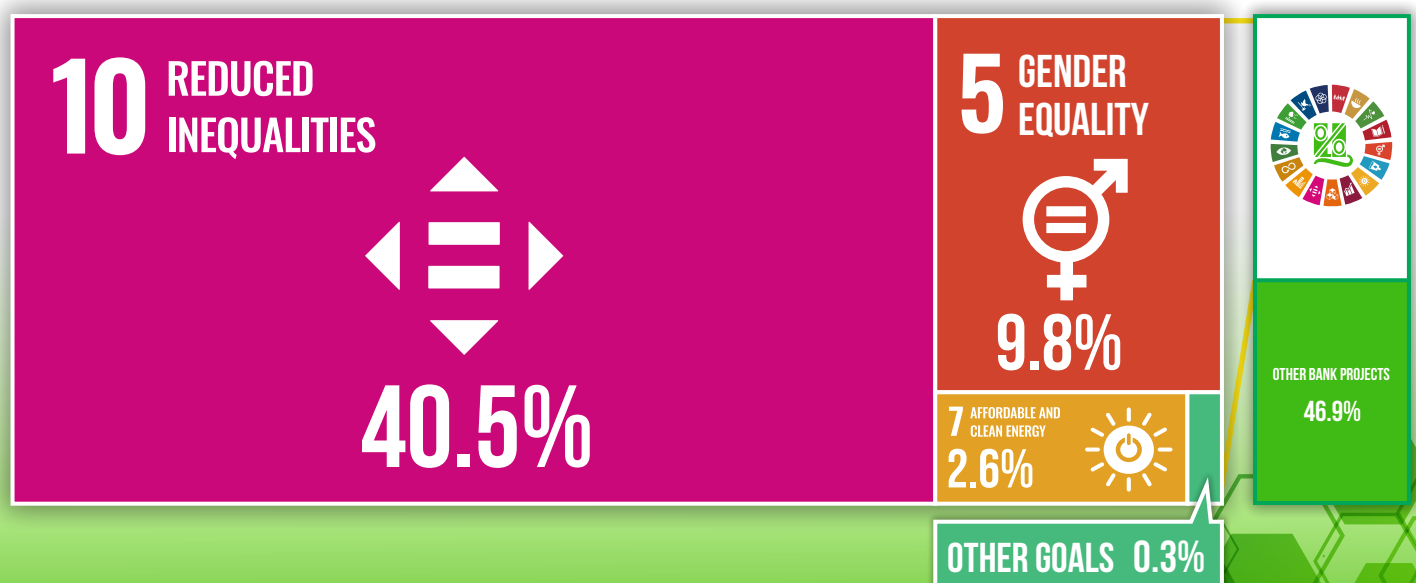
- SDG 1 (Poverty eradication) is associated with improving the housing conditions of the least disadvantaged segments of the population – 31% of the mortgage portfolio;
- SDG 11 (Sustainable cities and settlements) allows to replace outdated housing with a new, more comfortable one – 20% of the mortgage portfolio;
- SDG 5 (Gender Equality) due to the fact that women and mothers with children purchase new housing – 14% of the mortgage portfolio;
- SDG 10 (Reducing Inequality) confirms that mortgages equalize the social status and standard of living of borrowers – 8% of the mortgage portfolio.

The loan portfolio of retail loans by more than 40% is aimed at achieving SDG 10 (Reducing inequality), as well as SDG 5 (Gender inequality) - 10%, and SDG 7 (Low-cost and clean energy) for using more efficient technologies in the household – 3%.

## Distribution of the mortgage portfolio as at 01.07.2021



## Distribution of retail loans as at 01.07.2021



# Payments and settlements

It is still possible to unambiguously establish a correspondence between the purpose of payments of legal entities and the SDGs in only 30% of transactions:

- SDG 2 (Zero Hunger) involves 22% of all payments, since the Bank's customers - legal entities - work in the agro-industrial complex, production and sale of food products;

- SDG 1 (Eradicate poverty) - 2% of payments are related to the implementation of social support programs for low-income families;

- SDG 9 (Industrialization, innovation and infrastructure), SDG 3 (Good health and well-being), SDG 4 (Quality education), SDG 8 (Decent work and economic growth), SDG 6 (Clean water and sanitation) account for about 1% of all payments of legal entities, which is consistent with the role of these SDGs in their activity.

The payments of individuals are more closely (43%) linked to the SDGs, including:

- SDG 1 (Eradicate poverty), SDG 3 (Good health and education), SDG 11 (Sustainable cities and settlements), SDG 4 (Quality education) each of which accounts for 8% of total population payments;

- SDG 2 (Zero hunger) does not exceed 6%, and SDG 9 (Industrialization, innovation and infrastructure) - 3% of all payments of the population.

The population pays for daily needs, which include education and infrastructure.

The payments of MIR cardholders are more closely related to the greater social role of the SDGs:

- SDG 3 (Good health and wellbeing) - 15% of payments;

- SDG 1 (Eradicate poverty) - 14%;

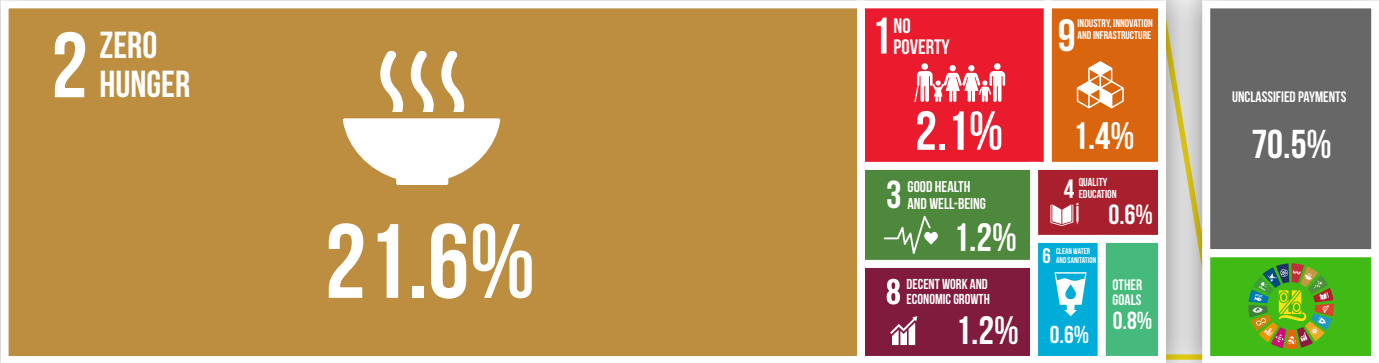
- SDG 2 (Zero Hunger) - 9%;

- SDG 11 (Sustainable cities and towns) - 2%;

- SDG 4 (Quality education) - 1%

# The total volume of customer payments amount to RUB244.1bn from 01.01.2021 to 01.07.2021

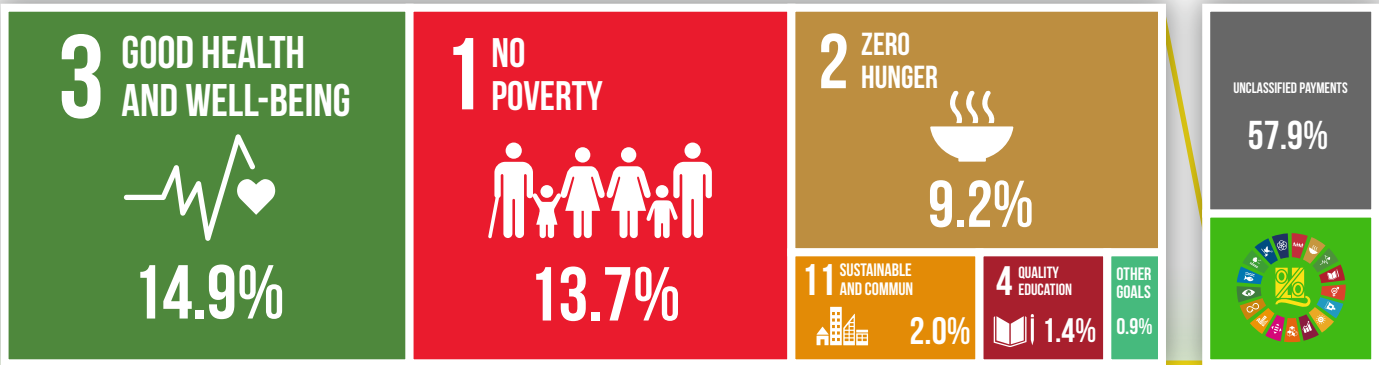
## Distribution of payments of legal entities for SDGs



## Distribution of payments of individuals for SDGs



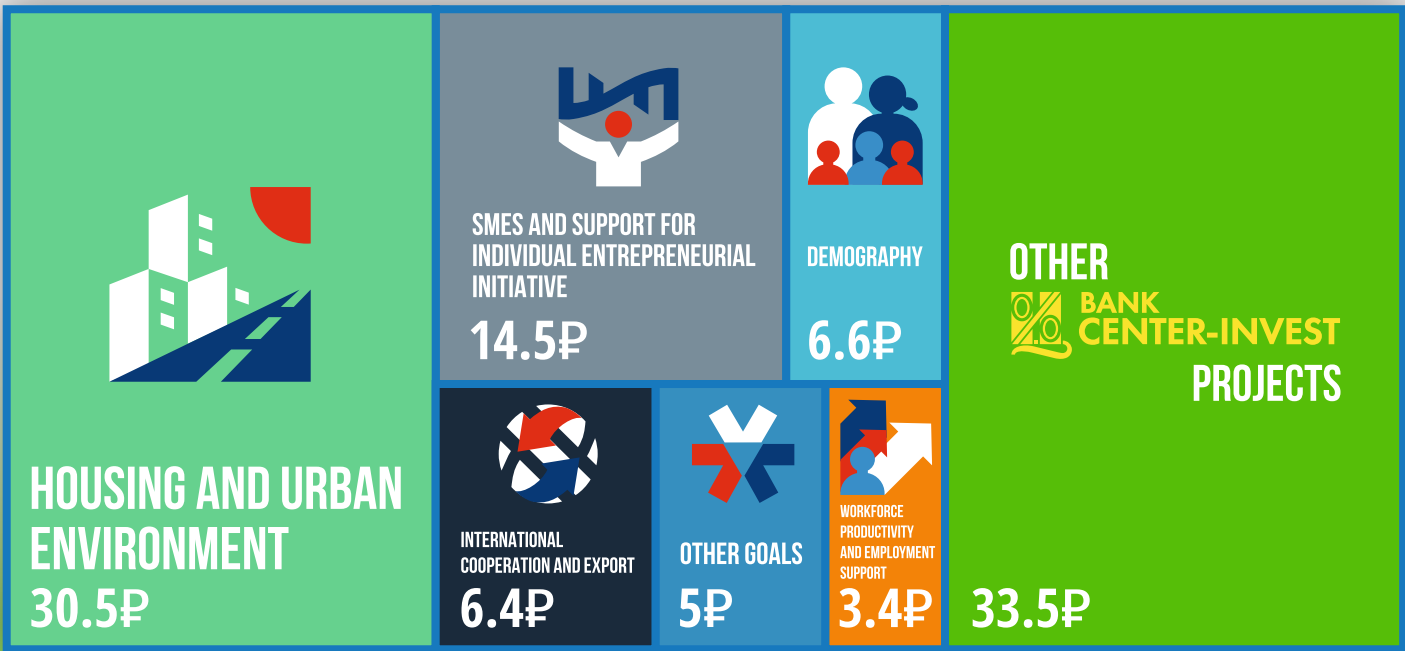
## Distribution of payments on Mir Cards ММР



# Retail deposits

Distribution of each 100 deposits gives depositors a more specific understanding of the role of their contributions in achieving the SDGs and Russia's National Goals

As at 01.07.2021



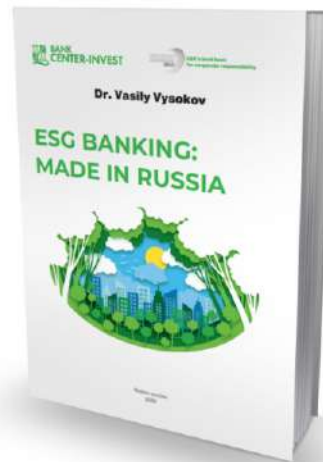
# Tools

## Read

### AGILE DIGITALIZATION OF ESG BANKING



### «ESG BANKING: MADE IN RUSSIA»



## Study

### «ROSTOV REGION MOVES TOWARDS ACHIEVING THE SUSTAINABLE DEVELOPMENT GOALS»



## Look

### «ESG BANKING: MADE IN RUSSIA»



## About Bank

Center-invest bank is the largest privately-held bank in Southern Russia with strong market position and unique local market expertise a focus on sustainable development through realization of specialized lending programs and social initiatives. International shareholding structure, with diversified base of reputable financial investors give an access to the best world practice of conducting ESG banking, implementing transparent procedures for smart growth of ethical business.

Center-invest Bank's guiding principles are: social and environmental responsibility, operational efficiency, best-practice risk management, long-term profitability and organic growth.

[www.centrinvest.com](http://www.centrinvest.com)