

## **6. State Trust Management Company**

Federal Law No. 111-FZ dated 24 July 2002, "On Investing Funds for Financing Accumulative Part of Labour Pension in the Russian Federation"

Federal Law No. 360-FZ dated 30 November 2011, "On Procedure for Financing Payments Drawing on Pension Savings"

Russian Federation Government Directive No. 34 dated 22 January 2003, "On Designating the Bank for Foreign Economic Affairs of the USSR (Vnesheconombank) as the State Trust Management Company to Manage Pension Savings"

Russian Federation Government Directive No. 503 dated 14 June 2013, "On Setting the Term for State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" to Act as the State Trust Management Company to Manage Pension Savings and Payment Reserve Resources"

For more than 10 years, Vnesheconombank has been performing the function of the State Trust Management Company (STMC) to manage the pension savings of the insured citizens of the Russian Federation who have not exercised the right to choose a private pension fund or a private asset management company and those who have shown preference for the STMC.

In 2012, the Bank was designated as the STMC to manage resources of the payment reserve and pension savings of the insured citizens, who are entitled to term pension payments.

Drawing on the funds received for trust management, Vnesheconombank makes up 4 investment portfolios: extended investment portfolio, investment portfolio of government securities, investment portfolio of payment reserve and investment portfolio of pension savings of the insured citizens, who are entitled to term pension payments. The Bank acting as the STMC sees the major goal of investment of pension savings and payment reserve resources in ensuring the fund's increment.

Vnesheconombank segregates each investment portfolio formed drawing on the

pension savings from other investment portfolios, other property that is under the Bank's trust management or for other reasons, as well as from the Bank's own property. It is important to note that all the operations of the STMC related to the pension savings management are effected in strict compliance with the Russian legislation in force, with the principle of independence and segregation of the above operations from the Bank's other activities strictly observed.

In 2013, it was the changing market environment that significantly impacted the results of the STMC investment activities. An average yield on OFZ issues grew by 45 basis points, while the yield on long-term issues grew by more than 100 basis points. The non-governmental bond yield dropped by 50 basis points, the average spread between corporate bonds and the OFZs slid from 140-150 to 90-100 basis points.

In 2013, the total amount of the pension savings funds and payment reserve resources, which were under the STMC trust management and returned back to the Russian Federation Pension Fund, grew by 67% to reach RUB 209.4 bn versus RUB 125.4 bn in 2012.

The results of the Bank's activities in 2013 showed that one of the key tasks delegated to Vnesheconombank in the STMC capacity was accomplished. That means that the real safety of the pension savings of citizens

(adjusted to inflation) was ensured - the yield on the STMC extended investment portfolio and the government securities portfolio exceeded the annual inflation rate by 0.21% p.a. and 0.4% p.a., respectively.

## Trust Management of Pension Savings of the Russian Federation Insured Citizens

Vnesheconombank, while performing the functions of trust managing pension savings of the citizens, forms 2 portfolios: an extended investment portfolio and an investment portfolio of government securities.

### Extended Investment Portfolio

In conformity with the investment declaration of the extended investment portfolio, the pension savings are eligible for investment in government ruble- and foreign currency-denominated securities, in the securities of the Russian Federation constituent entities, corporate bonds, mortgage securities, the securities of international financial organizations (IFOs) and in ruble- and foreign currency-denominated cash funds and deposits placed on accounts with credit organizations.

Throughout 2013, the Russian Federation Pension Fund, with the aim of forming the respective portfolio, transferred to the STMC cash funds in the total amount of RUB 317.3 bn (the amount of funds returned back to the Russian Federation Pension Fund in the reported period – RUB 208.48 bn).

As at the end of 2013, the market value of the extended investment portfolio amounted to RUB 1,854.6 bn (as at year start 2013 – RUB 1,635.8 bn).

In 2013, to address the strategic challenge of enhancing the respective portfolio diversification, the share of investment in government securities was considerably decreased while the amount of investment in corporate bonds was increased, including investment in unsecured bonds of corporates that engage in infrastructure projects of national significance, bonds of international financial organizations (IFO bonds), mortgage bonds, as well as bonds backed by the state guarantee of the Russian Federation. The increased share of the given instruments in the extended investment portfolio (from 19.7% to 36.0%) in the reported period is solid proof of successfully accomplished task.

As at the date of purchase, the total amount of funds invested in 2013 in non-governmental securities made RUB 391.4 bn at market value (accrued coupon income not included), out of which RUB 357.5 bn were invested in unsecured corporate bonds, RUB 0.7 bn – in bonds backed by the Russian Federation state guarantee, RUB 31.3 bn – in mortgage bonds and RUB 2.0 bn in IFO bonds. Finally, the amount

of non-governmental bonds in the extended portfolio increased more than two-fold – from RUB 322.7 bn (as at the beginning of the year) to RUB 667.0 bn with the accrued coupon income not included (as at year end).

In 2013, the bonds of infrastructure companies OJSC Gazprom, OJSC FSK UES, OJSC Russian Railways, FSUE Russian Post in the total amount of RUB 280.37 bn at market value, as well as bonds of OJSC AHML in the amount of RUB 0.7 bn at market value were acquired for the extended investment portfolio.

Over the year, investment in infrastructure bonds increased by four times to reach as at the end of 2013 RUB 369.3 bn, at market value (the accrued coupon income not taken into consideration) (as at 31.12.2012 – RUB 92.9 bn).

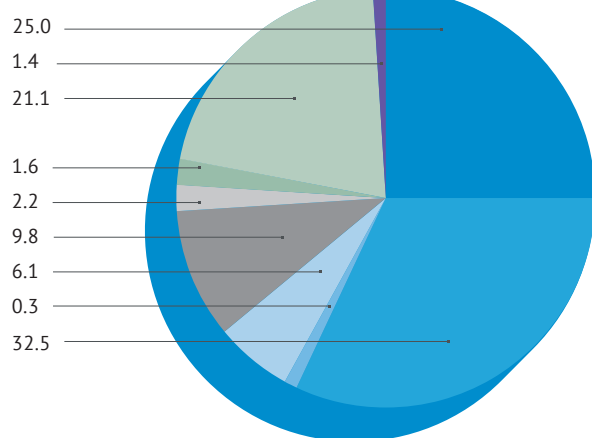
In the period under review, within the framework of managing short-term liquidity, 4 auctions were conducted to place the pension savings on deposits with credit organizations. The total amount of the funds placed made RUB 225 bn (a 4.3% increase on 2012), with an average term of placement – slightly over 10 months and an average weighted interest rate – 7.89% p.a. Interest income on deposits over 2013 made RUB 23.44 bn (in 2012 – RUB 16.1 bn).

A major factor that negatively impacted the results of investment of the extended portfolio was the negative revaluation of OFZs in the amount of RUB (-) 9.2 bn.

Yield on the extended investment portfolio made 6.71% p.a. (inflation rate – 6.50 % p.a.).

### Structure of extended investment portfolio, %

01.01.2013

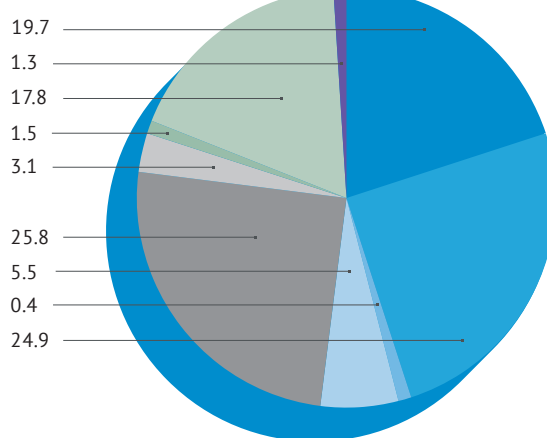


OFZs  
GSOs  
Russian Federation constituent entities' bonds

Corporate bonds (guaranteed by the Russian Federation)  
Corporate bonds  
Mortgage-backed bonds

IFO bonds  
Cash  
Accrued coupon

01.01.2014



## Portfolio of Government Securities

In conformity with the Investment Declaration applicable to the government securities portfolio, the pension savings are eligible for investment in government rouble- and foreign currency-denominated securities, corporate bonds backed by the Russian Federation sovereign guarantee, as well as in rouble- and foreign currency-denominated cash funds placed on accounts with credit organizations.

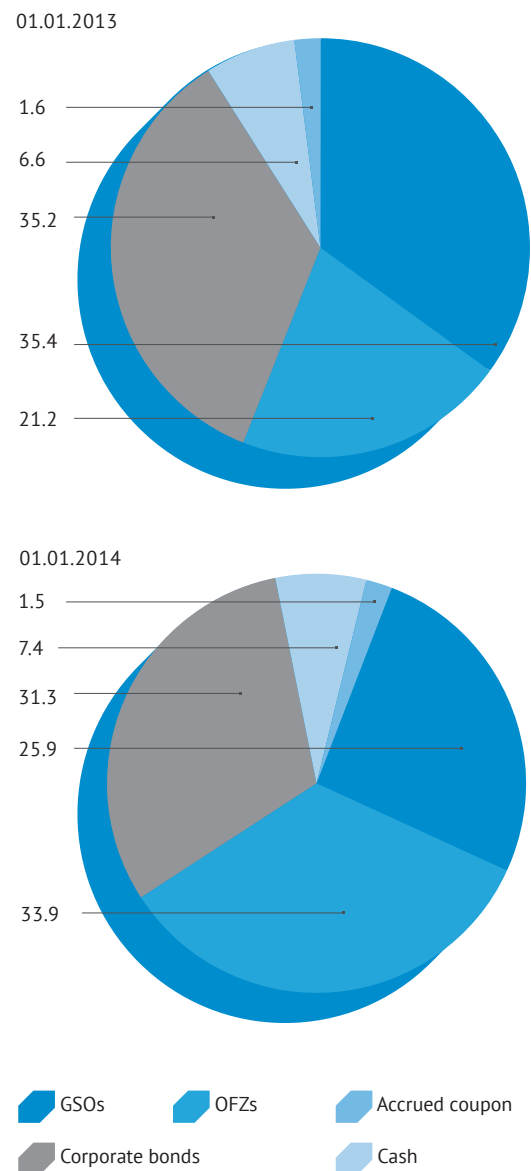
In the reported period, the Russian Federation Pension Fund transferred to the STMC for trust management of pension savings in the total amount of RUB 3.2 bn. The funds were earmarked for investment in the portfolio of government securities (the amount of funds returned back to the Russian Federation Pension Fund over the year made RUB 0.85 bn)

Over 2013, the government securities portfolio increased almost by RUB 3 bn at market value and as at 01.01.2014 amounted to RUB 10.9 bn.

Over the reported period, for the given portfolio, RUB 786.5 mn worth of corporate bonds backed by the Russian Federation state guarantee at market value (excluding accrued interest coupon), including RUB 534.8 mn worth of bonds of OJSC Western High Speed Diameter were acquired.

At the same time, in view of insufficient amount of initial placements of the respective bonds and limited secondary market capacity to acquire them, the share of the guaranteed bonds in the government securities investment portfolio taken as a proportion of their total market value to the market portfolio value (excluding the accrued interest coupon) decreased from 35.2% to 31.3% by the end of 2013.

## Government Securities Investment Portfolio, %



In 2013, the investment yield on the government securities investment portfolio exceeded the annual inflation rate (6.50% p.a.) and made 6.9% p.a.

## Managing Funds of Payment Reserve and Pension Savings of Insured Citizens Entitled to Term Pension Payments

In the period from November 2012 to the end of 2013, the Russian Federation Pension Fund transferred to Vnesheconombank for management the payment reserve resources and the pension savings of insured citizens entitled to term pension payments in the total amount approximating to RUB 1.5 bn. Over the given period, RUB 53.4 mn were returned back to the Russian Federation Pension Fund.

In 2013, the major goal of managing the respective funds was viewed as ensuring the liquidity of portfolios formed drawing on the payment reserve resources (hereinafter - the payment reserve portfolio) and the pension savings of insured citizens entitled to term pension payments (hereinafter - the term pension payments portfolio) and securing safety of funds transferred to the portfolios.

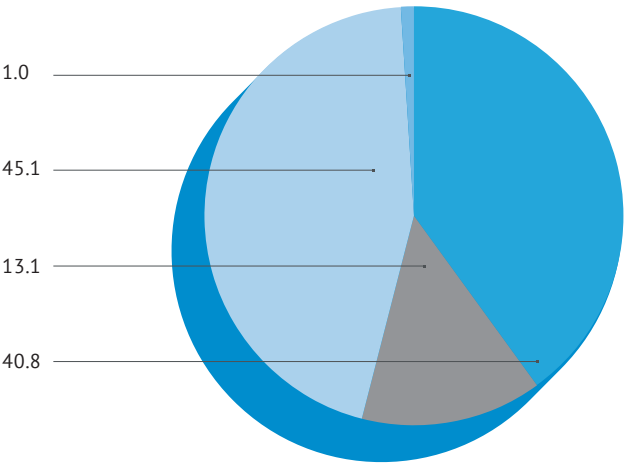
Over the reporting year, the share of cash funds in the payment reserve portfolio declined from 45.08% to 4.0%, in the term pension payments portfolio – from 39.85% to 4.02%. Conversely, the share of highly reliable and more profitable corporate bonds in the payment reserve portfolio and in the term pension payments portfolio increased from 13.05% to 35.48% and from 13.53% to 35.55%, respectively.

Over the period under review, the amount of the payment reserve portfolio (market value) increased from RUB 313.4 mn to RUB 1,371.1mn. The amount of term pension payments portfolio grew by 3.3 times from RUB 37.04 mn to RUB 123.24 mn.

In 2013, the investment yield on the payment reserve portfolio and term pension payments portfolio made 5.52% p.a. and 5.51% p.a., respectively.

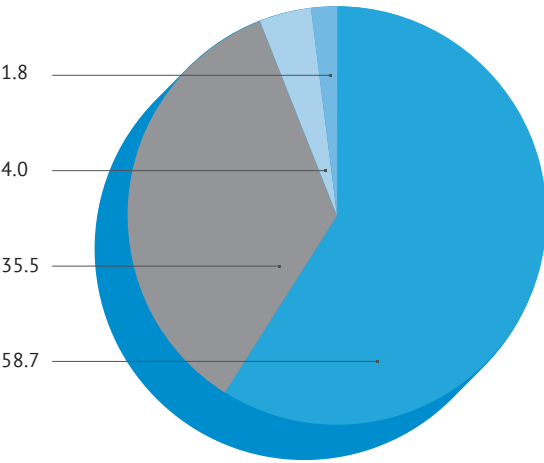
Structure of the Payment Reserve Portfolio, %

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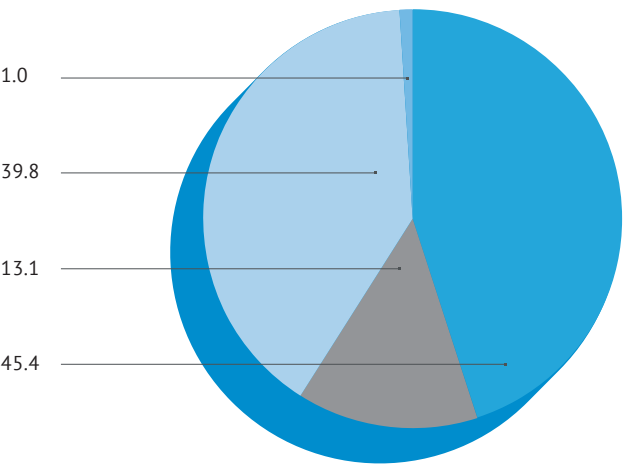
OFZs Corporate bonds Cash Accrued coupon

01.01.2014



Structure of the Portfolio of Pension Savings of the Ensured Citizens Entitled to a Term Pension Payment, %

01.01.2013



OFZs Corporate bonds Cash Accrued coupon

01.01.2014

