

Chairman's Statement



Honorable colleagues and partners!

Admittedly, 2013 became the 3rd defining, as they used to put it, year in implementing the five-year planning period set forth in Vnesheconombank's Development Strategy.

The targets were expressly established in the document for the period of up to 2015, but remarkably the results of the year under review demonstrated that many of the benchmarks were not only achieved but actually surpassed.

Vnesheconombank's performance in the past year could be best defined as dynamic and focused on forward-going movement.

I would not mention now the eloquent, but dry figures illustrating the above. You will just have to read a few more pages before you come across the absolute values and the relative indicators of Vnesheconombank's performance.

I would only note that maintaining a high and steady pace of work taken by the VEB team right from the Bank's inception as the development institution enables us to sustainably, confidently and materially exceed the Development Strategy's target values in respect of the followings key performance indicators:

- / The amount of the Bank's loan portfolio;
- / The share of innovative projects in the Bank's loan portfolio;
- / The amount of the Bank's loan portfolio earmarked for export support;
- / The amount of the Bank's guarantee portfolio earmarked for export support.

Invariably, Vnesheconombank is focused on maximizing performance results and dedicated to fulfilling the mission delegated to it as a key Russian financial institution for development to serve as the most important source of "long" and cheap resources for domestic economy. We are happy to note that the results delivered include: newly created and modernized industrial facilities in the real economy, introduction of advanced technologies, decreased reliance of the Russian economy on imports, opening up new global markets for domestic manufacturers,

creating new jobs and securing an enhanced quality of life for the Russian citizens.

Here are a few illustrative and impressive examples. The facilities that were constructed and commissioned in 2013 with Vnesheconombank's participation include:

- / A complex, unique in terms of the production capacity and equipment to produce polypropylene in Tobolsk. The industrial facility is oriented towards import substitution and exports of products;
- / A terminal for transshipment of oil products in the sea port of Ust-Luga enabling Russia to reduce dependence on the respective services provided by the Baltic states;
- / Adler thermal power plant, which is an advanced combined heat and power station designed to ensure steady power supplies for Sochi, the town which is a year-round mountain resort.

Obviously, financing the construction of the sports facilities for the Winter Olympic Games in Sochi completed in the past year became a hallmark project both for the Bank and the entire country. I am confident that VEB's team can regard this important mission as successfully fulfilled and be proud of close engagement in the formidable sports festivities that delivered brilliant and well-deserved victories to Russian sportsmen.

Investment projects the Bank commenced to finance in the past year will definitely serve as the sources of growth for the Russian economy. That concerns the construction and modernization of the facilities in

transport and energy infrastructure, the infrastructure of tourism and public utilities, creating new capacities in the aviation and transport machine-engineering, timber processing, extracting industries and the defense complex. In compliance with the Bank's investment priorities innovative and high-tech projects make a considerable share of the project portfolio. The Bank commenced financing the construction of the Data Processing Centre in St. Petersburg, which could be viewed as the first step on the path to creating the federal network of innovation-oriented centres for data processing in Russia's major business centres Vnesheconombank also embarked on implementing projects that aim creating a network of advanced hemodialysis centres (clinics) practically in half of the country's regions.

Some people could view such projects as excessively specific and «local». However, now that efforts are made to limit the capabilities of Russian producers, which are engaged in international high-tech cooperation chains, successful completion of such a huge project as the Elgin coal deposit becomes pivotal.

The past year was the 1st year of the Bank's operation in compliance with amendments to Investment Memorandum of the Bank for Development relating to the defense industry. The launch of a project to develop a high potential anti-aircraft missile-gun complex was a major milestone event.

In 2013, Vnesheconombank's Supervisory Board took important decisions aimed at improvement of the Bank's business model, reorganization and redistribution of the Bank's various divisions and units, redelegation of management powers and optimizing the lending and investment process.

The planned division of investment projects into development and specific ones is underway. Without going into details I would say that optimizing the model and procedures of the Bank's participation in projects would enable us to upgrade the financing processes, secure Vnesheconombank's financial sustainability and hence its reputation of a credible partner. In this context, issues concerning the sources of funding and compensating the Bank's participation in "specific projects", which are of priority importance for Russia's economy, but fail to meet reasonably acceptable levels of risks and profitability, will be subject to approval by the Supervisory Board.

Also, we should mention organizational and institutional decisions adopted to develop within the VEB Group a universal and integrated system of export support. The key and mutually complementing elements include the Bank itself, Export Insurance Agency of Russia (EXIAR), VEB-Leasing, a major Russian leasing company and ROSEXIMBANK, an agent bank for extension of state guarantees. Actually, Russian exporters are offered a full range of export support instruments, while the principle of "a single window" allows for significant acceleration of the request processing procedure.

The development and launch of an effective and integrated system of financing exports of Russian civil aircraft was also a keynote event of 2013. Obviously, promotion of a high-tech product such as Sukhoi Super Jet 100 to competitive international markets requires developing appropriate schemes of long-term export financing. In this respect, the credit-leasing model of aircraft deliveries to foreign buyers worked out by Vnesheconombank in cooperation with the above mentioned specialized subsidiaries is unique for the Russian market of services

related to export financing. All the aircraft exported by Sukhoi Civil Aircraft CJSC are provided with Vnesheconombank's credit support on terms and conditions comparable with those of European export credit agencies. The high potential of the scheme has been demonstrated by Sukhoi Civil Aircraft CJSC deliveries of aircraft to Indonesia and Mexico.

The past year witnessed an increase in the number of Vnesheconombank's clients and partners representing the Russian Federation constituent entities. Joint action plans were approved. That primarily concerned integrated territorial development aiming to unlock industrial, human and environmental potential of the Russian regions and balance out their economic development, modernize single-industry municipalities (towns) and solidify the single economic space of Russia.

In our judgment, our key goal is to ensure that Vnesheconombank's and the Group members' engagement should stimulate investment activities of the regional businesses, including those operating in poorly developed and dilapidated territories such as single-industry towns, encourage enhanced application of the PPP mechanisms and motivate provision of consultative services and expert assistance to project initiators.

In order to reinforce the capabilities of the Bank's subsidiaries while implementing investment projects in territories qualifying as a priority for the Bank such as the North Caucasian and the Far East federal districts, as well as the Baikal region, in 2013, the charter capitals of OJSC Corporation for Development of the North Caucasian and OJSC Fund for Development of the Far East and Baikal region were replenished. That

enabled us to significantly increase the number of financed projects intended to facilitate the development of the industrial, transport and energy infrastructure.

To encourage the initiative of domestic entrepreneurs and strengthen their contribution to the regional and national economy Vnesheconombank, with the support of the Russian authorities, arranged the Development Award contest. In the past year, in the course of St. Petersburg International Economic Forum, the first winners of the contest were awarded the Development Prize. To further unleash the creative potential of the wider sections of the Russian business community we would welcome the institution of new awards for projects implemented in industrial export support, high-tech development and innovations, which are the areas of special importance for Vnesheconombank.

The Bank's team is real proud that within the period under review the Bank's activities and the projects implemented with its commitment gained international acclaim. It is worth mentioning that 2 projects implemented by LLC APK-Agroeko and LLC Bryansk Meat Company were given "The Best Deal 2012" award by the British journal "Trade Finance".

At the 36th Annual Meeting of the Association of Development Financing Institutions of the Asia-Pacific region (ADFIAP), the organization to which Vnesheconombank fully acceded in the past year, the Bank was awarded the prize in "Best Sustainability Report" nomination.

Eventually, Vnesheconombank was recognized as the best financial institution in the category "Excellence in Banking/Investment Business/Russia" according to the financial

business journal IAIR, which annually honors the most advanced banks, financial companies and holdings in the world that act in compliance with the principles of environmental and social responsibility.

The year 2013 witnessed important moves to encourage SME support aiming, among other things, to prevent the adverse impacts of the slowing down economic growth in Russia on industrial and investment activities of this particular sector of the domestic business community.

The Bank's subsidiary, OJSC SME Bank launches a principally new and much needed product – a bank guarantee to secure commitments of SME entities issued in favor of creditor-banks. SME Bank, which in the past year adopted a new Development Strategy for 2013-2015, succeeded in innovating the whole line of credit products extended for long-terms at interest rates relatively low for the Russian market.

In particular, a new product developed in cooperation with the German banking group KfW was put in place. The product is intended to support SME innovative and modernization-focused projects implemented on the Kaliningrad, Leningrad, Novgorod and Pskov territories, as well as in St. Petersburg.

In 2013, in Moscow, on Vnesheconombank's initiative, the 1st meeting of CEOs of the G20 financial development institutions was held. The new format of the multilateral interaction was named the D20.

The Meeting discussions, capitalizing on the capabilities offered by the G20 platform, which is the most representative organization in terms of countries' engagement in global economic processes, helped raise

awareness of the problems faced by development institutions, including the need to improve the regulatory rules of the game for them. The priority focus was placed on debates devoted to the ever-growing role of financial development institutions in securing long-term investment and raising private capital also through the use of the PPP mechanisms.

But that is just one episode illustrating Vnesheconombank's proactive international engagement including that within the framework of such authoritative international associations as the Shanghai Cooperation Organization (SCO) and the BRICS that is given special attention in the Report offered for your consideration.

Any impartial observer realizes that delivering in the past year impressive performance results, while seeking to resolve formidable and ambitious tasks facing the Bank, obviously required a concerted team effort to raise resources.

In the past few years it was capital borrowed in the domestic and foreign markets that served as a major source of funding. And admittedly, the international capital market in the circumstances of the debt crisis in Europe was not going through the best of times. Just remember the salvation of Cyprus in the financial predicament.

But even despite that, Vnesheconombank managed to make a number of huge, long-term securities placements setting in several cases sort of a benchmark for other financial institutions. The placement at the end of the past year of 2 Series of Eurobonds in the total amount of USD 2 bn comes to the fore. The Bank succeeded in placing the hugest for a Russian financial institution since 2008 amount of

dollar-denominated bonds at a record low coupon rate for a Eurobond issue denominated in this particular currency.

I cannot but regret the measures to restrict Vnesheconombank's, as well as other major Russian credit institutions' access to long-term financial resources in the US and European markets. Given the current situation it becomes obvious that it is public resources that are to play a key role in rendering support to the Russian banking sector and some concrete banks.

I am fairly confident the situation could well be controlled. Approval of the Bank's additional capitalization only confirms the idea. Actually, various options are being considered and appropriate solutions would surely be identified.

This confidence gives me every reason to believe that Vnesheconombank will be able to honor all its commitments to customers whether we mean huge companies or SMEs. Despite an adverse external environment, the Bank is prepared to do whatever it takes so that Russia could meet the challenges of today in a worthy way and become even stronger and more confident.

A handwritten signature in black ink, consisting of several large, overlapping loops and a final vertical stroke on the right.

Vladimir Dmitriev
Chairman of Vnesheconombank