

## **2. Assisting the Development of the National Economy**

Admittedly, the efficiency of the development processes is to a great extent contingent on the efficiency of economy regulation by the state. Systemic economy regulation should ensure sustainable and long-term accumulation of positive changes and economy growth.

Obviously, development institutions in Russia were established in pursuit of implementing structural policies that would fully respond to the need of securing long-term socio-economic development both in the country and in the entire world. Development institutions becoming the center of the relevant knowledge and competences are focused on the accomplishment of strategic goals and enhanced competitiveness of the Russian economy.

Vnesheconombank acting in the capacity of the national Bank for Development is called to address the challenges of removing infrastructure constraints to economic development, securing economy diversification and its innovative development. The major business lines of the Bank include financing infrastructure projects, in particular those with the innovative component, rendering financial and guarantee support for the exports of the Russian companies' industrial production, as well as providing financial support for SMEs.

Within the past years, Vnesheconombank, acting as the Bank for Development, solidified its position as a leading institution in the field of financing and evaluation of major investment projects of national importance.

In order to attain the goals set Vnesheconombank has been continuously stepping up the amounts of financing provided for the real economy, as well as actively participating in raising long-term investment for the Russian economy.

The annual increase in the amount of the Bank's loan portfolio can well be viewed as a major indicator characterizing Vnesheconombank's development-oriented performance. To illustrate, in 2013 alone, the amount of the Bank's loan portfolio grew from RUB 720.2 bn to RUB 974.6 bn, i.e. by more than 35%.

Over the year, the increase in the amount of the portfolio of loans extended for export support approximated to 54% reaching RUB 22.5 bn.

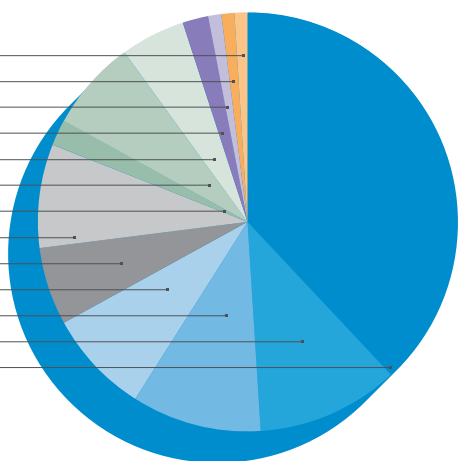
In December 2012, the Memorandum on Financial Policies of Vnesheconombank was amended to include provisions that define the terms and procedures of Vnesheconombank's financial and guarantee support to companies engaged in implementation (execution) of state defense orders, with the respective loan portfolio standing at RUB 15.8 bn by the end of 2013.

Notably, within the period under review, investment in the defense industry (about 121%) and such sectors as infrastructure (42%) and electronics (about 50%) posted by far the biggest increase.

## Loans to customers (by industry/sector of economy), %

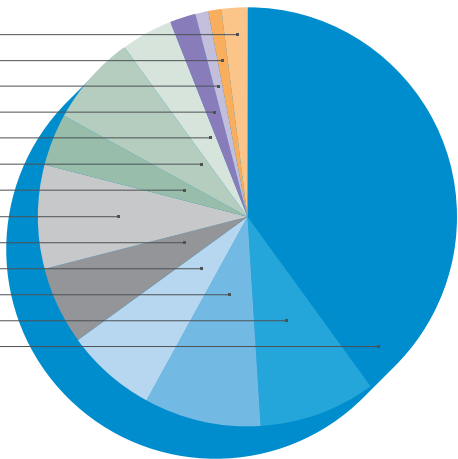
01.01.2013

0.8  
0.7  
1.4  
2.2  
4.6  
6.9  
2.2  
8.3  
6.0  
7.8  
10.0  
11.0  
38.1



01.01.2014

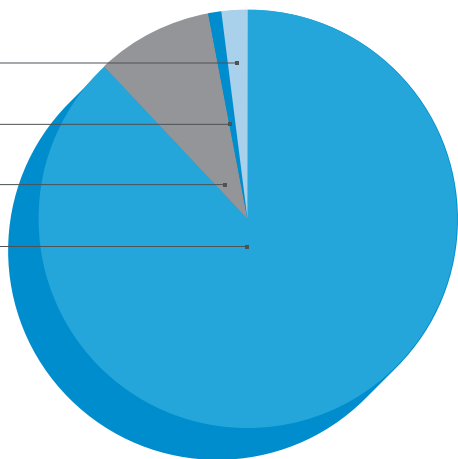
2.3  
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4.3  
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3.6  
7.8  
6.3  
6.7  
8.9  
9.2  
40.2



## Loans to customers (by maturity), %

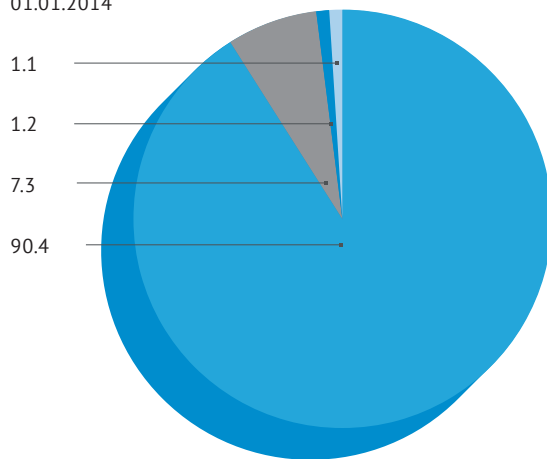
01.01.2013

2.0  
1.0  
8.6  
88.4



01.01.2014

1.1  
1.2  
7.3  
90.4



1 to 3 years

3 to 5 years

Above 5 years

Up to 1 year

## 2.1. Financing Investment Projects

Investment project financing is one of Vnesheconombank's key functions as a bank for development. Pivotal for Vnesheconombank when making a decision on co-financing an investment project are the project compliance with sectoral and regional priorities set forth by Vnesheconombank's Memorandum on Financial Policies and its significance for the national economy.

The Bank primarily focuses on infrastructure projects that could remove the existing constraints impeding both the development of specific industries and the economy at large, as well as on projects aimed at integrated territorial development, construction of new industrial facilities and modernization of non-resource sector enterprises. A particular focus is placed on projects with high innovation-oriented component.

Primarily, Vnesheconombank engages in financing investment projects via long-term credits. Alongside that, the Bank makes investments in securities and equity investments in project operators/initiators, as well as guarantees their obligations thus raising the possibility of attracting funds of other creditors and investors for the project.

At the beginning of 2013, Vnesheconombank participated in 139 investment projects. By year-end, the number of projects increased to reach 158.

In 2013, Vnesheconombank completed 10 investment projects. The Bank's credit resources earmarked for investments were fully recouped.

These include a major infrastructure project on the construction of a bulk cargo complex in Ust-Luga commercial seaport.

The Ust-Luga port is one of a few Russian ports in the region that could ensure deep water access for large vessels. The terminal constructed is used for handling of exported oil products. The total volume of oil products handled in 2013 reached 16,750 thousand tons.

In 2013, within the Bank's investment project agenda, dozens of facilities were constructed and put into operation: from new industrial buildings and manufacturing lines of operating enterprises to new plants, energy facilities, hotels and sports facilities.

To illustrate, Adler CHP, a modern cogeneration plant with a capacity of 360 MW, was commissioned. The plant was constructed with the use of technological solutions and materials corresponding to the highest global environmental standards.

"Konstructor Zhivotovsky", a mixed river-sea tanker, was set afloat. The tanker is the last out of 10 vessels intended for export transportation of bulk oil cargoes.

The FORD-SOLLERS joint venture commissioned assembly lines for Ford Explorer and Ford Kuga models.

A challenging task of on-time commissioning of the Sochi Olympic facilities financed by the Bank was successfully fulfilled.

In the reporting year, Vnesheconombank started financing 29 new investment projects with the total value of RUB 592.7 bn and Vnesheconombank's commitment – RUB 283.3 bn. These include projects for construction and modernization of transport and energy infrastructure, tourism infrastructure, housing and public utilities

infrastructure, as well as projects in such industries as aircraft and transport engineering, timber processing, mining and defense industry.

The projects include:

### Creation of MAZDA SOLLERS joint venture to manufacture Mazda and SsangYong automobiles in Vladivostok, Primorsk Territory

*Total project value – RUB 8.9 bn*

*Vnesheconombank's commitment – RUB 4.9 bn*

The project envisages creation of an enterprise to manufacture Mazda and SsangYong automobiles (up to 85,000 per annum) to meet the consumer demand for modern Japanese and Korean automobiles of different brands, models, types and grades. The major models to be produced are Mazda CX5, Mazda 6, SsangYong Actyon, SsangYong Kyron.

Social and economic effects: increase of tax receipts to the budgets of all levels by RUB 28.0 bn, creation of more than 2800 new jobs.

### Development of North-Western section of Elginsk coal deposit in Republic of Sakha (Yakutiya)

*Total project value – USD 4.7 bn*

*Vnesheconombank's commitment – USD 2.7 bn*

The project is aimed at implementing Stage I of the integrated development of Elginsk coal deposit with the coal reserves of 2.1 billion tons. The deposit makes the top 3 largest global untapped coal deposits (construction of an open pit and mining

and processing complexes with an overall estimated capacity of 11.7 million tons per annum).

The project is included into the long-term Program for Development of Russian Coal Industry up to 2030 and the Strategy of Social and Economic Development of Far East and Baikal Region up to 2025.

Social and economic effects: discounted budgetary effect – RUB 40.3 bn, new jobs for more than 5000 people.

### Creating a network of standard design facilities for subsequent accommodation of healthcare institutions engaged in hemodialysis and other methods of hemocorrection

*Total project value – RUB 6.3 bn*

*Vnesheconombank's commitment – RUB 5.0 bn*

The project provides for construction of 58 dialysis centres in 41 Russian regions. Vnesheconombank's strategic partner – Fresenius Medical Care (Germany) secures a long-term lease of the centres, finances the purchase and delivery of medical equipment. People who suffer from kidney failure will have an opportunity to undergo a proper treatment in close vicinity to the place of residence. New outpatient care institutions for providing replacement therapy by hemodialysis and peritoneal dialysis will be equipped with up to the minute equipment. Admittedly, each centre will provide up to 200 patients per day with life-saving services (above 30 thousand hemodialysis procedures per annum).

The project is expected to increase tax receipts to the budgets of all levels by RUB 8.2 bn and create more than 6900 jobs.

## Construction of a data centre in Saint-Petersburg

*Total project value – RUB 3.1 bn*

*Vnesheconombank's commitment – RUB 2.2 bn*

The data processing centre is created on the basis of Stack.CUBE patent-protected technology. The Stack.CUBE complex modular solution could provide the best operating characteristics of the data centre. Customers will be offered a wide range of services, from the much-in-demand ones (the lease of servers and communication channels) to the service that is unique for the domestic market (the lease of a server box).

Social and economic effects: increase of tax receipts to the budgets of different levels by RUB 1.6 bn, creation of 68 new jobs.

In 2013, the amount of Vnesheconombank's investment loan portfolio (the loans earmarked for investment projects) witnessed more than one third growth and as at 01.01.2014 reached RUB 893.1 bn (01.01.2013 – RUB 668.9 bn). At year-end 2013, Vnesheconombank participated

as a creditor in 153 investment projects (01.01.2013 – 134 projects).

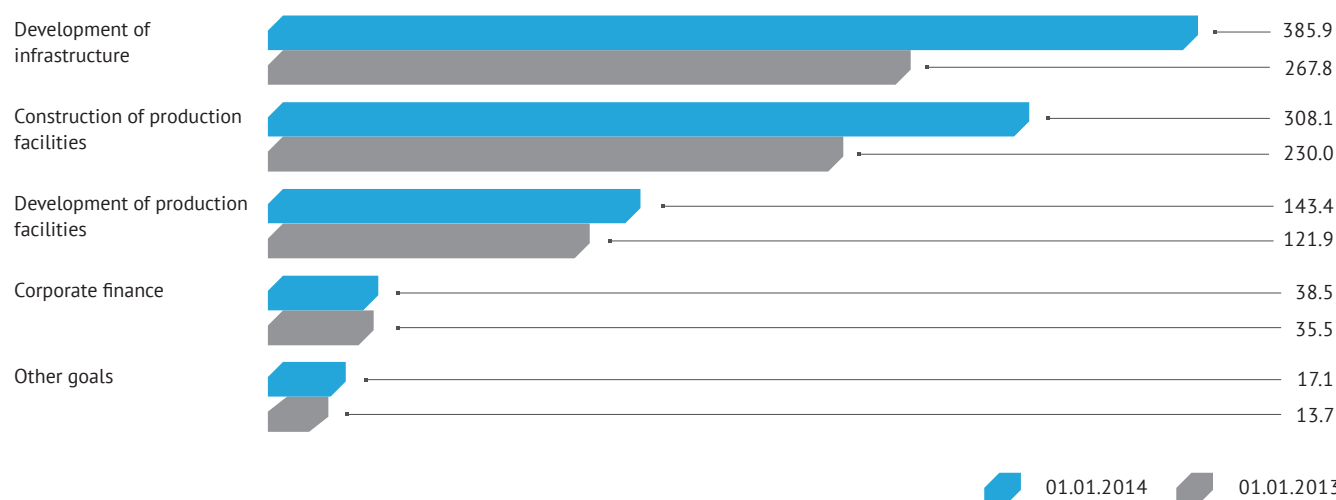
At the end of the reporting period, the overall amount of investments in shares (equity investment in authorized capital) within the framework of financing investment projects was running at RUB 32.8 bn.

In 2013, as part of financial support for investment projects, Vnesheconombank issued 4 guarantees for the total amount equivalent to RUB 1.7 bn. As at 01.01.2014, the overall amount of guarantee portfolio for the above purposes was RUB 3.6 bn.

As at 01.01.2014, out of the overall amount of investment loan portfolio, RUB 182.2 bn accounted for the loans granted within the framework of financing 36 investment projects in priority areas of the Russian economy modernization. These include projects intended for enhancing energy efficiency and saving, developing medical equipment and pharmaceuticals, strategic computer technologies and software.

At the end of 2013, the total amount of loans for 57 innovation-oriented investment projects reached RUB 330.1 bn.

### Portfolio of investment loans (by projects categorized by delivery goals), RUB bn



## Competition for the Development Award given for a significant contribution to social and economic development of Russia

In 2013, the first national competition for Development Award instituted by Vnesheconombank for outstanding achievements in the implementation of nationally important investment programs and projects was held.

The major criteria of estimating the projects selected for the Award (220 applications) are project innovative, export- or import-substituting orientation, as well as project significance for Russia's social and economic development.

Winners of the 1<sup>st</sup> Development Award handed out at the St. Petersburg International Economic Forum included:

/ **Best Infrastructure Project category** – the project on Infrastructure Development of Industrial Parks of Kaluga

Region: Forming Automobile and Automotive Component Cluster presented by Kaluga Region Development Corporation;

/ **Best Industrial Project category** – the project on Construction of a Wagon Factory in Tikhvin, Leningrad Region presented by Tikhvin Carriage Works;

/ **Best Project on Integrated Territorial Development category** – the project on Construction of Kemerovo Satellite Town Lesnaya Poliana presented by Promstroi Association of Construction Organizations;

/ **Best SME Project category** – the project on Reconstruction of the Heating System in Bakal, Satka District of Cheliabinsk Region presented by UralEnergro Development.

## 2.2. Development of Public-Private Partnership

Implementation of major infrastructure projects and programs of territorial development has clearly proved the effectiveness of applying the mechanism of public-private partnership (PPP) that could best serve the interests of both the state and business.

Vnesheconombank is actively involved in fostering PPPs in Russia. Alongside financial

support for PPP projects, the Bank performs the functions of a financial consultant to the Government of the Russian Federation and Russian constituent entities on procuring and financing such projects.

Pursuant to Directive of the Russian Federation Government No. 134 dated 1 March 2008, "On Setting Rules for Arranging and Using Budgetary Allocations from

the Russian Federation Investment Fund”, Vnesheconombank monitors investor allocations in projects that obtained state support out of the Investment Fund resources. In 2013, Vnesheconombank conducted the

required monitoring of investor obligations under 16 investment projects. The Bank’s reports prepared on a quarterly basis were submitted to the Ministry of Regional Development of the Russian Federation.

## Investment consulting in procurement of PPP investment projects to respond to the state needs of constituent entities of the Russian Federation

Vnesheconombank is a sole provider of investment consulting services in procurement of PPP investment projects for the state needs of the Russian Federation constituent entities.

In the reporting year, the Bank completed obligations under public contracts for rendering investment consulting services for Astrakhan Region (construction of kindergartens), Yaroslavl Region (water and sanitation facilities), Irkutsk and Nizhny Novgorod Regions (airport infrastructure in Irkutsk and a crossover bridge across Volga in Nizhny Novgorod Region). Vnesheconombank’s

experts prepared procedural, institutional and financial models of projects, as well as sets of contractual and tender documentation.

The Bank concluded public contracts for investment consulting services to respond to the state needs of Perm Territory, Omsk, Orenburg and Rostov Regions, Republic of Bashkortostan.

The projects provided with Vnesheconombank’s investment consulting services include those in social and transport infrastructure.

1. Project Name	2. Project Value (preliminary)
Construction of watersports recreational complexes in Rostov Region applying PPP solutions	RUB 4.8 bn
Construction of a theatrical centre for children and youth in Orenburg	RUB 5 bn
Construction and operation of Omsk-Fyodorovka airport	RUB 16.9 bn
Construction of a new on-ramp from Ufa to the Ural M-5 federal highway (Eastern on-ramp)	RUB 25.2 bn
Construction of a regional Sterlitamak-Kaga-Magnitogorsk highway in Republic of Bashkortostan	RUB 20.0 bn
Reconstruction of Perm-Berezniki highway, section – the bridge across Chusovaya river km 22 + 157 – km 25 + 780	RUB 10.0 bn



## Program of Financial Assistance to Regional and Municipal Project Development

Vnesheconombank's Program of Financial Assistance to Regional and Municipal Project Development (FARMPD) primarily focuses on financial and non-financial support for the respective investment projects financed drawing on extra-budget funds.

The financial assistance measures included targeted loans and equity investments in project companies established by project initiators to facilitate the procurement stage, as well as financing at the pre-procurement stage of consulting and project companies against assignment of claims to public or municipal customers.

Non-financial assistance stipulates investment consulting services in procuring development projects, including preparation of legal documentation, feasibility study, tender documentation for selecting private investors and organization of project financing.

FARMPD Program operator is OJSC Federal Centre for Project Finance (FCPF) – Vnesheconombank's subsidiary company.

Under the FARMPD Program, Vnesheconombank provided capitalization support to FCPF totaling RUB 4.9 bn, including RUB 2.0 bn earmarked by the Bank to increase the authorized capital of the subsidiary in the reporting year.

In 2013, 70 project applications from Russian constituent entities were received. FCPF's governing bodies approved financing of 4 new investment projects for the total amount of RUB 460 mn (in 2012, under the FARMPD Program, FCPF approved allocation of RUB 997.5 mn to finance the procurement of 4 investment projects).

The projects financed under the FARMPD Program in 2013 include:

1. Project Name	2. Financing under the FARMPD Program
Construction of engineering and transport infrastructure of Evrograd multi-purpose complex (integrated development of south-western part of Bugrovskoe rural settlement, Vsevolozhsk municipal district, Leningrad Region)	up to RUB 350.5 mn (allocated RUB 146.7 mn)
Preparation of a feasibility study and tender documentation for an open competitive tender to be granted the right of concluding an investment agreement on integrated development of a section of Don M-4 highway from Moscow through Voronezh, Rostov-on-Don, Krasnodar to Novorossiysk (715-1319 km section) (integrated development of Don M-4 highway to meet the standards established for highways of 1 <sup>st</sup> category)	up to RUB 230.0 mn (allocated RUB 69.4 mn)
Integrated development of Ust-Luga commercial seaport and the adjacent territory (territories of Kuzemkinskoe, Ust-Luzhskoe, Vistinskoe rural settlements, Kingisepp municipal district, Leningrad Region)	up to RUB 395.0 mn (allocated RUB 19.0 mn)
Solid waste recycling and management in the left bank territory of Saratov Region (on the basis of a concession agreement) (environmental improvement in the region through the construction of a complex for solid waste recycling and management (disposal) on the basis of introducing innovative technologies for waste management)	up to RUB 100.0 mn (allocated RUB 42.2 mn)

## Developing PPP Legal and Regulatory Framework in Russia

Vnesheconombank, having an extensive knowledge and expertise in PPP project implementation, is actively involved in forming and upgrading the PPP legal and regulatory framework both at the federal and regional level.

In 2013, Vnesheconombank participated in developing draft federal laws «On Amendments to Federal Law “On Concession Agreements” and Certain Legislative Acts of the Russian Federation» and “On PPP Basics in the Russian Federation”, draft regulatory legal acts to subsidize an interest rate for debt financing raised for PPP projects in the area of social services and healthcare.

In the reporting year, Vnesheconombank continued its efforts in developing the legislation of Russian constituent entities governing the entities’ participation in PPPs. Vnesheconombank’s specialists offered their opinions and recommendations as to draft laws on participation in PPPs in Orenburg, Moscow, Leningrad, Volgograd, Irkutsk, Kostroma Regions, as well as recommendations on harmonization of the respective law of Krasnoyarsk Territory.

Alongside that, the Bank consulted public and municipal authorities of the Russian Federation constituent entities on upgrading the PPP regulatory framework.

## 2.3. Sustainable Integrated Territorial Development

An essential prerequisite for successful development of the regional economy is an integrated approach to territorial development based on the analysis of social and economic situation in the region, the investment opportunities and workforce capacity, the level and prospects of developing economic relations with neighbour regions.

By 2013, Vnesheconombank signed cooperation agreements with 59 constituent entities of the Russian Federation. During the reporting period, the Bank concluded agreements on cooperation with Kaliningrad,

Leningrad, Kirov, Ivanovo Regions and Republic of Bashkortostan.

Pursuant to the agreements the Bank develops the programs of financial and non-financial measures of regional support over the mid-term horizon – plans of joint measures by the VEB Group organizations and public authorities of the Russian Federation constituent entities for integrated territorial development. In 2013, the respective plans were signed with the Administration of Primorsk Territory, the Governments of Astrakhan and Rostov Regions.

In the reporting year, Vnesheconombank continued forming a database of potentially worthwhile investment projects to be implemented in the Russian Federation

constituent entities in the mid-term perspective. By year-end 2013, a database of 491 investment projects was created, including projects in single-industry towns.

## Activities in Kaluga Region

Vnesheconombank's cooperation with Kaluga region – the Bank's pilot project on integrated territorial development – is a good illustration of the efficient planning approach to the development of territories.

As at 01.01.2014, the amount of loans granted by Vnesheconombank for investment projects in Kaluga Region totaled RUB 25.7 bn (01.01.2013 – RUB 17.7 bn).

Vnesheconombank co-finances a project on developing the industrial park infrastructure (forming automobile and automotive component cluster), projects on construction of a pharmaceutical and a cement plant.

In the reporting year, Vnesheconombank made a decision to finance a project on creating a combined transport and logistics hub in Kaluga Region.

Besides, in 2013 the Administration of Kaluga Region signed an agreement with Vnesheconombank's subsidiary – LLC VEB Capital – intended for financing of long-term projects in transport, energy, housing and public utilities, as well as social infrastructure. Alongside that, the agreement stipulates a system of support for enterprises in dire financial condition.

## Activities in North-Caucasian Federal District

The reporting year witnessed the Bank's continued efforts to support projects in North-Caucasian Federal District (NCFD).

As at 01.01.2014, the portfolio of loans granted by Vnesheconombank within the framework of financing 6 investment projects in NCFD amounted to RUB 18.9 bn (01.01.2013 – RUB 14.7 bn).

A pivotal role in developing North-Caucasian Federal District is played by Vnesheconombank's subsidiary – OJSC North Caucasus Development Corporation (NCDC or the Corporation) - established to promote major regional projects. The Corporation's activities also include equity investments in project operators and consultative assistance to project initiators.

In 2013, Vnesheconombank increased NCDC's authorized capital from RUB 3.6 bn to RUB 7.6 bn.

Over the period under review, the amount of funds allocated by the Corporation for investment projects in NCFD increased more than 2.5-fold and as at 01.01.2014 totaled RUB 6.89 bn (01.01.2013 - RUB 2.7 bn). At year-end 2013, NCDC was co-financing 7 projects approximating to RUB 30.4 bn. The projects are expected to create more than 2000 new jobs and ensure above RUB 1.8 bn worth of annual tax receipts.

The year 2013 saw the launch of a plant to produce Aliumar aluminum slugs (within the framework of a project on creating the National Aerosol Cluster), the reception of tourists by Arkhyz tourist and recreational centre, the opening of a new high-mountain eco-hotel built under the project named "Developing the Adventure and Eco-tourism

in NCFD. North-Caucasian Mountain Club". The Corporation was one of the major financiers of the above projects.

Construction of Kazbek innovative technopark started in Chechen Republic. The technopark will combine interrelated production facilities engaged in manufacturing state-of-the-art construction materials for residential and public buildings.

Furthermore, in 2013 the Concept of an Integrated Program for Developing the Caucasus Mineral Waters Region up to 2025 was developed in cooperation with NCDC.

Vnesheconombank's Representative Office in Pyatigorsk actively assists Vnesheconombank and its subsidiaries in selecting projects to be implemented in NCFD. In 2013, the Representative Office forwarded for scrutiny by Vnesheconombank's subsidiaries 17 projects totaling RUB 17.5 bn.

## Activities in Far Eastern Federal District and Baikal Region

For Vnesheconombank, one of priority business lines is enhancing the attractiveness of the Far East and Baikal Region and removing infrastructure constraints to realizing the region's considerable economic potential.

At the beginning of the reporting period, Vnesheconombank was co-financing 8 investment projects delivered in Far Eastern Federal District (FEFD). As at 01.01.2013, the amount of credits extended for project delivery totaled RUB 43.7 bn.

By the end of 2013, Vnesheconombank was engaged in financing as many as 10 investment projects in FEFD, with the Bank's commitment increased up to RUB 50.3 bn.

In order to procure and arrange financing of investment projects in the region, Vnesheconombank has established a subsidiary – OJSC Far East and Baikal Region Development Fund (the Fund).

In 2013, the Fund's authorized capital increased by RUB 15 bn (up to RUB 15.5 bn) due to a targeted subsidy granted to Vnesheconombank. The above resources are earmarked for priority investment projects on developing industry, transport and energy infrastructure in Far East and Baikal Region.

As at 01.01.2014, the Fund conducted a complex expert evaluation of infrastructure projects for the construction of

Nizhneleninskoe-Tongjiang railway border crossing across the Amur River (mining and smelting cluster in Priamurye) and development of Vladivostok international airport, as well as an investment project on creating a fishing cluster on Shikotan (Kuril Islands) on the basis of CJSC Ostrovnoy Fish Works.

The Fund is also scrutinizing investment projects in which it may be involved as a project initiator/developer.

Vnesheconombank's Representative Office in Khabarovsk actively participates in identifying and selecting regional projects aiming to involve Vnesheconombank and

its subsidiaries in project delivery. At the end of 2013, the Representative Office was scrutinizing 12 investment projects totaling about RUB 102.7 bn.

In 2013, the Plan of Joint Actions by the VEB Group and Administration of Primorsk Territory stipulating integrated territorial development of Primorsk Territory for the period 2013-2018 (the Plan) was approved. The Plan includes 11 investment projects in Far Eastern Federal District and Baikal Region for the total amount of RUB 273.3 bn. Vnesheconombank will co-finance 8 projects totaling RUB 218.3 bn.

## 2.4. Support for Single Industry Towns

In the year under report, Vnesheconombank continued to develop its activities aimed at the support for and diversification of the economy in single industry towns.

Vnesheconombank participates in financing projects designed to ensure the stable operation and modernization of the existing backbone enterprises, projects on the construction and reconstruction of critical infrastructure, as well as projects on the setting-up of new manufacturing facilities.

In 2013, Vnesheconombank proceeded to finance 6 of such projects for the total amount of RUB 110.8 bn, with Vnesheconombank's commitment standing at RUB 67.7 bn.

The amount of loans extended by Vnesheconombank to deliver projects in single industry towns increased over the year by almost 61% to reach RUB 97.8 bn as at 01.01.2014 (against RUB 60.7 bn as at the beginning of 2013<sup>5</sup>). As at the reporting date, Vnesheconombank took part in the financing of 16 of such projects. In 2013, Vnesheconombank extended RUB 42.7 bn to finance projects in single industry towns.

Furthermore, one more project totaling RUB 16.5 bn was approved for financing, with Vnesheconombank's commitment standing at RUB 6.8 bn.

Overall, since its inception as a development bank till the end of 2013, Vnesheconombank

<sup>5</sup> Due to adjustments in approaches to the categorization of loans extended to finance single industry town projects,

the respective changes were made to the amount of the respective loan portfolio as at 01.01.2013.

rendered financial support to 24 projects delivered in municipalities that enjoy, since 2010, the single industry town status. The financing of 8 projects totaling RUB 27.3 bn is completed, with more than RUB 19.3 bn worth of loans extended by Vnesheconombank for their delivery having been fully repaid.

Still another 8 projects totaling RUB 38.9 bn are at different stages of consideration by Vnesheconombank. Vnesheconombank's intended commitment approximates to RUB 31.0 bn.

Delivery of the projects, whose financing by Vnesheconombank is completed, underway or intended, would help create some 6000 jobs.

At the end of 2013, in compliance with the Russian Government's Instruction dated 12.11.2013 No. DM-P12-84pr, paragraph 9, and in order to step up its efforts to launch

investment projects in single industry towns, Vnesheconombank took a decision to establish a project office (the Project Office) based on its subsidiary to procure single industry town development projects.

The Project Office would focus on the search for and selection of investment projects in single industry towns, preparation of pre-procurement and project documentation and fundraising, as well as on information support to their delivery.

Following an easing in requirements to the total value of investment projects on single industry town development eligible for financing by Vnesheconombank (to RUB 1 bn), and to the minimum amount of such financing (to RUB 0.5 bn)<sup>6</sup> Vnesheconombank in 2013 took measures to select the respective projects and built a pipeline of 38 projects for further consideration.

## 2.5. Interaction with the Agency for Strategic Initiatives

In 2013, Vnesheconombank continued its cooperation with the autonomous non-commercial organization Agency for Strategic Initiatives (the Agency) with a view to promoting unique projects and initiatives of state dimension delivered in the sphere of SME and social infrastructure.

In the context of investment consulting, Vnesheconombank is finalizing the sets of project documents presented by the Agency, including feasibility analysis, financial models, business plans and investment memorandums.

<sup>6</sup> In compliance with the amendments made to Vnesheconombank's Memorandum on Financial Policies in

December 2012 (Resolution by the Russian Federation Government No. 2311-r dated 10.12.2012).

In the reporting period, Vnesheconombank completed the work on the RUB 2 bn project on Construction of High-Tech Complex to Produce Basalt Plastic Composites in Yakutsk. The project provides for the construction of a manufacturing facilities complex to produce basalt continuous fiber and associated nanostructured basalt plastic materials, reinforcement bars, road mesh, pipes and concrete structures for Russia's northern and eastern regions. The project would help decrease materials consumption and cut down expenses related to transportation of construction supplies from Russia's central regions for residential development, industrial construction and road building.

Furthermore, Vnesheconombank conducted an express analysis of information in respect

of 81 projects submitted to the Agency's Expert and/or Supervisory Board for consideration, including 52 investment projects and 29 social and professional projects (education, professional advancement, professional standards development, and certification).

In 2013, the Agency presented to Vnesheconombank 3 investment projects totaling RUB 7.5 bn for consideration of financing capabilities and Vnesheconombank's participation.

In the year under report, Vnesheconombank provided the Agency with RUB 150 mn worth of the non-for-profit support to promote the Agency's activities.

## Interaction with the Skolkovo Foundation

Today, modernization and reorientation of Russia's economy towards innovative development are the state recognized key lines of economic reforms in the Russian Federation.

A number of development institutions were established specifically with a view to boosting innovations through financial, information and infrastructural support to innovative projects at various stages of delivery. Among them are The Foundation for Development of New Technologies Development and Commercialization Centre (Skolkovo Foundation) and the autonomous non-commercial educational institution for higher professional education Skolkovo Institute of Science and Technology with Vnesheconombank as one of the co-founders.

Furthermore, Vnesheconombank established a non-commercial organization The Fund to Operate the Financial Aid Program for Innovation Projects of Skolkovo Foundation (VEB-Innovations Fund). The Fund's primary objective is to support projects delivered by the Skolkovo Foundation's residents.

As at year-end 2013, VEB-Innovations approved financing for 17 projects totaling more than RUB 440.0 mn.

The financing of 14 projects is under way with RUB 324.1 mn worth of funds already extended.

The projects financed by the Fund include a project on developing a cancer vaccine and anticancer viral therapy based on the Van Meir viruses and a project on developing and commercializing the results of the

studies on the new-generation Manta micro-chip for AMI in electricity-, gas-, and water supply.

Also in 2013, VEB-Innovations Fund continued its non-financial support in personnel training and retraining for

government-owned companies, regional administrations and entrepreneurs based on the facilities of the Higher School of Economics Banking Institute and the Lomonosov Moscow State University Business School, and developed educational guidance materials on venture capital investment.

## 2.6. Support for Small- and Medium-Sized Enterprises

Vnesheconombank views developing SMEs as one of the crucial prerequisites for the economic development.

Undoubtedly, affordable debt financing for SMEs is a key to their rapid growth.

SME Financial Support Program (the Program) is designed to provide SMEs with access to inexpensive credit resources with a desired maturity. The Program is run by

Vnesheconombank's subsidiary OJSC Russian Bank for Small and Medium Enterprises Support (SME Bank).

A considerable emphasis is also placed on upgrading the available mechanisms and devising the new ones to support projects delivered by SMEs, in particular, using the funds raised from foreign and international financial institutions.

### SME Financial Support Program

In order to implement the Program, Vnesheconombank increased the SME Bank's capital and provided the subsidiary with long-term credit resources.

Overall, Vnesheconombank channeled RUB 12.5 bn, of which RUB 0.542 bn – in 2013, to increase the subsidiary's authorized capital.

As at 01.01.2014, the amount of long-term loans extended by Vnesheconombank to SME Bank totaled RUB 41.8 bn (as at 01.01.2013 – RUB 39.0 bn). The year under report witnessed a number of practical steps intended to put into practice the Memorandum of Understanding signed in November 2012 between the Permanent International Secretariat of the Council of the Baltic Sea States, German development



bank KfW, and Vnesheconombank. Under the USD 110.0 mn loan facility opened by KfW, Vnesheconombank raised USD 87.0 mn worth of funds and extended same as a 5-year loan to SME bank. The funds are earmarked to finance innovative projects delivered by non-trading SMEs in the North-western Federal District as part of a pilot financial initiative for Russia's Baltic Sea regions (St.-Petersburg, Leningrad Region, Kaliningrad Region), as well as Pskov and Novgorod Regions.

When carrying out the Program, the priority should be given to regions with a tough economic environment, and, in particular, to SME development in single-industry towns. The principal focus is on support for the

non-trading sector, primarily, manufacturing companies, and SME innovative projects on modernization, energy efficiency and social infrastructure.

The Program covers all the key segments of the SME financing market, from large long-term loans to microfinance. Worth noting is that medium-sized (RUB 20 to 50 mn) and massive (over RUB 50 mn) loans predominate in the SME financing portfolio.

As at the end of 2013, support under the Program was provided to SMEs representing more than 80 constituent entities of the Russian Federation, in particular, to SMEs in 167 single industry towns.

## Program Performance in 2013

**RUB 96.15 bn**

*worth of funds provided to SMEs as at 01.01.2014*

The outstanding debt owned by SMEs to SME Bank's partners<sup>7</sup> in the Program increased in 2013 by 16.6% to reach RUB 96.0 bn as at the end of the reporting period (as at 01.01.2013 – RUB 82.3 bn).

The funds channeled by SME Bank to build the SME support infrastructure amounted to RUB 0.15 bn as at the end of the reporting period.

**72.25%**

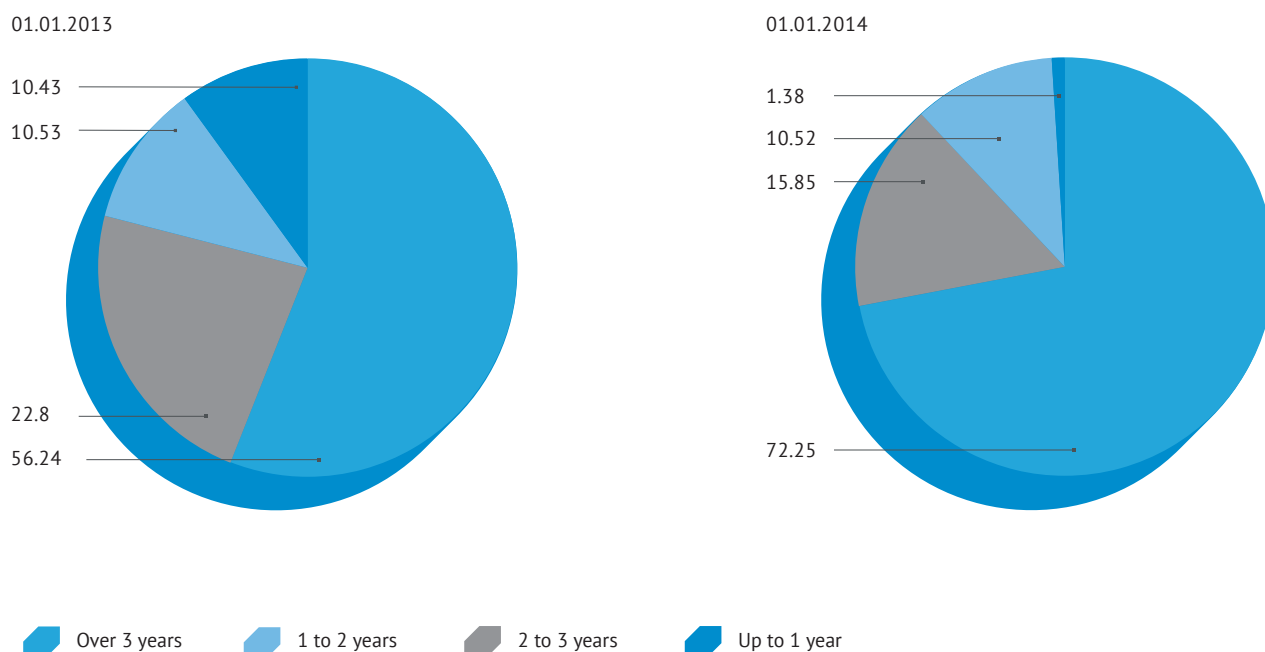
*Share of loans with maturity of over 3 years in total loans to SMEs is 72.25%*

The year 2013 witnessed continued efforts to extend the maturities of loans to SMEs. As at 01.01.2014, the share of loans maturing in more than 3 years in the total amount of SME indebtedness considerably exceeded the previous year figure (as at 01.01.2013 – 56.2%). Moreover, the share of loans with the maximum maturity of 1 year, dropped from 10.43% as at 01.01.2013 to 1.38% as at 01.01.2014.

<sup>7</sup> Partners of SME Bank are the recipients of its funds in compliance with the Program, i.e. regional banks engaging in local SME finance, and infrastructure companies (leasing

and factoring companies, micro-financing institutions, regional funds and private equity funds).

### Portfolio of loans extended to SMEs by partners: maturity structure, %



# 12.7%

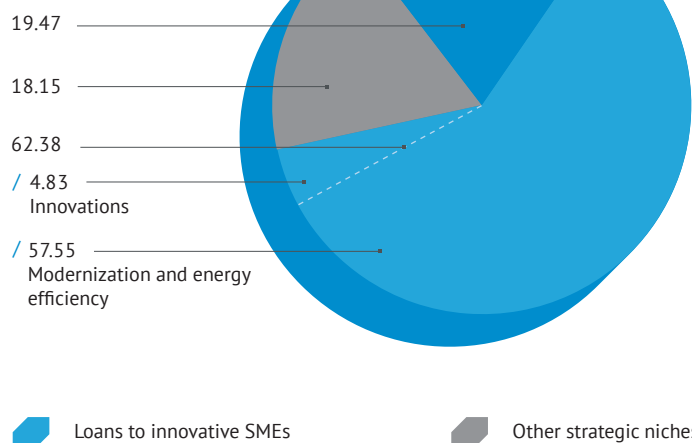
*Average weighted interest rate for loans extended  
to SMEs by partner banks – 12.7%*

In 2013, the interest rates for SMEs were kept at a level almost comparable to that of 2012 despite a slight upward trend in the respective lending market. The average weighted rate applicable to SME loans in compliance with the Program was, as at 01.01.2014, noticeably lower than that prevailing in the market (15-17% p.a.).

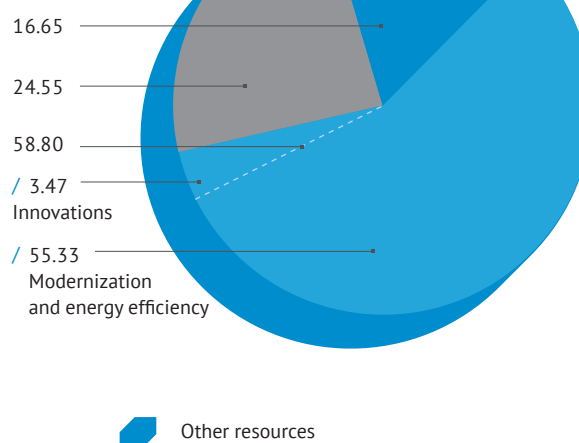
A significant event of the year 2013 was the adoption of the SME Bank's Strategy for 2013 – 2015 that determined the priority segments in SME financing. In particular, the priority is given to innovative SMEs, non-trading SMEs beyond the innovative sector, and other non-trading SMEs. Furthermore, the Strategy defined strategic niches in relation to priority client segments. One of such niches is lending to innovative SMEs (those engaged in commercialization of scientific achievements, modernization of productive assets and practical implementation of power efficiency technologies) and long-term financing for non-trading non-innovative SMEs.

## Portfolio of loans extended to SMEs by partners: strategic niche structure, %

01.01.2013



01.01.2014



Along with SME Bank, development objectives are being accomplished by other subsidiaries of Vnesheconombank including Sviaz-Bank, GLOBEX Bank and VEB-Leasing.

As at 01.01.2014, the loans extended by Sviaz-Bank and GLOBEX Bank to SMEs totaled RUB 31.5 bn, the amount of lease contracts concluded by VEB-Leasing exceeded the same indicator of the early 2013 by 74.7% to make RUB 51.3 bn.

## Guarantees as a mechanism to support medium enterprises

The year 2013 witnessed the launch of a guarantee mechanism to support medium enterprises. The mechanism is designed to enhance the capability of medium enterprises to raise finance from credit institutions to deliver investment projects.

This new form of support provides for SME Bank to issue guarantees under medium enterprises' obligations to creditor banks in the amount of up to 50% of the loans obtained. The total guarantees by SME Bank

were set at RUB 40.0 bn. SME Bank's obligations under such bank guarantees are fully covered by Vnesheconombank's bank guarantee, which, in its turn, is secured by the sovereign guarantee of the Russian Federation. Thus, the guarantee mechanism would allow medium-sized enterprises to raise no less than RUB 80.0 bn worth of credit resources.

The functions of the guarantee mechanism operator are delegated to SME Bank and

provide for, among other things, selection of borrowers and their investment projects.

By year-end 2013, SME Bank issued some RUB 1.1 bn 9 worth of bank guarantees

employing this guarantee mechanism. The loans granted to medium enterprises against such guarantees approximated to RUB 2.2 bn.

## International Entrepreneurship Support Fund

During the 2013 St.-Petersburg International Economic Forum, Vnesheconombank and European Investment Bank signed a loan agreement providing for USD 150.0 mn to be allocated to Vnesheconombank. The funds will be used to finance the International Entrepreneurship Support Fund (the Fund) established by the decision of Vnesheconombank and KfW.

The Fund's objective is to provide SMEs with affordable long-term resources extended by international financial institutions.

In November 2013, documents laying down the major principals of the Fund's activities were presented to the Financial Sector Supervisory Commission, Luxembourg (CSSF) for preliminary approval.

## Cooperation with foreign financial institutions

For the Bank, promoting cooperation with international and foreign financial institutions is still another important business line aimed at both greater investments in SMEs engaged in innovations and export-oriented production, and experience exchange.

The practical result of such efforts was an agreement signed with EIB to grant the Russian party a EUR 200.00 mn targeted loan to promote SMEs.

Furthermore, Vnesheconombank signed a cooperation agreement on SME promotion with French development bank Bpifrance SA and a cooperation agreement with its subsidiary Bpifrance Financement SA to

engage French companies in Skolkovo Innovation Centre projects.

The Agreement with Bpifrance Financement SA provides for a research into the Russian and French SMEs trade and economic cooperation potential. The research results would help assess the feasibility of establishing Russian-French funds in order to support Russian and French companies. The parties will also study opportunities for introducing in Russia the EuroQuity Platform designed to search for investors and partners in project delivery.

In compliance with the agreement signed with Vnesheconombank and Skolkovo Fund, Bpifrance Financement SA intends to give

financial support to French SMEs wishing to invest in Russia. Moreover, the French business will be also given an insurance protection against possible economic risks in Russia to cover up to 50% of possible losses.

The year 2013 witnessed a seminar on experience exchange between specialists from Brazil development bank BNDES and Vnesheconombank, and a business visit of Vnesheconombank and SME Bank's representatives to the Republic of South Africa to draw on the experience of SME support of

the local financial institutions (DBSA, IDC, and Small Enterprise Development Agency).

Moreover, Vnesheconombank took part in the work of the International Association of Development Banks and Financial Institutions Montreal Group. Vnesheconombank contributed to an online storage of information on SME support to be created based on a common electronic platform (the Association's website) enabling the participants to promptly exchange information on SME support.

## 2.7. Vnesheconombank's Program of Investment in Projects on Affordable Housing Construction, and Mortgage Services

With a view to stimulating mortgage lending and increasing its affordability for the wider population, Vnesheconombank in 2010 launched its 2010 – 2013 Program of Investment in Construction of Affordable Housing, and Mortgage Loans (the Program).

The Program provides for the total of RUB 250 bn to be invested in debt securities and extended in the form of loans:

/ Up to RUB 150 bn in mortgage-backed bonds (mortgage bonds). Up to RUB 50 bn of Vnesheconombank's own funds and up to RUB 100 bn of the funds under the management of Vnesheconombank as the State Trust Management Company;

/ Up to RUB 60 bn in state guaranteed obligations of the Agency for Housing Mortgage Lending (AHML). Pension savings managed by Vnesheconombank as the State Trust Management Company;

/ Up to RUB 40 bn for lending to AHML. Funds of the Sovereign Wealth Fund allocated to Vnesheconombank in compliance with Federal Law No. 173-FZ (the funds were provided by AHML in full in 2012).

In 2013, credit institutions participating in the Program completed granting mortgage loans to individuals at the rate not exceeding 11% p.a. The Program lifecycle in terms of Vnesheconombank's redemption of

mortgage bonds was extended to the end of 2014.

As at 01.01.2014, debt securities purchased by Vnesheconombank under the Program totaled RUB 71.72 bn in nominal terms, in particular over the reporting period:

- / the amount of mortgage-backed bonds increased from RUB 19.16 bn to RUB 42.34 bn (debt securities purchased with pension savings – up to RUB 28.23 bn, and with Vnesheconombank's own funds – up to RUB 14.11 bn);
- / the amount of AHML state guaranteed bonds acquired using pension savings increased from RUB 28.68 bn to RUB 29.38 bn.

From the Program's inception till the year-end 2013, its participants received over RUB 330 bn worth of gross mortgage loans. The total area of residential properties acquired (under construction) amounted

to no less than 4 mn square meters. Since the launch of the Program, the average weighted interest rates applicable in the Russian Federation to housing mortgages in rubles in the primary and secondary housing market decreased from 13.70% to 12.40% p.a.<sup>8</sup> (early in the year 2012 the rates decreased to 11.80% p.a.).

Furthermore, to boost the construction of affordable housing, Vnesheconombank used its own funds to refinance the loans extended by credit institutions participating in the Program to developers of low-income housing, at the rate not exceeding 10% p.a. The refinancing loans were extended by Vnesheconombank for maturities of up to 31.12.2013 at the interest rate of 3% p.a. in the maximum amount of 1/3 of the resources made available by the respective credit institution. Overall, the funds extended to that end to 6 banks by the beginning of 2013 ran at RUB 8.871 bn. By the end of the year under report, the funds were fully repaid.

## 2.8. Vnesheconombank's Investment-Related Educational Projects

Vnesheconombank actively participates in educational activities aimed at training highly professional human resources for investment operations and encouraging investments. To build a talent pool to promote investments, Vnesheconombank has

launched the Educational Project for Specialist Participants in Investment Projects Supported by Development Institutions, and supports other programs and training events, in particular, those pertaining to PPP.

<sup>8</sup> According to Russia's Central Bank (Analytical Data on the Residential Mortgage Lending Market in 2013).

## Training for Specialist Participants in Investment Projects Supported by Development Institutions

The year under report saw the following events organized as part of Vnesheconombank's educational project:

- / Practical seminars "VEB Group: Mechanisms to Support SMEs in the Northwestern Federal District", "Vnesheconombank: PPP Projects in the Urals Federal District", "PPP Development in Sakhalin Region", "SME Support Mechanisms in Sakhalin Region" and "Practice of Investment Project Procurement and Management";
- / Business games "How to Efficiently Manage an Investment Project from Procurement to Delivery", "Infrastructure Project Procurement and Management Practice" and "Industry Project Procurement and Management Practice";
- / Consultations, trainings, lectures and master-classes during the Technological Business session of the Zvorykin Project at the Seliger-2012 All-Russian Youth Educational Forum;
- / Training "Investment Project Procurement: Vnesheconombank and its Partners' Practices";
- / Educational service "How to Efficiently Procure and Manage an Investment Project?" under the auspices of the Engineers of the Future 2013 International Youth Industrial Forum for young engineers and economists from large industrial enterprises;

- / Practical seminar "VEB Group: Mechanisms of Financial and Guarantee Support to Exports in the Russian Federation and Military-Industrial Complex" under the auspices of the IX International Exhibition of Arms, Military Equipment and Ammunition Russia Arms Expo 2013.

Vnesheconombank takes consistent measures seeking to build a talent pool from among the youth, and foster scientific, practical and research work of the youth in Russia's regions.

To illustrate, such measures in 2013 included:

- / A contest of student and post-graduate papers in which final-year students, master's students and post graduates of the Rostov State Economic University researched into the economic and investment potential of the Southern Federal District;
- / A contest for the best innovative project among young entrepreneurs. The awards ceremony took place during the II Moscow International Forum on Innovative Development "Open Innovations 2013";
- / 10 meetings of the Youth Club under the auspices of Vnesheconombank as part of the scientific and practical session "The Integrated Development of Territories".

## PPP-Related Educational Activities

Since 2011, the Financial University under the Government of the Russian Federation has been operating the PPP Chair established with Vnesheconombank's assistance.

In 2012, the Chair admitted students for a 2-year Master's program PPP Project Management. In the year under report, 16 students were still undergoing training under the Program, whereas another 18 students were admitted for the Master's program 2013-2015.

In July 2013, the Chair started a graduate school with a specialization in Economics and National Economy Management to train academic and teaching personnel in PPP.

Moreover, the reporting year saw 2 refresher courses held for the Russian PPP project market participants "Setting up and Developing

PPPs in Russian Regions". The program was attended by 84 participants from 42 constituent entities of the Russian Federation.

As part of the educational project Training for Specialist Participants in Investment Projects Supported by Development Institutions, 120 representatives of government agencies and local municipal authorities from 3 constituent entities of the Russian Federation took part in field working seminars organized in Russian regions in the year under report.

With a view to providing the PPP market with information and methodological support, Vnesheconombank created the PPPs in Russia website at [www.pppinrussia.ru](http://www.pppinrussia.ru). The number of the website visits in 2013 – over 51 thousand – is indicative of an increasing interest in this resource.

## 2.9. Export Support

An essential and necessary condition for the Russian economy to achieve rapid qualitative growth and become highly competitive is exploiting export potential and diversifying the national exports. Alongside increased sales geography and stepped-up exports, a far higher priority is placed on the launch of Russian complex manufacturing products in foreign markets.

Among Vnesheconombank's priorities as a bank for development is active support for Russian hi-tech exports.

Notably, an integrated approach to accomplishing the tasks set is viewed by Vnesheconombank as a major success factor. This includes additional directions and improved mechanisms of support for Russian manufacturers, including SMEs, and continuous support efforts throughout the product lifecycle – from designing and manufacturing export goods and services to after-sales services.

Vnesheconombank is steadily increasing the volumes of financial support for Russian industrial exports.



Over 2013, Vnesheconombank's portfolio of loans extended to support Russian exports demonstrated a more than 1.5-fold increase and as at 01.01.2014 reached RUB 22.5 bn (01.01.2013 – RUB 14.64 bn).

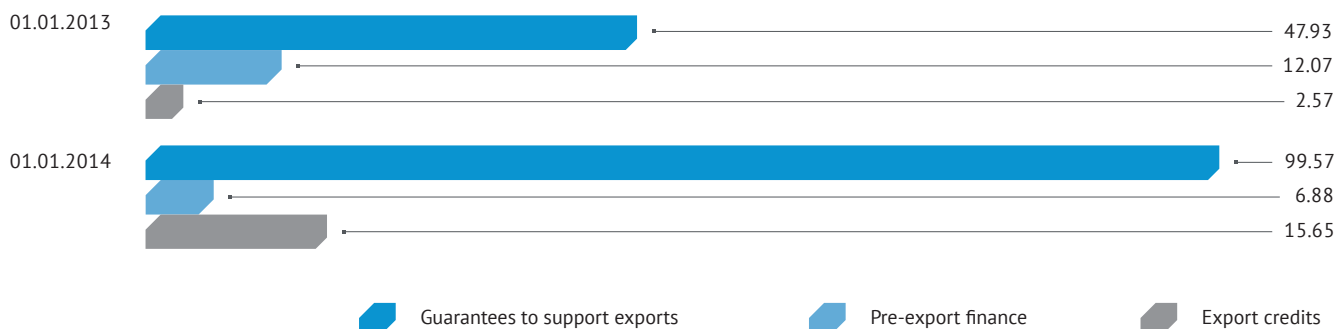
Vnesheconombank's portfolio of guarantees issued to support Russian exports demonstrated a more than 2-fold increase – from RUB 47.93 bn at the beginning of 2013 to RUB 99.57 bn as at 01.01.2014.

The major regions in the focus of Vnesheconombank's export support efforts included the CIS countries, South and East Asia, Central and Eastern Europe, Latin America, North and Central Africa. The Bank's export support priorities included aircraft building and rocket and space

complex, nuclear and traditional power, transport machine building, defense industry, Russian hi-tech exports.

Besides, in 2013 Vnesheconombank in cooperation with Russian Ministry of Economic Development, Ministry of Industry and Trade and Ministry of Finance finalized the regulatory base and proceeded to practical implementation of the mechanism for granting by Vnesheconombank of export credits on preferential terms to foreign purchasers of Russian hi-tech goods using state subsidies. Applications for using subsidies under 4 export credits were sent by Vnesheconombank for consideration by the Russian Ministry of Economic Development and Ministry of Industry and Trade.

#### Development dynamics: export support activities (RUB, bn)



## Granting Export Support Loans

Export loans (those extended to foreign banks and foreign non-bank financial institutions, including authorized executive authorities of foreign countries) account for about 70% of Vnesheconombank's gross portfolio of loans intended for export support. The remaining part of the portfolio

consists of pre-export finance (loans to Russian non-credit institutions to manufacture export-oriented products).

In 2013, the amount of export loans demonstrated a 6-fold increase – from RUB 2.6 bn

as at 01.01.2013 to RUB 15.7 bn as at 01.01.2014.

Export loans granted by Vnesheconombank in 2013 include:

- / a USD 6.42 mn loan to finance the deliveries of Sukhoi Superjet 100 aircraft to Interjet (ABC Aerolineas, S.A. de C.V.), a Mexican airline company. The deliveries are made in compliance with the standing order agreement for purchasing 20 Sukhoi Superjet 100 aircraft and potential acquisition of 10 additional aircraft concluded in 2012 by Interjet with SuperJet International – a joint venture established by Alenia Aermacchi and Sukhoi Holding. The transaction is insured by SACE (Italian Republic) and Coface (French Republic) export credit agencies;
- / a USD 4.71 mn loan to HIDROTOAPI E.P. (Republic of Ecuador) to finance the purchase of Russian power equipment for the construction of Sarapulio and Allurikin HPPs, as well as Toachi mini HPP (Toachi-Pilaton project). The transac-

tion participants are Gazprombank OJSC, Gazprombank (Switzerland) Ltd and Russian Commercial Bank (Cyprus) Ltd. The project is implemented within the framework of a foreign trade contract between HIDROTOAPI E.P. and INTER RAO OJSC.

Alongside that, Vnesheconombank granted a USD 3.2 mn loan to Bank BelVEB (Belarus) to finance Vitebskenergo (Vitebsk, Republic of Belarus) for the purchase of Russian hi-tech power engineering products – high-pressure preheaters produced by EMAliance (Taganrog, Rostov Region, Russia). Vnesheconombank's project risks are insured by EXIAR. This is a pilot project within the framework of organizing a system of export support using a one stop principle enabling Russian exporters and foreign buyers to make electronic filling and submission of primary documents.

As at 01.01.2014, the total amount of loans extended by Vnesheconombank under pre-export finance reached RUB 6.9 bn. The credit recipients are primarily enterprises of aircraft building and other machine building industries.

## Guarantees within the Framework of Export Support

Over 2013, Vnesheconombank extended 121 guarantees totaling RUB 69.11 bn as part of export support activities.

These include 59 guarantees for USD 1,894.78 mn, EUR 10.10 mn and INR 30.00 mn issued at the request of Russian exporters to secure their obligations towards foreign customers under contracts for the delivery of hi-tech industrial products.

Besides, the Bank issued guarantees for RUB 1.19 bn, USD 64.49 mn and EUR 101.09 mn to secure the obligations of EXIAR. As at 01.01.2014, Vnesheconombank's portfolio of guarantees under EXIAR's obligations was equivalent to RUB 8.54 bn.

At year-end 2013, the gross portfolio of guarantees extended by Vnesheconombank to support exports reached RUB 99.6 bn.

In total, at the end of 2013 Vnesheconombank issued guarantees for beneficiaries from 19 countries, including Asian, African, Latin American and CIS countries.

Due to optimization of Vnesheconombank's guarantee mechanisms initiated in 2012 and

simplified procedures of adopting decisions by Vnesheconombank's governing bodies under specific guarantee operations, including those related to the support of Russian industrial exports, the Bank could substantially extend cooperation with a number of its counterparties.

## Integrated Approach to Export Support

In compliance with Directive by the Russian Federation Government No. DM-P13-14pr dated 11 March 2013, Vnesheconombank was designated as a coordinator of activities related to integrated support for exports of Russian goods, works and services that envisage, among other things, the one stop shop approach in processing of applications.

Pursuant to the Directive, the Bank started introducing the one stop shop system within the framework of export support that would enable Russian exporters to get integrated support by the VEB Group members.

One of the key elements of the system is EXIAR that is involved in insuring Russian exporters of goods and services, as well as Russian investments abroad against entrepreneurial and political risks.

On each insured transaction, EXIAR can cover up to 95% of losses in case of occurrence of a political risk and up to 90% - in case of a commercial risk.

Other Vnesheconombank's subsidiary – ROSEXIMBANK – is also acting as an agent bank for extending state guarantees intended for supporting Russian industrial exporters.

Still another active export supporter is Vnesheconombank's subsidiary VEB-Leasing engaged in deliveries of Russian products to foreign markets under leasing contracts.

In 2013, Vnesheconombank took further efforts to harmonize regulatory procedures governing the Bank's export support activities. Specifically, Vnesheconombank's Procedure for Partial Reimbursement of Costs Related to Supporting the Manufacture of Hi-tech Products was elaborated. Besides, the Bank in cooperation with EXIAR prepared and approved the procedure for providing financial and insurance support for the delivery of Russian hi-tech products to foreign markets.

In order to organize an integrated provision of information and consultative services to Russian exporters using the one stop shop approach, Vnesheconombank has elaborated and posted on the Bank's website an automated Query Service for key export support priorities.

In 2013, to foster its export support activities, Vnesheconombank established a Project Group to optimize and develop business processes for providing export finance and a Working Group for developing and introducing the products of financing SME exports.

## 2.10. Borrowing in Capital Markets

For Vnesheconombank, in view of the long-term tenors and huge amounts of resources required for financing major investment projects, the task of forming and replenishing an appropriate resource base becomes a defining factor for increasing the Bank's lending and investment activities.

In the reported period, raising loans from foreign banks and borrowing through placement of debt securities in the domestic and foreign capital markets served as the major sources of funding required to accomplish the task.

In 2013, pursuing a soft monetary policy by major global banks allowed for maintaining profitability in the debt capital markets at a relatively low level. At the same time, starting from mid-2013 the costs of borrowing started to grow reflecting the intention to wind up the QE programs conducted by the Federal Reserve System (FRS).

In 2013, the liquidity situation in the domestic market remained tense enough.

Alongside pressures resulting from the capital outflow from Russia, such a negative factor as the interbank credibility crisis related to revocation of banking licenses from a number of banks only exacerbated the liquidity challenges.

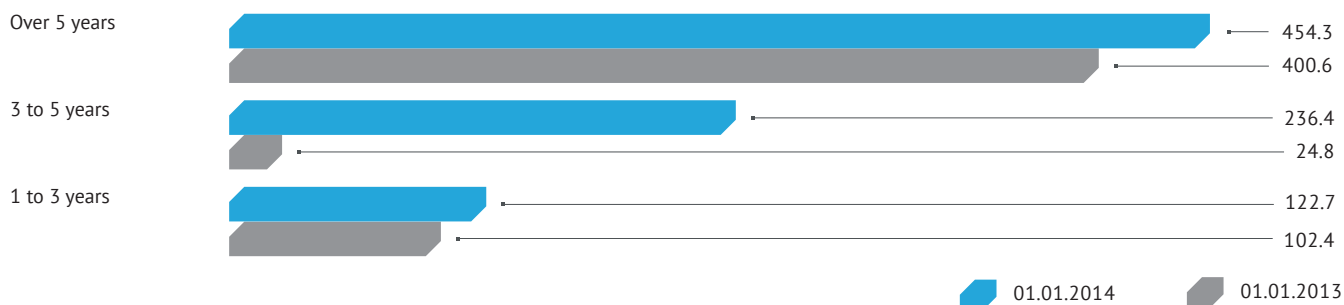
But despite a complicated situation in the capital markets, Vnesheconombank succeeded in implementing plans to attract funding for further developing its lending and investment activities.

In 2013, the Bank attracted mid- and long-term resources in the total amount that is equivalent to RUB 273.5 bn, with 178.5 bn (65.3%) being the funds raised as a result of placement of Vnesheconombank's debt securities in the capital markets.

As at 01.01.2014, the overall amount of funds raised by Vnesheconombank for a term of no less than 1 year demonstrated a 54% increase on the similar indicator posted at the start of the period under review.

1. Indicators RUB, bn	2. 01.01.2013	3. 01.01.2014
Amount of credits obtained from banks (maturity – over 1 year)	256.6	342.7
Amount of resources raised through placement of Vnesheconombank's debt securities, total including:	271.2	470.7
/ amount of Eurobonds issued	166.0	311.8
/ amount of domestic ruble-denominated bonds	90.0	142.5
/ amount of domestic foreign currency-denominated bonds	15.2	16.4
TOTAL amount of resources raised in capital markets	527.8	813.4

## Structure of funds borrowed in capital markets (by maturity), RUB bn



The amount of resources raised for a term exceeding 5 years rose by 13.4% as compared to the beginning of 2013 to run at RUB 454.3 bn as at 01.01.2014, while the

amount of resources raised for a term from 3 to 5 years witnessed 10-time growth to reach RUB 236.4 bn as at the reporting date.

## Raising resources from foreign banks

The period under review saw the signing by Vnesheconombank of 16 individual and multilateral loan agreements with foreign banks to raise mid- and long-term funding to finance investment projects ("tied" resources) in the equivalent of USD 2.9 bn.

The resources from foreign banks are raised either at market rates or even at lower rates in the event of an appropriate coverage provision by export credit agencies.

In 2013, the hallmark agreements on extension to the Bank of major commercial credits included:

- / 2 loan agreements with China Development Bank (China) in the amount of USD 1.2 bn (USD 400 mn, the tenor of 10 years and USD 800 mn, the tenor of 6 years) to finance a project for the construction of a multifunctional complex on the territory

of OJSC Slava ( Second Watch Factory) and a project for the construction of the 3<sup>rd</sup> power generating unit at the Ekibastuz HPP-2 in Republic of Kazakhstan;

- / a loan agreement with a number of foreign banks totaling USD 700 mn, the tenor - 5 years, to finance a project for the construction of Boguchansk aluminum plant.

In order to raise long-term ruble-denominated resources Vnesheconombank concluded an individual loan agreement with HSBC Bank Plc. (Great Britain) amounting to EUR 25.2 mn (with the extension of funds in the ruble equivalent), the tenor – 8 years, to finance an investment project implemented by LLC Kaluga Cement Plant. The insurance cover was provided by Eksport Kredit Fonden (Denmark).

## Raising resources with the use of securities market instruments

In the course of 2013, Vnesheconombank placed 4 bond issues both in the domestic and foreign markets.

recognize the placements were made at favorable enough rates, which obviously reflects the Bank's borrowing credibility.

Actually, the amount of placed euro- and dollar-denominated Eurobonds totaled EUR 1.5 bn and USD 2 bn, respectively. We

The total amount of bonds placed in the domestic market stood at RUB 52.5 bn.

1. Bond issue: amount, currency 2013	2. Date of bond placement	3. Maturity	4. Coupon rate (%)	5. Rating Fitch/S&P
<b>Foreign market</b>				
EUR 1000 mn	21.02.2013	5 years	3.035	BBB/BBB
EUR 500 mn	21.02.2013	10 years	4.032	BBB/BBB
USD 850 mn	21.11.2013	5 years	4.224	BBB/BBB
USD 1150 mn	21.11.2013	10 years	5.942	BBB/BBB
<b>Domestic market</b>				
RUB 20 bn	19.07.2013	3 years (with a 2-year blackout period)	7.65	BBB/BBB+
RUB 10 bn	03.10.2013	5 years	8.1	BBB/BBB+
RUB 7.5 bn	03.12.2013	7 years	8.35	BBB/-
RUB 15 bn	26.12.2013	5 years	8.4	BBB/BBB+

In spite of the unstable market environment, the number of investor applications for Vnesheconombank's 5-year and 10-year euro-denominated Eurobonds exceeded the offer by more than 3 and 2 times, respectively. As a matter of fact, Vnesheconombank became the 2<sup>nd</sup> Russian bond issuer coming right after OJSC Gazprom that placed

euro-denominated debt securities in the European market.

Remarkably, the placement in November 2013 of dollar-denominated Eurobonds became the biggest, in terms of amounts, dollar Eurobond placement by a Russian financial institution since 2008. The investor

demand exceeded the amount of placement by 3.6 times.

Also, in 2013 the Bank successfully refinanced earlier made domestic borrowings in the sum of USD 500 mn (the

currency-denominated issue placed for a 3-year term in 2012 with a 1-year blackout period) and RUB 10 bn (the ruble-denominated issue in the total amount of RUB 15 bn placed in 2010 for a 10-year term with a 3-year blackout period).

## Raising Funds from International Financial Institutions

At the end of 2013, the Bank concluded an agreement with Nordic Investment Bank on opening a EUR 50 mn credit facility (tenor-10 years) to finance projects implemented mainly in the North-West of Russia.