

7. System of Governance

7.1. Governing Bodies

In compliance with the Federal Law “On Bank for Development”, Vnesheconombank’s governing bodies consist of the Supervisory Board, the Management Board and the Chairman of Vnesheconombank.

Supervisory Board – Highest governing body of Vnesheconombank

The Supervisory Board consists of 8 members and the Chairman of Vnesheconombank.

The members of the Supervisory Board of Vnesheconombank are appointed by the Government of the Russian Federation. The Chairman of Vnesheconombank is on the Supervisory Board ex officio.

The Chairman of the Russian Federation Government is the Chairman of Vnesheconombank’s Supervisory Board.

In 2013, 22 meetings held, 121 issues carefully scrutinized

The key functions of the Supervisory Board are:

- / Defining the major areas of the Bank’s activities;
- / Approving the Bank’s revenues/expenditures plan (budget);
- / Approving the Bank’s annual report and other basic internal documents;

- / Approving an independent external auditor to perform mandatory annual audit of the Bank’s annual financial statements;
- / Appointing Head of the Bank’s Internal Control Department;
- / Making decisions pertaining to approving transactions in compliance with documents regulating the Bank’s activities.

Vnesheconombank’s Management Board – a collegiate executive body of Vnesheconombank

The Management Board consists of Vnesheconombank’s Chairman (ex officio) and 8⁹ Board members appointed by Vnesheconombank’s Supervisory Board.

The Chairman of Vnesheconombank superintends the Management Board activities.

In 2013, 208 meetings held, 888 issues carefully scrutinized.

The Board acts within the powers set forth by the Federal Law “On Bank for Development”, the respective Resolution of Vnesheconombank and in compliance with the established procedures.

In accordance with the established procedures the Management Board, on a regular basis, at least once a month holds its meetings.

⁹ The number of the Bank’s Management Board is defined by Federal Law No.82-FZ, “On Bank for Development”, dated 17 May 2007.

Chairman of Vnesheconombank – acts as the sole executive body

Vnesheconombank's Chairman is appointed to office by the President of the Russian Federation on the nomination of the Chairman of the Russian Federation Government.

The Chairman heads the Management Board and manages the Bank's day-to-day operations.

With a view to supporting the governing bodies' activities, collegiate working bodies

operate at the Bank on a continuous basis. Their functions comprise giving preliminary consideration to issues that come within the competences of the Bank's executive bodies and preparing the relevant recommendations. These working bodies include: Committee for Strategic Development, Committee for Development of Investment Operations, Credit Committee, Committee on Trust Management of Pension Savings, Budget Committee, Committee for Assets/Liabilities Management, Information and Communication Technology Committee, and Situational Committee.

7.2. Risk Management System

The risk management system employed at the Bank meets the requirements of supervisory and regulatory authorities, international standards in risk management and best global practices.

The procedures applied to risk management concern monitoring and analysis of the external environment, risk assessment and measures to mitigate the risks, including proposals for the structure of limits set on risks, control over their enforcement, loan loss provisions for active operations, and updating the Bank's management on the risks assumed to ensure timely and adequate managerial decision-making.

Credit risk management includes monitoring and analysis of the credit risk level both on a single borrower and groups of related borrowers), as well as a set of measures designed to mitigate risks assumed by the Bank.

To assess the level of the credit risks assumed, the Bank professionals produce

expert opinions based on the analysis of the financial position and business record of borrowers and principals, collateral quality and other parameters of the given transactions.

The level of market risks (the interest rate, currency and stock ones) is monitored by the Bank on a daily basis, in particular, by using the Value-at-Risk (VaR) technique as the baseline for assessing the risk value.

Risk exposure computed based on the VaR methodology is augmented by the results of stress testing.

To reduce market risks, limits are set on the sizes and parameters of positions/portfolios. VaR is calculated both for individual instruments and for portfolios of certain types of instruments, as well as for the Bank's overall portfolio of securities market instruments.

In terms of currency risks, the amount of an open position in each currency, as well as

the total amount of the Bank's open currency position is controlled.

Interest rate risk management carried out within the framework of the Bank's asset/liability management program aims to maintain a balanced structure of assets and liabilities sensitive to interest rate fluctuations. In order to assess the risk of changes in the Bank's net interest income, scenario modeling is carried out regularly.

In order to control liquidity risks, the Bank continuously monitors and analyzes maturity mismatches between the Bank's assets and liabilities, as well as mismatches in terms of major currencies. On a monthly basis, the liquidity reserve and the amount of potential sources of market funding are monitored in order to identify funds available to cover unexpected liquidity gaps that could occur due to the unforeseen deterioration of market and credit factors. On a regular basis, stress testing of the Bank's liquidity position is carried out using various scenarios of market and credit risks realization.

Given intensive growth of the VEB Group, introduction of integrated procedures for assessing liquidity of subsidiary banks and companies aiming to project the VEB Group's needs in long-term funding was a major focus of the VEB Group's risk management system.

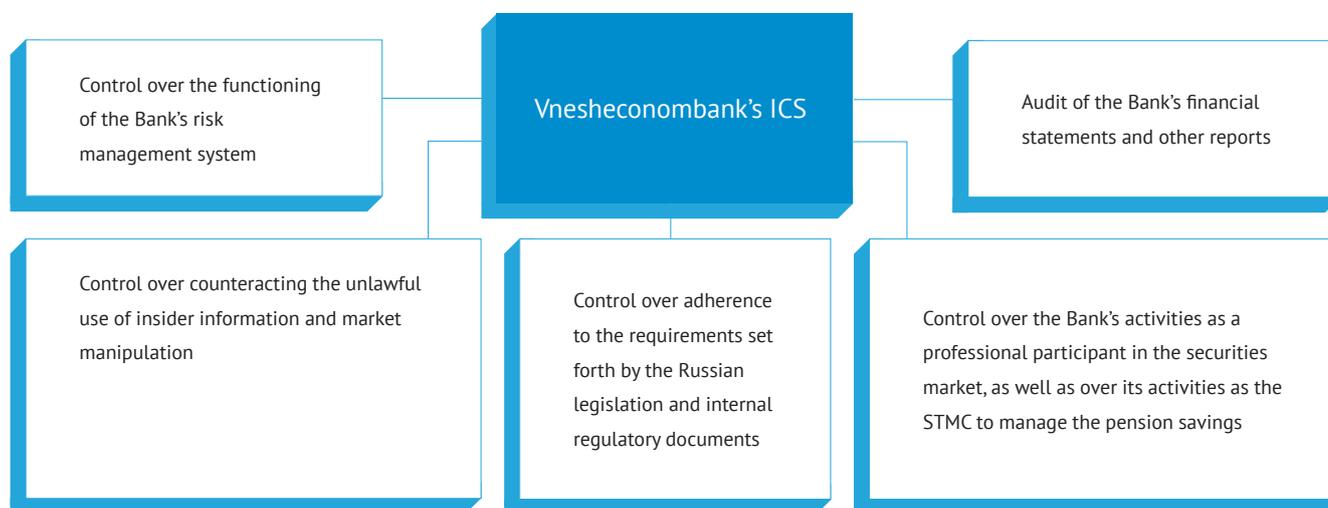
Operational risk management is carried out through strict regulation of the Bank's business processes, as well as through risk insurance. In 2013, Vnesheconombank concluded an agreement on complex insurance against fraud and liability insurance for 2014 that, among other things, includes computer crime insurance, as well as professional liability insurance.

In particular, apart from the integration of the liquidity risk management procedures mentioned, the year under review witnessed the VEB-Group Risk Management Policies having been approved.

7.3. Internal Control System

The system of internal control put in place at Vnesheconombank is oriented towards ensuring enhanced effectiveness and efficiency of the Bank's financial and economic activities, compliance with the legislation, legislative requirements established by regulators in various spheres of the Bank's activities and rules set forth by Vnesheconombank's internal regulatory documents.

The key structural element of the internal control system of Vnesheconombank is the Bank's specialized unit, the Internal Control Service (ICS). The ICS is accountable to Vnesheconombank's Supervisory Board and, in terms of its day-to-day activities, to the Chairman of the Bank. The Head of the ICS is appointed by the Supervisory Board of Vnesheconombank.



Central for the ICS's activities is carrying out a continuous control (monitoring) of critical business processes. That embraces control over risks that arise in the process of the Bank's lending and investment activities in financial markets, as well as over observing the provisions of regulatory documents defining the reserve formation procedure and functioning of the information systems.

Throughout 2013, the ICS carried out overall more than 50 audits, and comprehensive and thematic reviews at Vnesheconombank as well as its subsidiaries and affiliates. Vnesheconombank's Internal Control Service also executes a continuous control over the efficiency and adequacy level of the measures undertaken by the Bank in order to eliminate any inconsistencies identified.

In 2013, the VEB Group Sustainability Report was audited by the ICS as well.

Upgrading the internal regulatory framework is viewed as one of the major pre-conditions for enhanced efficiency of the internal control.

Upgrading the internal regulatory framework in 2013: major outcomes

- / The methodology of monitoring the funds utilization within the framework of SME support comprehensive program and the methodology of monitoring the Bank's activities in the capacity of an investment consultant for investment projects were developed. Furthermore, 21 methodologies related to control procedures over the Bank's investment and financial activities were refined.
- / The methodology to apply to control over notifying the authorized executive body on the inconsistencies identified within the framework of the depository activities was developed. Methodological recommendations related to control over observing the respective restrictions by the Bank when acting as the STMC in managing the funds of the insured citizens eligible for a term pension payment and the payment reserve resources were devised.
- / A number of methodological documents in respect of auditing the activities of the

Bank's subsidiaries and affiliates, as well as scrutinizing the VEB Group activity reports were worked out.

A great emphasis was placed on upgrading the internal regulatory framework of Vnesheconombank's subsidiaries and affiliates to develop uniform approaches to arranging internal control systems in the VEB Group.

As at 01.01.2014, the ICS staff had 7 permits from the Russian Ministry of Finance

authorizing them to engage in banking audit activities and 1 certificate for engaging in general audit; 21 certificates from the FCSM/FFMS to engage in various activities in the securities markets; 1 ITIL certificate, 1 MBA diploma, 1 diploma of a professional accountant of the Institute of Professional Accountants and Auditors of Russia (IPAA) and one diploma in International Financial Reporting (DiplFR).

7.4. The Bank's Organizational Structure and HR Management

At the end of 2013, the Bank's organizational structure comprised 35 standalone structural divisions (33 respective divisions as at 01.01.2013) and 17 representative offices in Russia and abroad.

In the year under review, a standalone structural division, the competences and powers of which embraced issues related to Vnesheconombank's export support, was established. Apart from it, a division engaged in arranging Vnesheconombank's procurement activities was transformed into a standalone unit.

The year witnessed the launch of a project to rationalize Vnesheconombank's system of governance. The work is conducted with the engagement of an international consulting company that would define the ways and means of optimizing the Bank's business processes, organizational structure, the headcount number and perfecting the system of personnel motivation.

In 2013, the major highlights in HR experience included the 8th International Interbank HR Conference "Human Capital: Efficient HR Management – for Business" that brought together the heads of HR departments representing leading Russian and CIS commercial banks and financial institutions. The conference participants discussed the most urgent problems of HR management, introduction of advanced practices of labor relations in the banking sector.

Apart from it, a round table on "The VEB Group HR: Steering the Course for Joint Development" was arranged. The participants formulated proposals in respect of harmonizing major approaches to HR management within the VEB Group.

Management recognizes that high employee qualifications are a major factor underpinning the Bank's sustainability. Special energies are devoted to improving employee

professional knowledge, skills and qualifications required for work efficiency. The training format is both individual and corporate or remote (on-the-job-training).

In the reported period, 1248 employees (1184 employees in 2012) participated in training and professional development events.

Training was provided in most challenging areas such as counteracting legalization of illicit gains and terrorism financing, reform of civil legislation, engagement in procurement activities, accounting and IFRS theory and practices.

Key elements of Vnesheconombank's social policies are employee health protection and aid to retirees - members of the Bank's

Retiree Council. The complex program of voluntary medical insurance provides the insured employees with a comprehensive spectrum of medical services. The Program is implemented with the use of the mechanism of the Bank/employee co-investment in the insurance premium.

In the context of securing employee social protection, the retiree support package also includes a non-governmental pension scheme.

Management acknowledges that "Partners of the 21st Century" sporting event arranged on a regular basis tangibly contributes to bolstering the team spirit and reinforces corporate relations between the VEB employees and those of the VEB Group that traditionally participate in the contest.

7.5. Developing and Putting in Place the Bank's CSR System

In the modern world we are witnessing an ever-increasing social role and responsibility of business. Obviously, observance of the CSR principles tangibly contributes to social and economic sustainability of our society due, among other things, to responsible attitude to company impacts on environment and increased transparency.

Vnesheconombank not only seeks to develop its own CSR system, but also actively engages in promoting the CSR principles in Russian business community.

In autumn 2013, a press conference "The Hour of Russia. Investment of Russian Business in Sustainability" was arranged on Vnesheconombank's initiative at the Russian Federation Permanent Mission to the UN in New York. Reinforced positions of the Russian business on the international arena, achievements of UNGC Network Russia in the area of corporate social responsibility and sustainable development, cooperation between public authorities and business were the major discussion themes at the conference.

Admittedly, Vnesheconombank's accession in 2013 to the UN Environment Program Finance Initiative (hereinafter - UNEP FI) became a keynote event of the year. Remarkably, Vnesheconombank was the first Russian company acceding to the UNEP FI.

In the reporting period, Vnesheconombank in partnership with IFC arranged the 4th International Conference "Investment in Sustainable Development. New Conditions for Business Innovation Potential". Representatives of the public authorities, CEOs of Russian and foreign companies,

representatives of the scientific and technical community and experts on the CSR and sustainability issues from 9 foreign countries attended the conference.

In 2013, Vnesheconombank continued committed efforts to drive the development of the concept of responsible financing forward and embed the principles in the Bank's lending and investment activities. A number of internal documents defining the major goals and principles guiding Vnesheconombank in the field of environmental and social responsibility were developed.

Volunteering Projects

The past year featured the continuation of Vnesheconombank's relentless efforts to focus on volunteering projects and initiatives. Management recognizes that can be viewed as the Bank's dedicated commitment to the CSR principles. On a regular basis, the Bank supports children's specialized institutions and social institutions for elderly people, the Russian orthodox church, as well as helps people in hardships.

Actually, the year 2013 saw the launch of 19 volunteer campaigns held with active engagement of the VEB staff. These included:

- / Financial aid to the Boarding Schools of the Moscow Region for Orphans and Children, the elderly who are in need of special care nursing in the hospital in the village of Ostashevo, Volokolamsk District;

- / 3 "the Day of Donor" campaigns with voluntary engagement of 250 volunteers;
- / The Easter Day campaign to provide aid to Krestovozdvizhenskiy Ierusalimsky stavropegial female monastery;
- / 3 "Hold out a Helping Hand" campaigns to collect funds for those in need of expensive medical treatment.

In 2013, in order to promote volunteering initiatives and practices and embed the principles of non-financial reporting within the VEB Group, a training seminar entitled "Promoting the CSR Principles in the VEB Group: Joint Actions and Reporting" was held.

7.6. Information Policy

In delivering its information policies, Vnesheconombank, while set to pursue the main goal of ensuring completeness and accessibility of information pertaining to the Bank's professional endeavors and most meaningful activity events, was invariably guided by the fundamental principle of maximum openness.

The Bank's official Internet site www.veb.ru serves as a major channel to communicate most full and up-to-date information that would feature the Bank's profile.

The site presents documents regulating various lines of the Bank's business activities, Vnesheconombank's reporting and other mandatory data that serve as guidance for investment project initiators in respect of requirements and preparation of applications for financing. The site also presents the news content.

Vnesheconombank, realizing the need and importance of enhancing the communication channels, launched and developed its own pages in Facebook, LinkedIn and Twitter social networks. As at the end of 2013, the Bank's total target business audience in Facebook exceeded 108 thousand contacts.

Invariably, various aspects of the Bank's activities were in the spotlight of the mass media. Due coverage was given to financing nationally important infrastructure and innovation-oriented projects. In order to raise public awareness of Vnesheconombank's work to minimize the social impacts of the closure of a hazardous Baikal pulp-and-paper enterprise, a special press-tour for representatives of federal and regional mass media to the plant was arranged.

The year saw the Bank's dedicated efforts to communicate to the public and the mass media representatives information concerning the establishment within the VEB Group of a universal system designed to support the national exports, assist the development of the Far East and the North Caucasus district and application of new SME support mechanisms. The need to procure additional capitalization of Vnesheconombank required for maintaining the rates and the scope and scale of the Bank's support for economy with "long money", as well as the theme of financing the Olympics construction were in the key focus of communication efforts.

The year witnessed continuation of the "Development Projects" program broadcast on the Russian "Vesti" 24 TV channel. The target audience was continuously informed of the major investment projects delivered with Vnesheconombank's engagement.

Central to the Bank's information policies was the task of communication to the target audience of the most important decisions of Vnesheconombank's governing bodies, primarily those of the Supervisory Board. Special attention was devoted to approval of new strategic benchmarks up to the year 2020 and principally new approaches to the Bank's business model.

According to the data offered by Medialogia company that engages in mass media monitoring and analysis, within the year, the index of Vnesheconombank's presence in the field of Russian and foreign mass media rose by almost 20% (in 2013 – 63,583 media references). At the end of 2013, in the media ratings of Russian banking institutions assigned by Medialogia company

Vnesheconombank ranked among 3 top Russian banks.

Based on the year-end 2012 results, 2 projects co-financed by the Bank were given by the British Trade Finance journal a prestigious “the Best Deal of 2012” award. Also, Vnesheconombank became a winner of the IAIR Italian business journal in the category “Banking Business and Finance”

In 2013, Vnesheconombank participated in the work of most important international

forums: the World Economic Forum in Davos, Krasnoyarsk Economic Forum, St Petersburg Economic Forum, and the International Investment Forum in Sochi. The Bank also took part in the summit of the BRICS nations and the aerospace show MAKS-2013.

The conference “Sustainable Development through Long-term Growth” arranged by Vnesheconombank and the 1st meeting in Russia of an informal club of heads of the G20 (D20) countries development institutions were also among the year highlights.

7.7. Information Technology Activities

An enhanced and more sophisticated scope of Vnesheconombank’s operations, the ever-changing legislative requirements and the Bank’s desire to ensure the provision of highly reliable and quality IT services indispensable for efficient and effective implementation of the banking business processes pose new tasks for the Bank’s IT-activities.

In 2013, Vnesheconombank’s professionals made a concerted effort in order to enhance and upgrade information and technological support for the Bank’s operations. Specifically, work on complex automation of the business process of monitoring and administering investment projects with the use of a software package “System of Planning, Analysis and Monitoring of Investment Projects” was continued. Thus, the year 2013 witnessed the development and launch of the 1st unit of the respective software package called “Monitoring”.

Special energies were devoted to ensuring information and technological support for Vnesheconombank’s operations in the securities, money and FX markets. With this aim in view, a switch over to a universal scheme of connecting Vnesheconombank to the Moscow Exchange markets was effected. Also, the throughput of communications channels was increased by 20 times.

In order to enhance the efficiency of Vnesheconombank’s communications systems, the Reuters information system in compliance with the Thomson Reuters development strategy was transferred to a new technological platform Eikon. Urgent work designed to switch over the Telex system to a protected internet connection was arranged. The capacity to hold telephone conference-calls for Vnesheconombank’s top executives with representatives of other institutions was ensured. The subsystem for centralized management of mobile gadgets

(iPad) was introduced. Also, work aiming to ensure controlled access of mobile gadgets to Vnesheconombank's electronic document exchange using Wi-Fi technology is in progress.

The project on Creation of Corporate SWIFT System for the VEB Group was completed. The year 2013 witnessed the connection of SME Bank and ROSEXIMBANK to Vnesheconombank's new corporate software and hardware SWIFT complex.

In conformity with Federal Law No. 210-FZ dated 27 July 2010, "On Ensuring the Provision of State and Municipal Services", the system designed to prepare and exchange information on state payments with the State Information System was developed and launched.

The Sovereign Guarantee automated system for information-analytical record-keeping was modernized. That allowed for appropriate processing of Vnesheconombank's reporting forms that are submitted by the Bank to the Ministry of Finance of the Russian Federation with respect to the Bank's performance of the function of the Russian Federation Government agent in issuing and executing the Russian Federation sovereign guarantees.

Vnesheconombank's professionals started work to create a software platform designed to ensure automated functioning of the Bank's asset/liability program management.

In 2013, the Bank continued upgrading the compliance control system. In particular, a software package was put in place that is designed to check data and verify beneficial owners of clients, to regularly update data on clients, their representatives, beneficiaries and beneficial owners. Regulatory acts on freezing (blocking) of cash funds and other property of persons involved in terrorist activities were adopted. Measures aimed at facilitating deoffshorization of the Russian economy were undertaken.

In 2013, to upgrade the IT-activities management system through the use of international standards and drawing on the best practices, IT project documentation standards were developed and the system of automatic localization of functional failures in IT-infrastructure was created.