



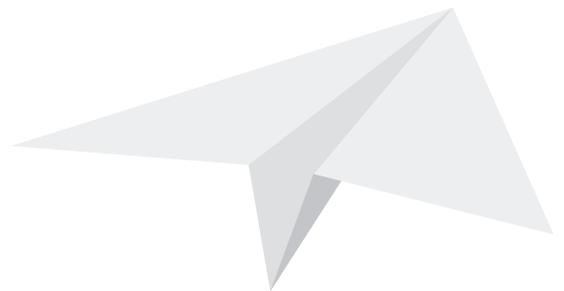
**BANK
FOR DEVELOPMENT**



**STRATEGY 2021
AND BUSINESS
MODEL**

We thank more than 200 clients, bank and government employees who took an active part in the discussion of a new strategy.

We highly appreciate your contribution. We will take all efforts to put your ideas and suggestions underlying our strategy into life.





Introduction by VEB Chairman

VEB adopted its previous strategy in 2014, but the strategy has lost its relevance by now. Not only this relates to changes in the outside environment, but also to the fact that VEB's old business model fails to operate anymore.

We have analyzed VEB's performance and experience of development banks around the globe, examined the basic needs of the Russian economy and government priorities, and selected a new business model for ourselves.

We will focus on the development of the segments which are most critical for the transformation of the Russian economy and in which we can play the key role, in particular: infrastructure, downstream industries, projects in the high-technology sphere and export. Together with the government, we will select the most promising growth areas in the economy. We will ensure the repayment of the funds entrusted to us by the government and our clients owing to a new level of industry expertise and project support throughout their entire life cycle. We will offer to our clients comprehensive solutions including VEB financial products and expertise, support for co-financing arrangements and government support measures. We will continue to render to the government our services as a government debt agent and a state trust management company.

We will be launching a new business model and at the same time we will address the existing problems that the bank has in the present. We have to restructure our troubled assets, withdraw from non-core business areas and meet our external and internal debt obligations.

To be successful, we will need major changes to come from the inside. We will need new competencies, new processes and systems, and new values. We have already triggered certain changes in VEB's organization and processes.

When the new strategy has been implemented, we will become the leader in long-term financing of the projects that have the utmost significance for the development of the Russian economy.

We realize that we are bringing upon ourselves challenging tasks. We need to launch effective investments in the selected areas, solve the existing bank's current problems, and carry out large-scale internal transformation. We are ready for this challenge.

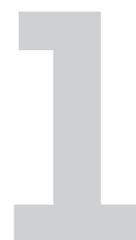
We believe in the success of our new strategy. We are inspired by the possibility to make a significant contribution in the development of the Russian economy and to develop ourselves.

S.N. Gorkov

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Results of the Strategy for 2015–2020



The VEB's development strategy for 2015-2020 was adopted in 2014 and aimed at investing in a wide range of areas.

Despite the investment conditions that substantially deteriorated in 2015 (imposed sanctions and blocked access to external capital markets, sharp depreciation of the ruble) and the aggravating situation with existing troubled assets, including special projects, VEB continued financing large investment projects. At the same time, not all of the financing targets were fulfilled.

FINANCING AMOUNT PROVIDED IN 2015

Indicator	Plan	Fact	%
Financing provided through projects and transactions of the development bank, bln RUB	276	182	66
Amount of granted export credits, mln USD	3442	401	12
Amount of guarantees extended for export support, mln USD	229	1362	594

By the size of its loan portfolio and the amount of export guarantees, in 2015 VEB met the parameters of the modernizing (optimistic) strategy scenario.

ACHIEVEMENT OF PARAMETERS PROVIDED IN THE MODERNIZING SCENARIO OF THE STRATEGY FOR 2015-2020, TARGET INDICATORS

Indicator, bln RUB	2014	2015			2020
	Fact	Plan	Fact	%	Plan
VEB loan portfolio	1993	1950-2100	2433	116	2500-3000
Development bank	1097	925-1000	1356	136	1400-1680
Special projects	897	1025-1100	1077	98	1100-1320
Amount of credits for export support	53	145	87	60	500
Size of export guarantee portfolio	207	125	398	318	250

ACHIEVEMENT OF PARAMETERS PROVIDED IN THE MODERNIZING SCENARIO OF THE STRATEGY FOR 2015-2020, PROVISION OF RESOURCES

Indicator, bln RUB	2014	2015			2020
	Fact	Plan	Fact	%	Plan
Total	2382	2415-2580	2519	98	3090-3660
Market borrowings	1380	1125	1568	139	1430-1670
Government support	1002	1290-1455	951	65	1660-1990

At the same time, the amount of credits for the export support turned out lower than the target level, although this figure demonstrated a year-on-year increase of 60%.

The total amount of government support was 35% lower than planned. Thus, the share of more expensive market sources in the liabilities was higher than the target figure.

As part of VEB's development strategy for 2015-2020, we started to introduce certain qualitative changes and obtained the first positive results. In particular, we established the Russian Export Center and provided increasingly wide support for non-resource exports.

Although a number of targets were achieved and qualitative changes were realized, VEB ended 2015 with an operating loss.

We analyzed the existing business model and came to the conclusion that it was ineffective and could not be used for the realization of the 2015-2020 strategy.

The VEB's capital and viability are to a large extent affected by the "troubled assets" that do not generate current income. Their considerable part is formed by special projects, which do not meet VEB's requirements for risk and profitability. The financing of such assets, that have an increased level of risk and are not always fully repaid by repayable interest bearing liabilities, results in a loss.

A wide range of VEB's investment areas makes it difficult to develop a deep competency in each of them and gives rise to financial stability risks.

Insufficient control of risks during the monitoring of investment projects and the absence of active measures for handling troubled debt contributed to the decrease in the portfolio quality and the recoverability of funds invested by VEB.

We should also note VEB's low operating efficiency, in particular, the low performance level of business processes and, as a result, low labor efficiency.

In this connection, it became necessary to develop a new VEB business model and strategy.

VEB is the largest development bank in Russia and one of the largest development banks globally.



VEB TODAY

VEB Today: Strengths and Weaknesses, Challenges

2

In developing our strategy, we singled out VEB's strengths and weaknesses. Among the VEB strengths to be relied on are as follows:

- » existing relations with the largest public and private corporations (including more than 300 major entities that are VEB's clients today), state and municipal authorities;
- » deep expertise in a number of products and, first of all, in export support, structuring of investment projects, acting as a government debt agent and a manager of pension savings;
- » extensive international links with other development and financial institutions in Russia and around the world;
- » competent employees.

VEB's weaknesses to be surmounted include:

- » poor customer management: clients complain about long decision-making time, excessive red-tape and lack of transparency of processes, insufficient contact with VEB employees;
- » paperwork processes and underdeveloped IT, which affects the quality of customer relations, makes the processes more expensive and brings down the degree of control;
- » risk management inconsistent with the best practices, including the absence of uniform standards, weak management of currency and interest rate risk, absence of common dedicated service for handling troubled assets;
- » insufficient understanding of the clients' business models, which leads to the financing of unsuccessful projects;
- » insufficient involvement and understanding of the project progress after the financing decision has been taken and, as a result, insufficiently prompt and competent response to any problems in the project;
- » organization structure inconsistent with the best practices for financial institutions: a number of control and management functions are not independent enough and are distributed by different units, the entity has too many management levels;
- » weak corporate management of subsidiaries, especially in the area of control over risks, finances and synergy with VEB Group, insufficiently quick restructuring of troubled companies;

- » drawbacks of corporate culture: low client-centricity, readiness to take on responsibility and commitment to result, poor teamwork and weak horizontal interaction.

In its work, VEB encountered a number of challenges the responses to which we had to find in our new strategy. These challenges include:

- » closed financial markets and limited government support capabilities. In the coming years, VEB has to pay considerable amounts towards the settlement of the internal and external debt, which restructuring is difficult given the sanctions. At the same time, VEB has to continue lending to the Russian economy, which requires long-term funding at a low rate. The situation becomes even more complicated in view of the challenging situation in the economy today and the fact that in the coming years the government capabilities to support VEB will be limited;
- » the need to carry out special projects. Such projects are required in the interest of the Russian economy, but will feature an increased level of risk and often lead to incomplete repayment of the invested funds. Moreover, the mechanisms for the compensation of possible loss are not developed enough and in some cases fail to work;
- » a large number of VEB's activity areas lead to an insufficient focus of the management's attention and the difficulty of building up deep competencies in each area;
- » considerable portfolio of accumulated troubled debts.

Launch of Projects with Immediate Effect

The VEB portfolio has a number of projects which are important for the Russian economy, they will have a positive effect on the GDP, create highly productive jobs, and bring taxes into the treasury. These projects encounter certain implementation difficulties, including financing and organizational issues. Our goal is to launch these projects.

According to our estimate, more than 20 projects require additional financing of around 150 billion rubles, which will create over 20 thousand high-productivity jobs and ensure a GDP increase of approximately 0.3% in the coming 2 years.

Experience of Development Banks in Other Countries

3

We have examined the experience of development banks in other countries. The banks considerably differ from one another in terms of goals, investment areas, financing methods and a number of other parameters. Many development banks experienced difficult times brought about by different mistakes in their business models.

There are several key features that successful development banks have in common and that we include in our strategy:

- 1. focus on a limited number of activity areas.** This enables to build the necessary competencies and prevents the diffusion of resources;
- 2. selection of repayable projects with the maximum development effect.** When taking a project financing decision, the banks analyze the transaction and select projects with an acceptable risk level and the expected recoverability of funds. The development banks also assess the development effects of potential projects and select those that will bring the greatest benefit to the state, economy and society and invite co-investors;
- 3. compensation mechanism for the projects known to be irrecoverable.** Sometimes the development banks have to implement projects featuring a high risk level and possible incomplete return of the invested funds. These are the projects carried out for the support of national priorities. For such projects, the government provides pre-arranged compensation mechanisms making it possible to maintain the profitability and financial stability of the bank;
- 4. government support.** All successful development banks receive support from the government. It may take the form of capital investments, direct inexpensive financing, mechanisms securing the bank's obligations or subsidies for individual products. In some instances, owing to a high rank of the founder states, the development banks can raise inexpensive financing in the capital markets;
- 5. break-even operation.** The development banks do not make it their aim to maximize the return on capital, nevertheless the government set for them a goal of break-even operation or reaching the pre-agreed profit level. This makes it possible for the development banks to maintain stable financial position and have financial resources for financing the economy.

VEB External Environment in 2016–2021

4

Macroeconomic Forecast for the Term of the Strategy

4.1

The decline in the Russian economy that began in the second part of 2014 is related to external shocks: a slump of oil prices and considerable restriction of access to global capital markets. This resulted in a weakening of the ruble rate, growth in consumer prices and overall decrease in the business and consumer confidence. The negative effects were aggravated by the tightened monetary policy and the need to cut budgetary expenditures. By the middle of 2016 the effect of external shocks to a considerable degree worked out and, as expected, the period of economic recession that lasted for 8 quarters, will come to an end.

External limitations are expected to weaken before 2021. Oil prices will raise to 50-60 dollars per barrel. The excessive supply of oil that exists at the present will gradually decrease and completely disappear by late 2016 – early 2017. The reduction of global investments into the oil industry over the last two years will keep down the growth of the oil supply in the years to come. The step-by-step revival of the global economy will lead to the recovery of the demand for oil and other primary products.

The forecasts for the term of the strategy predict certain decrease of geopolitical risks and gradual weakening of the restricted access to global capital markets. This will provide the opportunities for additional borrowings by Russian companies and banks abroad.

The growth of oil prices and decreasing capital outflow will contribute to the strengthening of the ruble rate. This will considerably curb the growth of consumer prices allowing the Bank of Russia to ease its monetary policy by means of a phased decrease of the base rate. Under these circumstances, in 2017-2021 the Russian economy resume its growth at a rate of approximately 2% per year. The decrease of the base rate will contribute to improved credit availability and lending conditions.

At the same time, further growth of investments into equity will also require additional measures for the improvement of the investment climate and investor confidence level. This environment will drive the demand for additional investment support measures, including those taken through VEB. In the context of a more relaxed monetary policy and improved access to external capital markets, VEB will be able to expand the participation of third-party investors in the financing of investment projects.

Baseline Macroeconomic Scenario implies the realization of a conservative economic policy with a limited amount of investments from the federal treasury and the National Wealth Fund in the absence of any significant measures stimulating the consumer demand.

The stabilization of the ruble rate, low consumer demand and low global prices for food stock will make it possible for the inflation rate to decrease to less than 6% by the end of 2016. In 2016, the contraction of the investment demand will persist and amount to 5.3%, and the government investments are decreasing even more. At the same time, the export-oriented industries are demonstrating a relatively steady development, and record-setting rates are expected in the agriculture. Under these circumstances, in 2016 the GDP will decrease by 0.7%.

The economic growth is expected to resume in late 2016. In 2017-2021, against the background of growing oil prices and certain easement of the monetary policy, the Russian economy will slowly grow up. The strengthening of the ruble makes it possible to expect a slowdown of the annual average inflation down to the target level of around 4%. The slowdown of inflation and the general economic revival will result in the recovery of the real disposable household income and its slow growth with an average rate of 2.4%. The investment growth rates in 2017-2021 are predicted to make an average of 3.6% per annum. This will promote the economy growth rates of 0.7-2.9% in 2017-2021.

The speed-up of economic growth in excess of the above rates will require the implementation of an active government policy including stimulation of the investment demand using the funds coming from the federal treasury and the National Wealth Fund, and extended financing by development institutions.

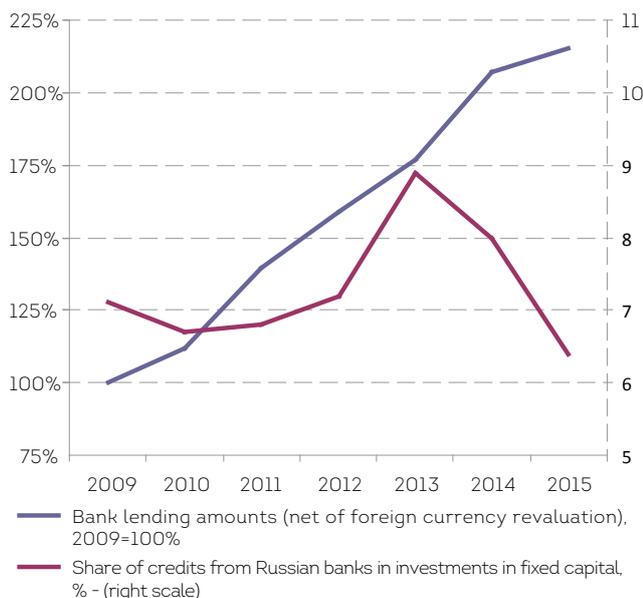
KEY INDICATORS OF THE BASELINE MACROECONOMIC SCENARIO

Indicator	2015	2016	2017	2018	2019	2020	2021
GDP, bln RUB	80 804	82800	89000	94700	100800	108000	116000
in % from last year	-3.7	-0.7	0.7	1.5	1.8	2.5	2.9
Capital expenditure, bln RUB	14 556	14950	15920	17360	18440	20040	21640
in % from last year	-8.4	-5.3	2.0	4.4	2.0	4.1	5.6
Bank credits to nonfinancial businesses, bln RUB	34 586	34 620	35 310	37 320	40 570	44 660	49 170
including those for over 3 years	17 985	18 350	18 710	19 780	21 500	23 670	26 040
Interest rates and inflation, % of annual average							
the Bank of Russia key rate	12.6	10.4	8.8	7.4	6.4	6.3	6.3
consumer price index	15.5	7.2	4.9	4.2	3.9	3.8	3.7

Financial Markets, Activities of Financial Institutions

4.2

BANK CREDITING TRENDS AND SHARE OF CREDITS IN THE FINANCING OF INVESTMENTS INTO FIXED CAPITAL



One of the key factors limiting investments in fixed capital for the Russian companies is the lack of available financing at an acceptable cost.

The Russian banking sector is so far unable to break new ground in this direction. Thus, in the pre-crisis 2013 the share of bank credits in the total amount of corporate investments was only 8.9%, which is lower than the figures of our foreign counterparts (for example, China – 12%). In spite of the increase in bank loans, in 2015 this figure dropped to 6.4%. According to our forecast, during the term of the strategy this share will increase to 8.3%, falling short of the pre-crisis level.

Non-bank financial institutions do not also play any significant role in the debt financing of businesses

yet. The share of private pension funds and insurance companies in the total bulk of requirements of the financial system for non-financial organizations amounts to only around 3% (in developed markets – 5-20%). In the context of Key Development Areas of the Russian Financial Market for 2016-2018, the Bank of Russia is planning to create favorable conditions for the strengthening of the role of national non-bank financial institutions as institutional investors and the growth of the scopes of long-term funding in the economy, however, quick changes are not to be expected in this sphere.

The access of Russian borrowers to long-term financing in foreign capital markets is also limited at present by the effect of sectoral sanctions.

Thus, Vnesheconombank retains its crucial role as a development institution in the investment source formation process. The participation of Vnesheconombank in the preparation and mitigation of risks of investment projects will also make it possible to attract a wide range of financial market agents as co-investors.

Development and Growth Goals Set by the Government

4.3

VEB operation will contribute to the achievement of a wide range of social and economic development goals set by the government:

- » **diversification of the economy and decrease of reliance on raw products:** selection of sectoral priorities for VEB's investment projects will ensure the transformation of the economic structure towards non-resource industries;
- » **phase-out of imports:** in individual sectors, VEB's investment projects will make it possible to reduce the dependence of the Russian market on the supplies of foreign products;
- » **export development:** VEB (including the Russian Export Center) will provide comprehensive financial, guarantee and insurance support for the projects and trade transactions aimed at increasing the supplies of high-technology products to foreign markets;
- » **innovation support and increased labour efficiency:** implementation of investment projects in the downstream industries and the high-technology sphere will result in new technology-intensive jobs, ensuring the growth of labor efficiency;
- » **conversion of defense industry for civilian products:** the companies of the Russian defense industry have a considerable scientific and technical potential which shall be used for civilian production;
- » **development of territorial clusters:** the launch of several regional projects connected with the value chain which will provide a qualitative improvement in the development of territories.

The VEB activities significantly raise the effectiveness of economy financing by the government through the use of the following measures:

- » assistance to the government in the analysis and development of programs providing government support for the economy;
- » search of projects meeting the government priorities to the maximum extent;
- » transition of non-repayable government financing to the repayable basis;
- » finding non-government co-investors for the projects meeting the government priorities.

Role Among Other Development Institutions

4.4

In selecting the target areas for VEB, we consider which priorities of the economy and the society are already supported by development institutions and the sufficiency of such support, alongside with the existing VEB role in supporting economic and social priorities.

MAP OF DEVELOPMENT INSTITUTIONS IN THE RUSSIAN FEDERATION AND VEB TARGET PLACE

Support area	VEB presence (including subsidiaries and associated entities)	Presence of other development institutions	Scope of support	Priority
1 Production sector				
2 Agriculture/agribusiness				
3 Infrastructure				
4 Innovation support				
5 SME support				
6 Export support				
7 Regional development				
8 Commercial banks				

Support of technology-intensive projects with current assets
 Considerable
 Minimum
 Development as part of production sector and infrastructure support

Today VEB is present in all areas which are typical for development institutions. Some of the support areas are well serviced by other development institutions. For example, the banking sector is receiving substantial support from the Deposit Insurance Agency (DIA). In the agriculture, a considerable amount of financing is provided by Rosselkhozbank.

In some areas, for example, in the infrastructure and production sector financing or export support, VEB plays a key role. Nevertheless, the extent of financing available to these areas has reduced due to suspension of financing by large international development banks.

We have made a decision to focus mostly on the following investment areas: infrastructure, production sector, defense industry conversion to civilian products, high-technology sphere and export.

These are the areas for which our support is especially significant and in which we have the greatest expertise.

We will be providing selective support in some other areas. We will support regional development through financing the infrastructure and the production sector in the constituent entities of the Russian Federation. We will invest in individual high-technology production sectors in agriculture having strategic importance.

In the selected investment areas, we will work together with Russian and international development institutions and invite them as co-investors.

We will coordinate investments in regions with regional development institutions, including the North Caucasus Development Corporation and the Far East and Baikal Region Development Fund.

Energy Efficiency Projects

In the selection of projects in the target segments, VEB will take into account the energy efficiency increase from their implementation. We are also considering raising “long” inexpensive tied financing for energy efficiency projects.



OUR MISSION AND INVESTMENT AREAS

Our Mission and Investment Areas

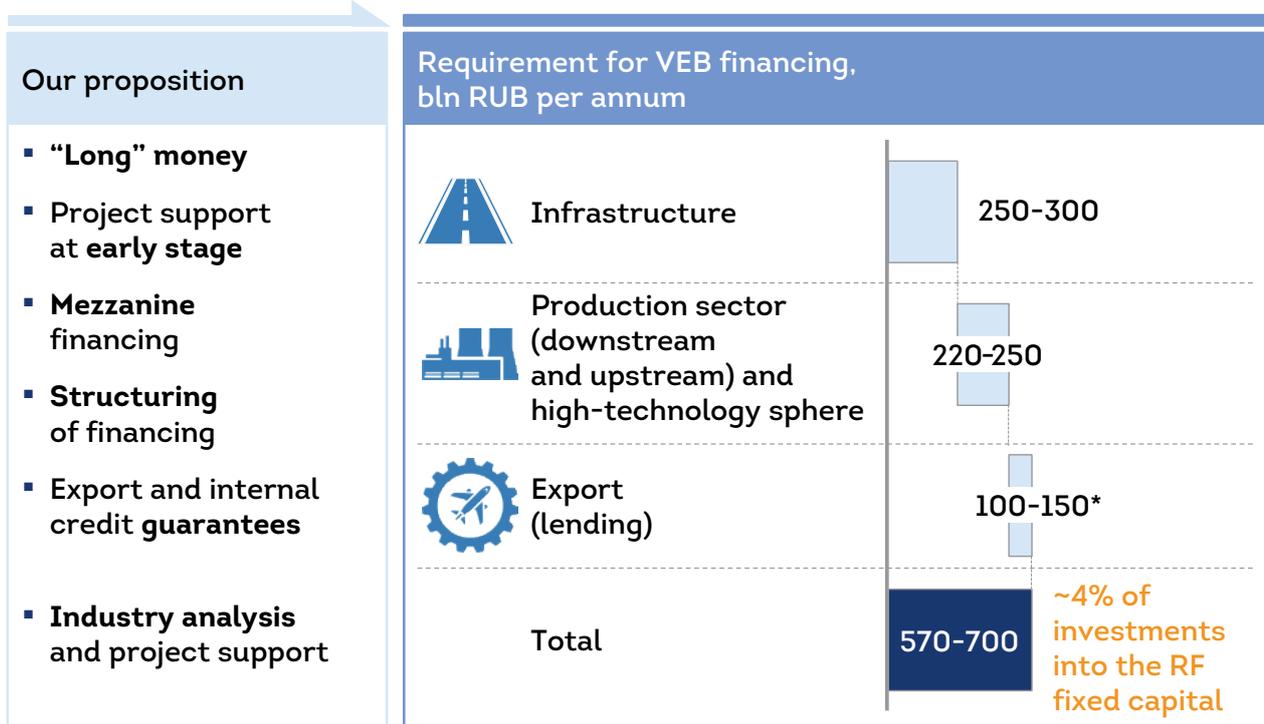
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We have selected our mission and investment areas after analyzing the experience of VEB and other development institutions, the priorities of the government and the economy.

Our mission is to contribute to long-term economic development of Russia, first of all, through the support of downstream industries and projects in the high-technology sphere, export support and infrastructural development ensuring the economic growth.

We reach this goal by providing long-term financing and expert support for those bottlenecks of the economy where market institutions and other development institutions are ineffective, maintaining partnership relations with our clients, financial institutions and the government.

In the four selected areas we can see a substantial potential for financing – 570-700 billion rubles per annum, which VEB could provide on a repayable basis.



* Additional insurance and guarantee cover – 320-350 billion RUB per annum, service export support – 10-15 billion RUB
 Sources: VEB analysis, federal target programs, BMI Russia Infrastructure Report, Development Program for the Unified Energy System of the Russian Federation, Rosseti investment program, McKinsey analysis

We envision ourselves as the best bank for project financing and a center of export support in Russia from the point of view of our effect on the economy, efficiency and the quality of human resources.

VEB'S New Business Model

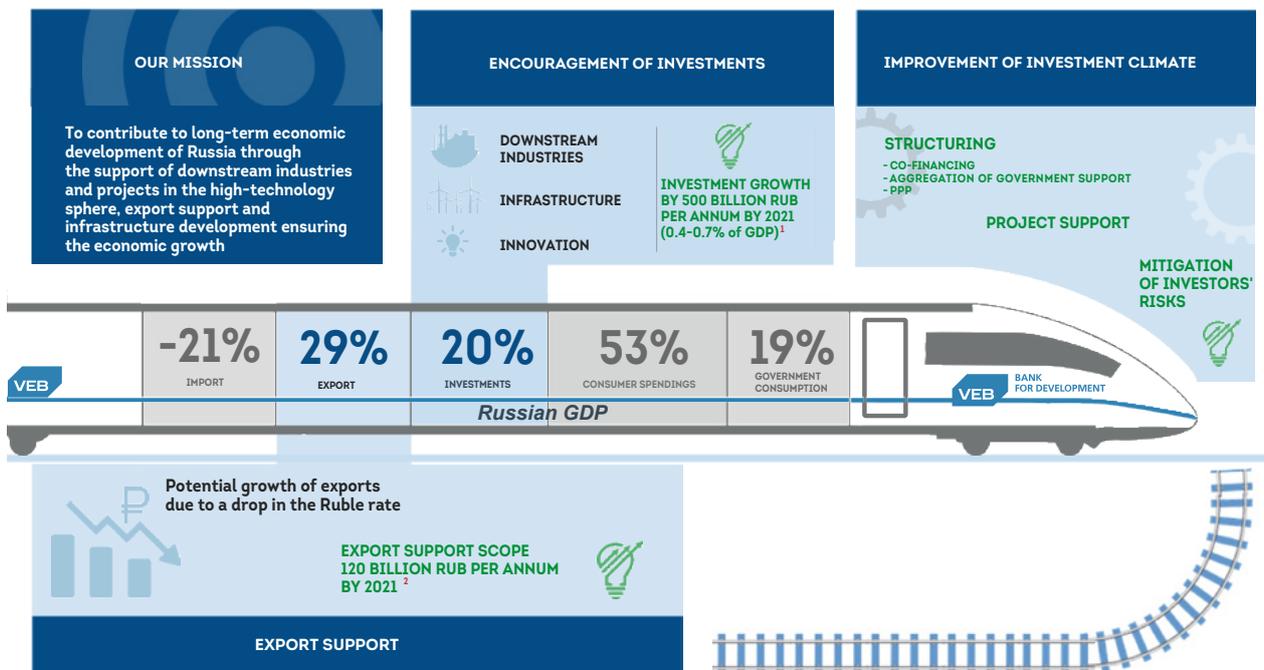


Value Proposition for the Economy



The implementation of VEB's new strategy will have a considerable positive effect on the Russian economy.

The investment areas that we selected will ensure the growth of the GDP through the increase in investments and exports. The growth of VEB investments by 500 billion rubles by 2021 (including co-investments), as provided in the strategy, will ensure a GDP contribution of **0.4-0.7% in 2021**.



¹ Including co-investments (40% – VEB, 60% – other sources).
² New export financing (granted credits) and documentary operations for the purposes of export support.

Source: Rosstat, GDP data for 2015.

VEB contribution in the economy development

VEB's Target Role in the Russian Economy

Massive investments in the development of downstream industries and projects in the high-technology sphere, financing of conversion of defense industry facilities for the output of civilian products, implementation of infrastructural projects, support of non-resource export are aimed at changing the structure and ensuring a new quality of the economy, increasing labor efficiency and reducing the reliance on import and resource export.

We will operate in close contact with federal executive authorities responsible for the implementation of the economic and industrial policy (Russian Ministry of Economic Development, Russian Ministry of Industry and Trade, Russian Ministry of Transport), state-owned corporations and companies responsible for the development of the most important industries, dedicated funds and development institutions and commercial banks for the selection of the projects having significance for the development of the corresponding economy sectors and a high socioeconomic and multiplying effect.

We see a need for establishing a common information platform for project management for the Russian development institutions.

We will use VEB's expert and analytical competencies for identifying new points of growth in the economy, searching for and selecting promising priority projects and bringing in businesses into these projects.

In the selection of investment projects, we will take into account their effect on sustainable development and growth of energy efficiency.

Our activity will contribute to the improvement of the investment climate in the Russian Federation. Acting as an anchor investor, VEB will seek to raise the funds of both Russian business and foreign partners for the financing of its long-term investment projects. Project support on the basis of advanced IT solutions and use of public-private partnership mechanisms will generate added value for VEB's clients and mitigate their risks.

Value Proposition for the Client

6.2

We have selected several investment areas in which we will develop products and customer service models. We will offer to our clients a value proposition common for all investment areas.

Our value proposition will include:

- » cost of financing which will make it possible to realize the projects that are significant for the economy, but receive no market financing;
- » long-term financing, as a rule, for a period from 5 to 15 years;
- » financing at an early stage of a project;
- » mezzanine financing;
- » export and internal guarantees, insurance of export credits;
- » assistance to the client with the assessment and improvement of the project business model;
- » assistance to the client in pre-project work and project development;
- » selection of the optimal instruments for financing, providing guarantees and export support on the part of VEB;
- » assistance in the selection of a government support program (subsidies, guarantees, others);
- » assistance to the client with the transaction structuring and obtaining co-financing;
- » project support – project management including an IT platform for project management, financial control of the ongoing projects.

We will substantially improve our client proposition. In particular, we will fulfill the clients' requests that we heard during the development of the strategy:

- » establish customer service;
- » organize cash management services in a more convenient way, including a significant improvement of the IT solution for the bank-customer relations;
- » improve our products, making them more client-oriented, including faster processing of client requests, simplification of the collateral management procedure and setting up a single operations interface for the clients.

Infrastructure

6.2.1

Infrastructure financing is one of the key objectives that VEB has as a development institution, since infrastructural projects require long-term financing and are in many instances impossible without a concessionary interest rate.

We acknowledge that investments in the removal of the infrastructural bottlenecks give rise to a significant development effect, including the growth of production and new jobs. Besides, they create a multiplying effect associated with the removal of current limitations, development of other economy sectors and inflow of additional capital.

VEB's investment focus in this sector will be concentrated on the projects that, on the one hand, will bring the maximum benefit for the economy and, on the other hand, ensure the return of the invested funds.

INVESTMENT AREAS

TRANSPORT INFRASTRUCTURE

Area	Niche
Railway infrastructure	Infrastructure of approaches to new/expanded production facilities
	Highways
	Travel corridors
	Railway terminals
Roads and bridges	Toll motorways
	Motor vehicle infrastructure, including railway crossings
Port infrastructure	Harbor walls
	Terminal infrastructure
Infrastructure of airports	Upgrading of large international hub airports, including terminal construction and remodeling (without runways)

ENERGY INFRASTRUCTURE*

Area	Niche
Generation and distribution of electric power	Construction and renovation of facilities

* Except for public utilities infrastructure

OTHER INFRASTRUCTURE

Area	Niche
High-technology healthcare infrastructure	High-technology medical centers, medical research parks, diagnostic and rehabilitation centers
Infrastructure for industrial sites	First phase of land development with possible subsequent refinancing by commercial banks

Our niche will be middle-sized standard projects that will reduce the risk of one-time major loss for VEB and for which it is possible to build up a considerable expertise based on the accumulated experience.

In the coming several years, due to limited financing, we will only be able to finance megaprojects if we receive dedicated concessional long-term funding from the government.

In the context of investment projects in the infrastructure development area, our value proposition will feature the following specifics:

- » provision of long-term and, as a rule, ruble financing;
- » assistance in the project offer development;
- » structuring of co-financing, obtaining government support;
- » project management services based on advanced IT.

Production Sector

6.2.2

The priority area of our investment activities is downstream industries and high-technology production. We will first of all select the projects meeting the following conditions:

- » belong to downstream industries;
- » contribute to technological development of the economy;
- » meet the government priorities;
- » have an export component or potential;
- » have co-financing potential;
- » create jobs in monocities or create high-performance jobs.

Based on the above criteria, we have selected our priority investment areas. At the same time, we, together with the government, have analyzed the value chains and identified the most significant investment niches.

INVESTMENT AREAS

Industry	Target investment niche
Defense industry and conversion for civilian products	New production, upgrading of the existing production, export Microelectronics Radio electronics Instrument engineering Information and communication technologies, including hardware and software Power plant building Tool-making industry Electrical equipment
High-Technology Industries	New materials Rare and rare-earth metals Polymer chemistry and organic synthesis products Aviation industry Space industry Engine building Medical devices Pharmaceuticals Adoption of the best available technologies on the basis of Russian equipment Electric propulsion and onboard power generation systems
Existing VEB Assets	Forest industry High-technology agribusiness industry Smelting industry Construction

We will provide financing for the projects contributing to the development of new technologies, including the priorities of the State Council for Modernization and Technological Development of the Russian Economy, the projects pursuing the objectives of the National Technological Initiative and supporting the projects for the production high-technology civilian products by the defense industry manufacturers.

In terms of investment projects in the production sector, we expect that the following elements of our value proposition will meet the highest demand:

- » credits for production scaling;
- » credits from 500 million rubles;
- » long-term financing;
- » mezzanine financing;
- » advisory support to clients in the course of sectoral analysis;
- » structuring of co-financing and government support.

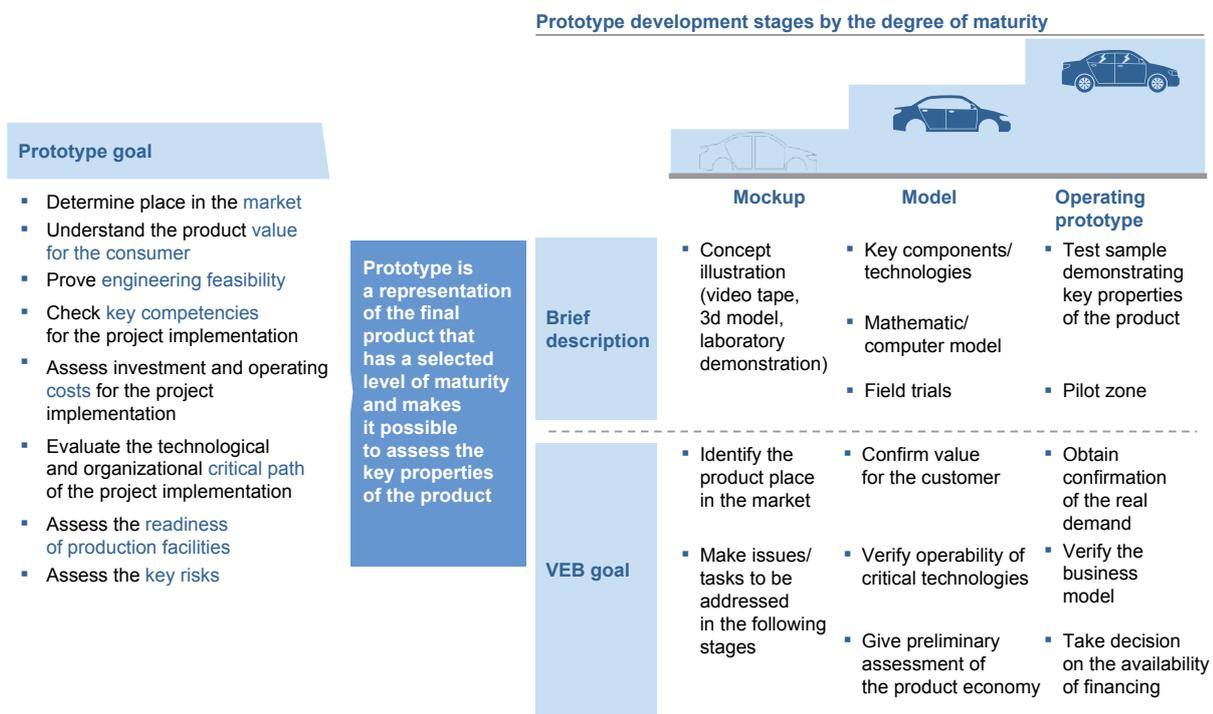
Support of Projects in the Sphere of High Technologies

6.2.3

One of VEB’s objectives will be to support projects in the sphere of high technologies, including the projects of the National Technological Initiative. As a part of the National Technological Initiative, VEB will perform the following tasks:

- » expert support of projects seeking repayable financing and having a commercial potential at the business startup stage and, where the draft project is ready, in order to support the development of the full-fledged business model of the project and ensure its readiness for the receipt of support from VEB;
- » accelerator support for the elaboration of business models and preparing the project for market entry, fund raising;
- » financial support for the launch and scaling of innovative production and services.

Following the expert review of the project, VEB will prepare an opinion regarding the commercial potential of the project, the availability of financing for the project alongside with recommendations on further improvement of the business model or the prototype project.



A project will be presented to the VEB Group if its initiator has a product prototype and a business model. To ensure convenient and effective interaction between the NTI and VEB Group, we shall use the principle of a “single window”. VEB-Innovations will cooperate with the Project Office and NTI departments and route projects inside VEB Group.

For the expert examination VEB will use a wide external network of Russian and foreign experts, including representatives from the scientific community, corporations and venture funds. Under development are the mechanisms for setting up dedicated sectoral expert panels.

If a project has an operating prototype and a business model, and has entered the phase of elaboration of technology/manufacturing first batch (following the expert examination), the VEB will make a preliminary conclusion regarding the availability of financing for the project. After the delivery of the required information, the project will undergo the credit/investment assessment in VEB or VEB-Innovations, and the governing bodies of VEB/VEB-Innovations will decide on the provision and parameters of financing.

For the projects that received positive conclusion following their examination by VEB or VEB-Innovations experts and were approved by the NTI governing bodies, VEB performs a credit and investment assessment. Depending on the product readiness level, VEB will offer the following forms of financing for the NTI projects:

- » medium-term loans from VEB-Innovations with the right to acquire a share in the company at the cost of the round. The credit amounts from 10 to 500 million rubles for a term from 1 to 5 years (depending on the industry);
- » capital investments from VEB-Innovations from 10 to 500 million rubles with a limited size of the maximum interest in the company;
- » long-term VEB credits. Credit from 500 million rubles for a term equal to or exceeding 5 years;
- » syndicated credits with varying conditions and a VEB share of 30-70% of the project value;
- » VEB guarantees for the receipt of credits in commercial banks.

To bring down the cost of innovative project financing, we consider it necessary to set up a mechanism for subsidizing the interest rate for investment projects.

Additional Opportunities for Development of Innovations

We shall explore additional opportunities for the development of innovations, including:

- » cooperation with Russian research centers with the view of commercialization of their innovations;
- » opportunities to promote international innovations in Russia;
- » cooperation with Russian corporations seeking “tailor-made” innovations;
- » support of Russian innovations in their entry to foreign markets through partners’ network;
- » attraction of international investors for Russian innovations;
- » use of accelerator/incubator, relying on international experience for innovation support at early stages.

Investments in Disruptive Technologies

We shall also consider investing into disruptive technologies in the areas in which Russia has a strong competitive position, including:

- » development of digital economy and industry 4.0. The projects involve nearly all industries, spheres of economy and will promote a considerable growth of labor efficiency;
- » digital platforms based on the blockchain technology. Potential projects include the “production” of blockchain units and development of IT solutions for public services, legal transactions, registers and “smart” contracts. Russia has the necessary IT competencies and cheap electric power;
- » neurotechnology based on convergent technologies. Fast development and convergence of bio-, nano-, cognitive and information technologies and brain mapping provide breakthrough opportunities in many spheres of the economy. Corresponding research efforts are being taken in Russia. Commercialization of ideas is only beginning.

Export Support (including the Russian Export Center)

6.2.4

Support of Russian non-resource export is one of the key priorities in the activities of VEB Group. It is realized, first of all, on the basis of the dedicated Russian Export Center (REC). The key strategic goal of the REC is to form a convenient and efficient infrastructure for the export of non-resource products and services and to provide support to the companies considering the export of their products. REC established a comprehensive system of financial and non-financial export support instruments. The REC's systematic activity is focused both on large, and medium or small-sized businesses. The REC's sphere of responsibility includes the EXIAR company that provides export insurance and the specialized Russian Export and Import Bank (Roseximbank).

Functions performed by the REC are crucial for the implementation of the government non-resource export support policy. Regulation and strategic planning of its operation are based on a special order issued by the Government of the Russian Federation "On the Approval of the Rules Regulating the Export Support Activity of the Russian Export Center and Its Interaction with Federal Executive Authorities and the State-Owned Atomic Energy Corporation ROSATOM."

Supporting the export, we contribute to the achievement of the following results:

- » incorporation into the global value chains;
- » geographic diversification of foreign relations strengthening the position of the Russian exporters and investors in the traditional markets and promoting the development of new markets;
- » economic integration within the Eurasian area;
- » support of security and protection of intellectual property abroad;
- » development of new export channels, in particular, through electronic commerce channels;
- » promotion of Russia as a reliable supplier brand, PR of Russian exports

We see our priorities among the following sectoral areas of export support for downstream industries:

- » aircraft engineering;
- » railway machinery;
- » automotive industry;
- » power engineering industry;
- » defense industry;
- » agriculture and agricultural machine building;
- » nuclear industry;
- » innovations;
- » export of electric energy.

We will continue to offer to our clients the following **financial products for export support:**

- » export lending: financing of commercial exporter credits, financing of trade turnover with foreign buyers, direct foreign buyer credit, credit to the bank of a foreign buyer;
- » insurance of export credits and investments against political and business risks: buyer credit, supplier credit, export credit, credits for the replenishment of exporter's working capital, guarantees, factoring, financial lease, investments, confirmed letters of credit;
- » guarantee support: tenders, return of advance payment, payments, performance of obligations under an export contract.

The key direction for us is also the development of **non-financial export support:**

- » furnishing of information about the arrangement of export operations, information about external markets, assistance in the search of new business partners;
- » assistance in structuring of export projects;
- » negotiation support, assistance in the drawing up of export contracts;
- » assistance in going through export procedures;
- » support and consultations on export contract closing procedures;
- » identification and search of solutions for the improvement of export conditions;
- » exporters training.

As part of VEB Group (including the REC), Vnesheconombank performs an important role providing financial export support. This role includes:

- » pre-export financing of investment projects;
- » financing of investment projects abroad for the promotion of access for Russian industrial products to foreign markets;
- » financing of large complex export projects;
- » support of export of Russian non-resource and high-technology products;
- » support of export of Russian goods, work and services to new markets (first of all, export to the countries of South-Eastern Asia, Africa and Latin America) and maintenance of the share of presence in traditional markets;
- » development and introduction of new financial products for export support;
- » securing synergy with VEB investment projects in terms of export support;
- » development of Russian industrial and logistics centers abroad;
- » raising of co-financing from Russian and international commercial banks and development institutions;
- » documentary, documentary credit and interbank operations for export support purposes.

In our work with a client, we will seek to provide comprehensive support using the capabilities of VEB Group.

Delivery of Services to the Government

6.3

In addition to VEB's key role as an institution for the support of government priorities in the economy, we shall continue providing to the government the services that we provide today, including:

- » services of a government debt agent;
- » services of a state trust management company.

VEB will continue to perform the functions of the agent for the Government of the Russian Federation, including:

- » issuance and performance of state guarantees;
- » securing of recovery of debt under financial obligations to the Russian Federation from legal entities, constituent entities and municipal formations;
- » servicing of the government external and internal debts;
- » monitoring of the projects organized with the involvement of international financial organizations.

VEB will also continue to function as a state trust management company (STMC) providing trust management of pension savings.

Among the strategic goals of the STMC are as follows:

- » provide positive return on the invested pension savings;
- » perform statutory obligations to the trustor in full.

Regarding the services provided to the government, we have to make a number of improvements:

- » ensure that the agency services provided by VEB to the Government of the Russian Federation are not loss-making;
- » achieve more synergy between the provision of services to the government and other VEB activities in the sphere of operations, administrative and economic activities, work with troubled debts and in other areas;
- » introduce advanced business processes and information technologies;
- » raise the level of customer satisfaction with VEB services.

We shall consider providing to the government services in other areas in which VEB will have the required competencies.

Synergistic Effects Between the Selected Areas

6.4

We realize the synergistic effects which exist among such priority areas as high-tech industries, export, transport, power supply (except public utilities) and production infrastructure.

We raise the client's chances of success

Together with the client we devise the entire value chain starting from the development of competitive production to the comprehensive support of the access to foreign markets. In this chain, investments in the infrastructure are carried out both when establishing industrial sites and when building the export infrastructure (terminals, railway branches, etc.).

The competencies that VEB has in the sphere of sectoral analysis, preparation of project documentation, engineering, public-private partnership, expert support of exports and in other areas enable us to offer to our clients the entire range of project implementation services: from investment and project consulting to access to foreign markets.

We reduce the cost of financing

VEB's scale of operation and its diversified structure, established relations with financial institutions and the government make it possible to obtain funding and co-investment on the most favourable conditions. This, in its turn, brings down the cost of financing for the clients.

New Investment Process, Industry Business Solutions, Structuring

6.5

The new investment process shall ensure that the selected project meet the target requirements in terms of economy support, risk and fund raising.

The new process will rely on the following principles:

- » financing of projects ensuring a multiplying effect for the obtained investments. We expect that the share of our financing will not, as a rule, exceed 40% of the total investment project value.
- » VEB activity complements the work of commercial banks in the context of the VEB mission and target support areas, besides, VEB may have common projects with commercial banks based on co-financing principles;
- » financing of projects in the Russian Federation in the area of infrastructure, production of mid-stream and downstream products and the industries having export potential. We will not invest abroad unless such investments are directly connected with the support of export of non-resource products;
- » analysis of conformity with the requirements for risk and break-even operation at the stage of expert examination and making a decision on each particular project. Negative results are possible in the short term and for individual projects within the expected cost of risk. Participation in the projects which do not conform with the requirement for break-even operation will be possible only by the corresponding decision of VEB Supervisory Board and subject to conformity with the principles of work with special projects.
- » at the stage of decision-making for each particular project, its repayment probability shall rely purely on its economic effect without taking into account cross-subsidizing between projects and associated economic effects.

The new investment process will comprise several stages. On each of the stages we shall offer to our clients new services which will help to form long-term partnership with the client.

Industry Business Solutions

We shall form a sectoral analysis function which will analyze the value chains in the economy and select possible investment niches. In addition to VEB's traditional receipt of funding requests from clients, proactive search of transactions will be performed by client managers, which service we are already establishing now, and employees of the departments responsible for sectoral business solutions. Relying on our knowledge of industries, government priorities and our client knowledge, we will select possible investment areas together with our clients. This will enable VEB to fulfill the mission of a development bank better and to take better account of the government priorities in its investment activity.

One of the main reasons behind the credit risk in project financing is incorrect assessment of the product market by the client and the client's incorrectly selected

business model. For this particular reason, in analyzing the projects offered by the clients we shall help the clients to make forecasts of their sales markets, understand the key factors of success in the selected niches and consider successful business models. We shall assess the business models suggested by the client and offer adjustments, if necessary. We shall not finance any projects if we don't believe in the business model selected by the client.

Structuring

Our role, as we see it, is not just to offer a credit to the client. After the project concept has been approved, we, together with the client, elaborate a comprehensive solution, which will include:

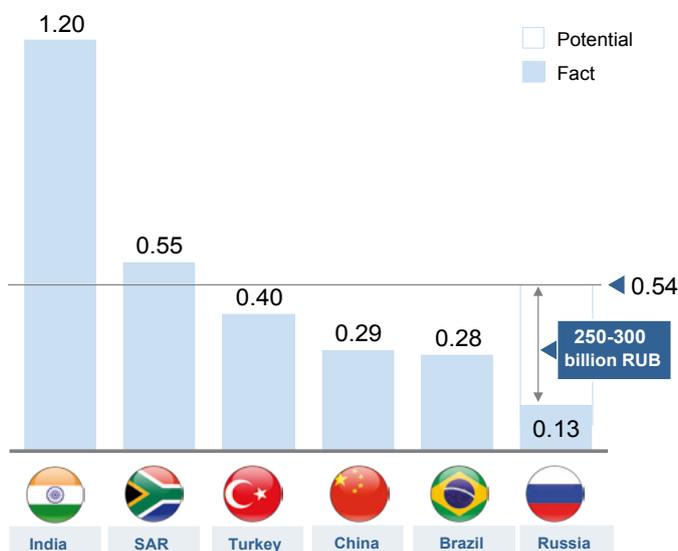
- » selection of the optimal instruments for financing, providing guarantees and expert support on the part of VEB;
- » choice of the optimal debt and equity financing instruments from other financial institutions (commercial banks, Russian and international development institutions, funds, etc.);
- » choice of a government support program (subsidies, guarantees, etc.).

To facilitate the transaction progress and improve the quality of our client offers, in our new investment process we will use the elements of flexible project management technology. In particular, for the development of tailor-made solutions we shall form cross-functional teams within the set time.

Syndication

For VEB, we see the opportunities to obtain syndication from commercial banks for VEB's projects. The Russian syndication market lags behind the comparable countries, but we see a considerable growth potential.

Share of syndicated credits in the GDP in VEB target areas* in 2000-2015 in comparable countries, %



VEB shall play an important role in the realization of the syndication potential. We shall have to work in two directions: form syndicates and improve the syndication regulation. As far as formation of syndicates is concerned, VEB role will include:

- » project search, syndicate structuring;
- » financing of early stages;
- » long-term financing;
- » provision of guarantees for individual risks.

* Credits to machine building and chemical industrial companies for the construction of the transport and public utility infrastructure

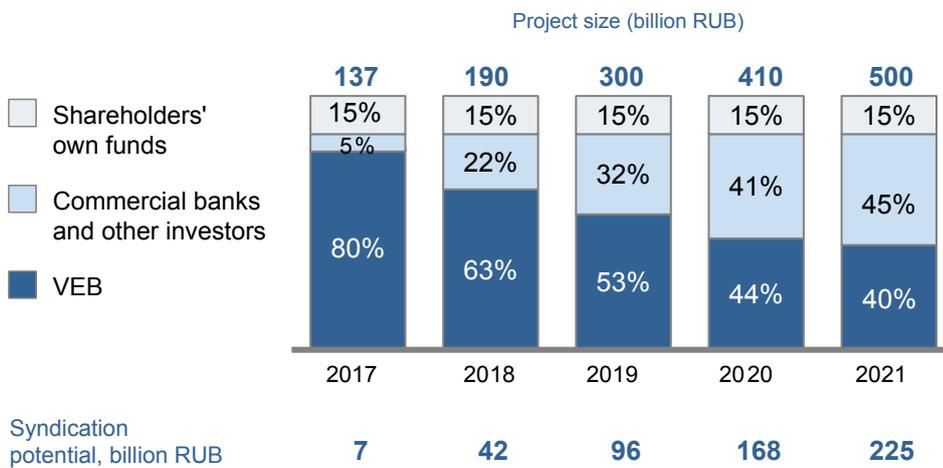
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As far as the improvement of regulation is concerned, VEB role will include:

- » improvement of legislation in order to include such notions as syndicated credit, sub-participation agreement and pledge manager;
- » make the interest rate subsidy mechanisms applicable to syndicates;
- » improvement of the reserving regime for syndicates.

Given the realization of the suggested measures, we see a great potential for obtaining syndicated financing for VEB:

Share of different sources in the financing of VEB projects



New Project Support Process



The project support process is important in that it raises its chances of success.

We see several components of the support process:

- » traditional monitoring (contract performance, collateral, financial and operational metrics);
- » project support by a cross-functional team;
- » formation of a single information field for the project between us and the client with the help of advanced information technologies;
- » additional services for the client in the form of project management and in the form of financial control and project support.

Monitoring

In the sphere of monitoring we will update the list of financial and operational metrics which we will monitor and which will require our response. We will make the monitoring process more prompt and friendly, first of all, owing to the use of IT-solutions for customer relations.

Cross-Functional Team

To raise the chances of success of an investment project, we will ensure active involvement of VEB managers during the entire project lifecycle, rather than at the credit granting stage only. We will define a new standard for managers' work for the support of investment projects, which will include active interaction with the client.

In order to accomplish this demanding task, we will realize the following initiatives:

- » formation of cross-functional teams for project support, including representatives of investment and customer relations departments, departments of sectoral business solutions, risks and monitoring and, if necessary, departments in charge of troubled assets. The task of a cross-functional team is to ensure deep understanding of the project progress and raise its chances of success;
- » the new support process will include systematic interaction between VEB managers and the client (participation in the key project meetings, visits to the site, receipt of business accounts and updated business plans);
- » performance of a routine inspection by the manager and the sectoral expert to verify the conformity of business model assumptions to the market conditions;
- » participation of VEB managers in the management bodies of complex and large investment projects;
- » providing to the manager the authorities to initiate suspension of financing, a review of the business model and the conditions for the project financing in case of any identified issues.

We are sure that the experience and knowledge of our managers and their proactive position will raise the chances of success of the projects.

Common Information Field and Project Indicator Panel

To provide effective management of the project and increase its chances of success, it is important for us to receive timely information concerning the project progress. The present-day information technologies enable us to solve this task by forming a common information field between us and the client.

Such IT solution will make it possible for us:

- » together with the client, to see the status of the project in real time, including the panel of the key project indicators;
- » to monitor the “critical path” of the project and assess the effect of deviations on financial performance;
- » to receive timely signals about any issues of the project;
- » to be able to predict the progress of the project based on the experience with similar projects.

We shall consider the formation of the common information field between VEB, the borrower, the project manager and the contractors on the basis of the advanced digital and blockchain technologies.

Project Managing Services

We shall offer to our clients, as additional services, engineering, procurement and project management, financial control and project support. These services will make it possible to generate additional income and mitigate the project risks.

Risk Management and Handling of Troubled Assets

6.7

Risks of the New Business Model and Approach to Their Mitigation

In the implementation of the Strategy, VEB encounters certain challenges inherent in the operation of financial institutions, however, the selected areas of activities and offered products change the significance of individual types of risks and define VEB's unique risk profile.

Risks associated with financing of investment projects

Project finance risks. Provision of long-term project finance, project support at early stages and use of subordinated credits result in the growth of significance of the project finance risk. For the management of the project finance risk, a new investment process will be adopted, which will ensure better project development quality, special project-oriented monitoring and the system of active handling of deviations in the course of the project.

Credit risk. The borrower's credit risk is present at the investment and operating stages of the project. VEB's portfolio will feature relatively high concentration, high credit priority and a relatively high level of borrowers' debt burden, that is why the credit risk management will require the use of special-purpose risk assessment models for the project, the borrower and the portfolio, close individual financial monitoring and dedicated credit documentation. A system of limits and other limitations of the credit risk will be developed.

Industry risk. The choice of several priority industries for investment increases the significance of the industry risk. For the management of the industry risk, we will set up the monitoring system for the key industries and sectoral limits.

Risk of investments in the capital of project companies. If the project financing structure implies participation in the capital, this gives rise to a risk of loss from a decrease in the fair value of investments. The instruments to be used for the management of this risk will include the conclusion of option agreements with project initiators, use of shareholders' agreements and participation in governing bodies.

Risks associated with financial support of export

Apart from the credit risk, the provision of financial products for export support gives rise to the risks associated with the cross-border nature of the transactions.

Country risk. The risk of loss arising from any changes in the political or economic situation in a certain country, impossibility to make payments to VEB because of the amended regulation. Considering the fact that export support shall be available to the buyers of Russian goods in the maximum number of countries, VEB will develop its expertise in the assessment of country risks, and will introduce an adequate system of limits.

Sovereign risk. Possible use of state guarantees of other countries or other instruments covering the credit risk requires a special expert review and setting of limits for the governments' credit risks.

Credit risk. Provision of financing to foreign buyers and the buyer's banks requires the development of the expertise in counterparty risk assessment in other countries.

Risks associated with the management of a portfolio of liquid assets and pension accruals

Despite the separation of VEB's liquid asset management and the STMC, the assumed risks are similar.

Market risk. The risk of loss arising from unfavorable change of market prices for financial instruments will be limited due to the improvement of the system of limits, imposition of portfolio restrictions and exclusion of high-risk instruments. VEB is not planning to assume significant market risks.

Counterparty credit risk in financial markets. VEB will, as far as possible, limit the credit risk connected with operations in financial markets due to strict requirements for the counterparty's credit quality and an effective system for setting and control of limits.

Risks associated with VEB operating as a financial institution

A number of risks are present and managed at the level of VEB and are connected with all business areas.

Liquidity risk. The liquidity risk will be significant due to a relatively high concentration of assets and liabilities, the need to look for new sources of funding for the substitution of the external debt, existing time gaps between financing and placement times. For the management of the liquidity risk we plan to form a significant pool of liquid assets, improve forecasting of the factors that may have a negative impact on VEB's liquidity status and switch to consolidated liquidity management within the Group.

Currency risk. The currency risk will remain significant for VEB given the considerable amount of obligations to foreign creditors, the existence of special projects and impaired loans. VEB is planning to limit the currency risk through the use of hedging instruments, fix-up of the situation with special projects and the change of the funding structure.

Interest rate risk. The focus on long-term financing alongside with the limited ability of market fund raising for the corresponding time makes the interest rate risk highly significant. We will have to include the measures limiting interest rate gaps into our asset and liability management policy and assess the requirements for additional capital for the coverage of the interest rate risk.

Operating (including legal, compliance and reputation) risk. The expected scale and complexity of VEB's operations determine the necessity to build a modern operating risk management system concentrated on anticipatory identification of risks and use of preventive measures for their mitigation.

Improvement of Risk Management System

Effective risk management is a crucial element of the new business model. We will introduce a whole range of risk control elements, some of which include:

- » a single risk management system for the entire VEB Group, including three levels of defence against risks – in business units, risk management units and control departments;
- » a uniform credit process in VEB and risk assessment and control standards on all of its stages;
- » a uniform system of limits by products and by groups of associated borrowers;
- » determination of risk appetite by key indicators. Introduction of advanced risk metrics (economic capital, etc.);
- » strengthening of expertise in the bank book risks. We plan to avoid or hedge the risk of mismatch of the currency structure of assets and liabilities and manage the interest rate risk;
- » strengthening of market risk control instruments.

We will carry out a number of organizational changes for the enhancement of the risk management:

- » form a dedicated common risk function including the methodology, independent expert review of risks, financial technology and pledge monitoring and the management of the Group's risks;
- » form a dedicated common risk function for working with troubled assets in VEB and the Group.

We will instill the risk culture among all employees of VEB Group. We will raise the employee awareness of assumed risks, and each employee's feeling of responsibility for assumed risks. We will monitor the level of risk culture to evaluate the sufficiency of the employees' knowledge and their competencies.

Handling of Troubled Assets

We will considerably intensify the process of handling troubled assets in VEB and the Group. For this purpose, we will make the following main changes:

- » form the system of identification of potentially troubled assets and their preventive handling;
- » introduce the selection of an optimal work strategy for each asset based on the Recovery Rate indicator;
- » develop and launch an effective system of handling troubled but viable assets with a view of realizing their economic potential;
- » take proactive position regarding the return/settlement of troubled debts;
- » form dedicated teams for the return and restructuring of each asset.

Handling of troubled assets will be within the competence of the Troubled Assets Management Committee which is being established now.

Dealing with Special Projects

6.8

The benefit of the state and the Russian economy may require that VEB took investment decisions which do not meet VEB's risk management requirements. We call such projects special projects. Special projects have the following characteristics:

- » they do not meet VEB's requirements for break-even operation (including the recoverability of funds, level of income and risks in the transaction and availability of financing);
- » VEB is limited in the use of risk management instruments (including the requirements to the borrower or security quality, ability either to recover the funds or bankrupt the borrower);
- » VEB is unable to carry out a full-scale expert review of a project.

One of VEB's areas of activities is support of the companies having systemic significance for the Russian economy. As part of such support, VEB will not only provide financing but participate in the development and adoption of the company's target business model.

In our portfolio, we already have a certain number of special projects that impair the profit and the quality of VEB assets. We are developing programs for the restructuring and rehabilitation of each of these assets. The government has already provided assistance to VEB in order to compensate for the negative financial result from special projects. Additional government support measures for existing special projects are being explored on a case-to-case basis.

In the future, it may become necessary to invest in special projects to support the companies that have systemic significance. For this purpose, VEB has developed a mechanism for the implementation of special projects which makes it possible to fulfill the tasks of the government and maintain VEB's financial stability.

New Competencies

6.9

We are building the development bank that will take account of the best global practices, and in some areas will offer cutting-edge services to its clients.

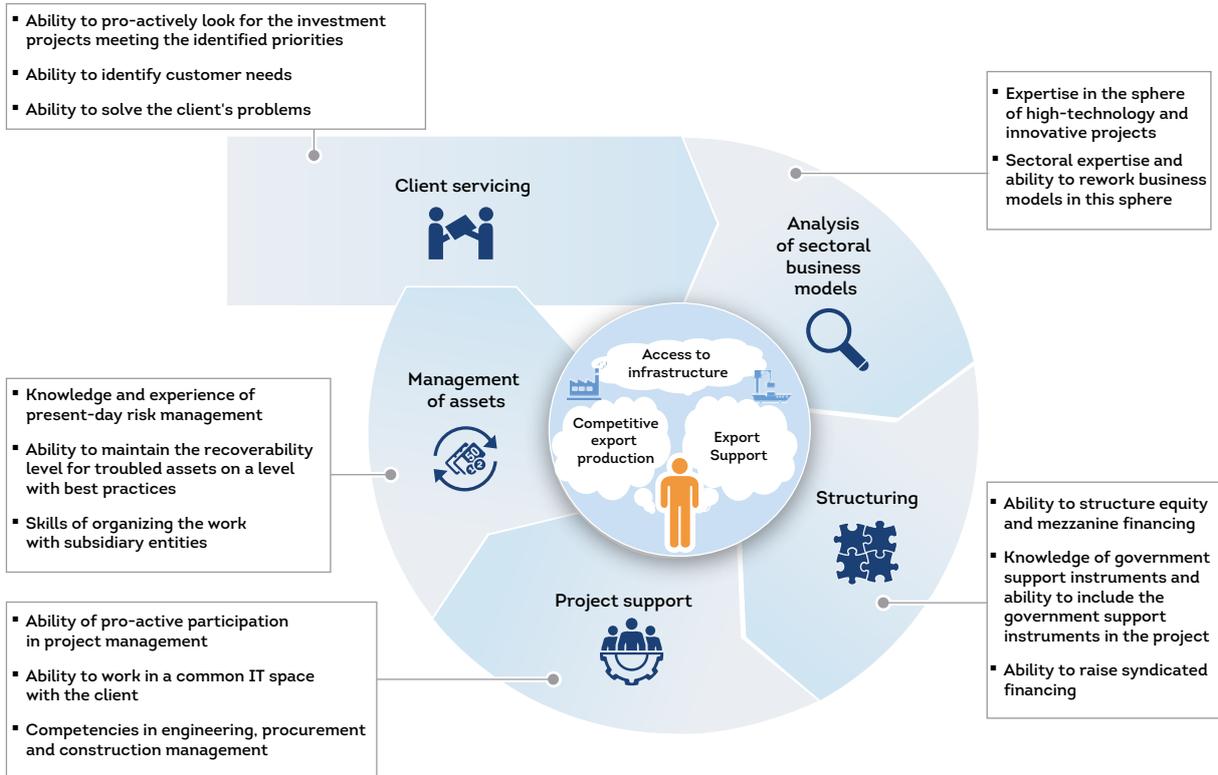
This will require from us building of new competencies, bringing the knowledges and skills of our employees to a new level, transformation of our processes and systems to a new level of maturity.

Our new competencies will be built around the client's needs. We shall support our client throughout the entire life cycle of projects.

We will develop our customer relations, sectoral analysis, transaction structuring, project support and asset management competencies:

- » we will learn to work in close contact with the government and our clients, search for interesting projects together, listen to the client and be flexible in changing our processes in accordance with the client's needs. We will learn to look for new projects through our partners: government, financial institutions, development institutions;
- » we will build our industry expertise in VEB's priority areas and will expand our export support expertise into different countries;
- » we will learn to develop, together with our clients, comprehensive solutions based on our ability to structure transactions and find investment partners, and deep knowledge of government support programs. We will make risk management a task of each employee;
- » we will build competencies in the sphere of project management based on advanced information technologies. Our managers will learn to be actively engaged in the management of investment projects;
- » we will further develop our troubled assets management competencies;
- » we will build our organization on the basis of the best practices of corporate social responsibility.

VEB'S NEW COMPETENCIES

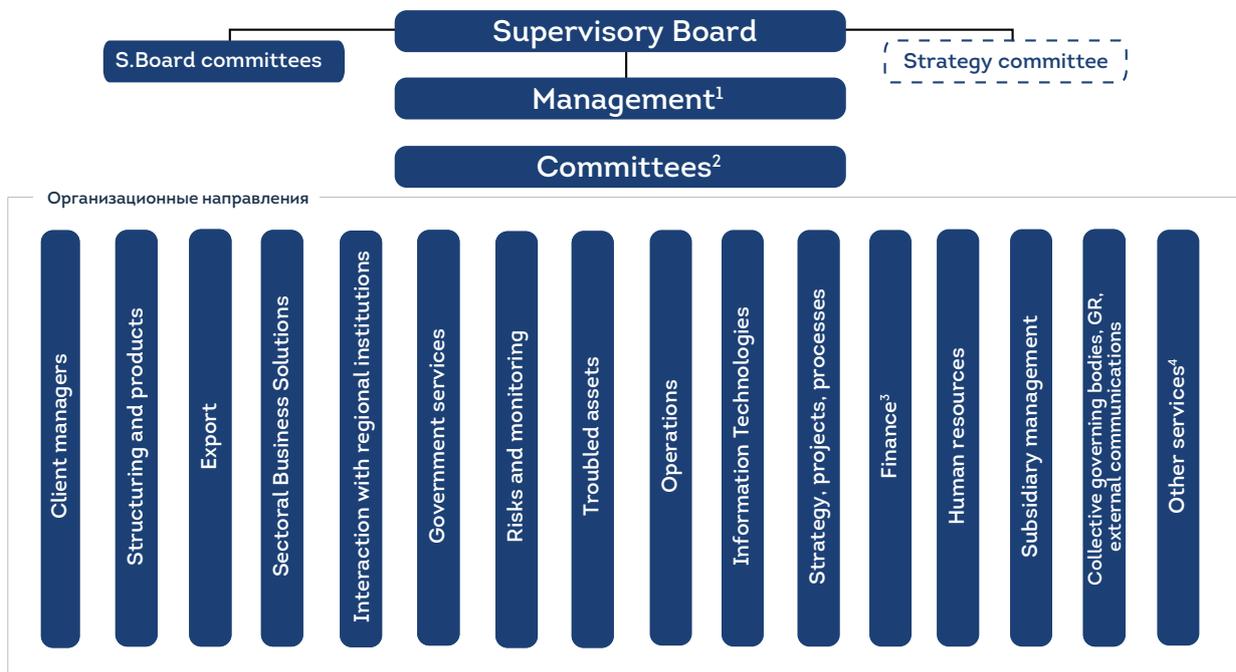


Organization

6.10

VEB's new organizational structure will correspond to the new business model. The main elements of VEB's future organizational structure are given below.

ELEMENTS OF ORGANIZATIONAL MODEL



¹ Chairman, Board, Steering Committee.

² Committee for Development of Investment Operations, Credit Committee, Assets and Liabilities Management Committee, Committee for Process and Technology Management, Troubled Assets Committee, etc..

³ International finance, financial institutions, assets and liabilities management, etc.

⁴ Administration, security, legal service, etc.

VEB's Supervisory Board will have a Strategy Committee responsible for the following tasks:

- » approval of priority investment areas;
- » approval of annual goals by areas.

The important organizational changes will include:

- » setting up of a client relations department;
- » formation of a center of competence for analyzing business models in different industries;
- » formation of a center of competence for syndication;
- » formation of a unit responsible for active search of projects in target niches;
- » formation of centers of competence for capital markets and merger and acquisition transactions;

- » formation of a center of competence for the aggregation of government support;
- » formation of a center of competence for the interaction with regional development institutions;
- » consolidation of the “risks and monitoring” function into a business-independent unit;
- » setting up of a subdivision for handling troubled assets;
- » centralization of operating functions;
- » setting up of a single finance function;
- » strengthening of the function of managing the assets and liabilities of VEB and the Group;
- » formation of an effective investor relations function, structuring and international finance;
- » setting up of the Group’s shared service center.

Managers in Charge of Target Investment Areas

We will maintain and strengthen VEB’s sectoral expertise, first of all, in the subdivisions of sectoral business-solutions, structuring and export.

The subdivisions of sectoral business solutions and structuring will have managers responsible for the search, structuring and support of projects in each of VEB’s target investment area.

Each responsible manager and subdivision will have target indicators (limits) by investment areas.

Functional Management of Subsidiaries and Associated Companies

The subsidiaries included in the target structure of the Group will be managed by VEB’s corresponding centers of competence.

Personnel and Motivation

6.11

People are the key asset for the achievement of strategy goals. We see a considerable potential for improvements in the areas of personnel cycle, performance management and personnel processes.

In respect of the personnel cycle, we will form a new talent management system, including their selection, assessment, access to opportunities for self-realization, training and promotion. We will develop a system of competencies based on the strategy goals, corporate values and include the competencies in the new system of personnel assessment. We will considerably reinforce the personnel development system including their on-job development, mentoring and training system. We will also build the system of adaptation for new employees.

In the sphere of performance management, we will form, on the basis of the strategy goals, a system of qualitative and quantitative key performance indicators and cascade these indicators to all levels of management of the Group. We will introduce a system of systematic performance reviews of functions and subdivisions against the uniform standards based on the improved management information system.

We will form a full-scale human resource function in VEB and the Group for the achievement of the set goals. We also see possibilities for substantial growth in the efficiency of personnel processes and improvement of their quality, first of all, through their automation.

New Incentive System

The new system of incentives for VEB employees has a number of goals:

- » motivate the employees to perform the strategy goals;
- » motivate the employees to observe VEB's values;
- » attract from the market and retain qualified professionals;
- » provide incentives to the employees of all levels for the super-achievements that will be necessary in the course of VEB transformation;
- » motivate the employees to contribute to VEB's long-term success

The key elements of VEB's value proposal as an employer will be:

- » the opportunity to contribute to the projects that are changing the country;
- » a high-profile company for ambitious leaders who are ready to accept the challenge and conquer new peaks;
- » the best place for professional development and formation of a new way of thinking;

- » unique environment for acquiring the experience of a deep industry expertise and comprehensive business solutions;
- » the best project management experience in large sectoral projects involving the government;
- » a unique client management school forming the culture of building long-term relations with clients.

New Values

6.12

Values is the system of coordinates in any organization. VEB's new strategy will imply new values. We had an extensive discussion and together formulated the values that will guide VEB into the future.

Development. We face major tasks of VEB transformation. In the process of such transformation, we shall not only "catch up" with the best practices of financial institutions, but we consider developing cutting-edge solutions for our clients. VEB's projects are aimed at transforming the Russian economy. We shall be able to "look beyond the horizon" in the selection of promising investments. For such work, we need people who see continuous development of VEB and their own development as a value. The "development" value includes for us also the readiness to accept changes and learn through errors.

Leadership. The strategy goals cannot be achieved without tens and hundreds of VEB employees assuming the responsibility for the result, solving problems in spite of difficulties and challenges and demonstrating initiative. Such behaviour will be the manifestation of the "leadership" value.

Partnership. Projects realized by the bank for development are long-term ones. Project success for the client means project success for VEB as well. It means that VEB and its clients shall have really partnership relations and the development of such relations will be a value for VEB employees. Partnership means deep understanding of the business and needs of the client and the ability to develop, together with the client, a full-scale solution ensuring the project success rather than just another financial product. Partnership also means the ability of VEB employees to advocate VEB's interests.

Team. VEB works with large sophisticated projects, with nearly each of them being unique. The project work will be carried out through cross-functional teams including representatives of most departments. Team as a value means for us mutual assistance and support, absence of red tape, ability to hear and affirmative approach.

Integrity. VEB works with immense financial resources entrusted to us by the government and investors. To keep this trust, we observe the norms of professional ethics, we are transparent in our work and leave no room for corruption.

Patriotism. VEB is not just a bank, we shall not only ensure the recoverability and profitability of the invested funds, but ensure the maximum positive effect from our investments for the Russian economy. We are proud that our work makes our country better.

Our values will not become a poster on a wall, we will live up to them. We will make it so that VEB employed only the people that share our values.



PROCESSES AND TECHNOLOGIES

Processes and Technologies

6.13

Our strategy will be implemented through fundamental transformation of processes and technologies.

We see the following transformation goals:

- » to significantly improve the client-centricity and speed of our processes both for external and internal clients;
- » to significantly improve the efficiency of our processes, including the increase of their effectiveness and the reduction of their costs.

In order to achieve the goals pertaining to the development of processes and technologies, we will work in the following directions:

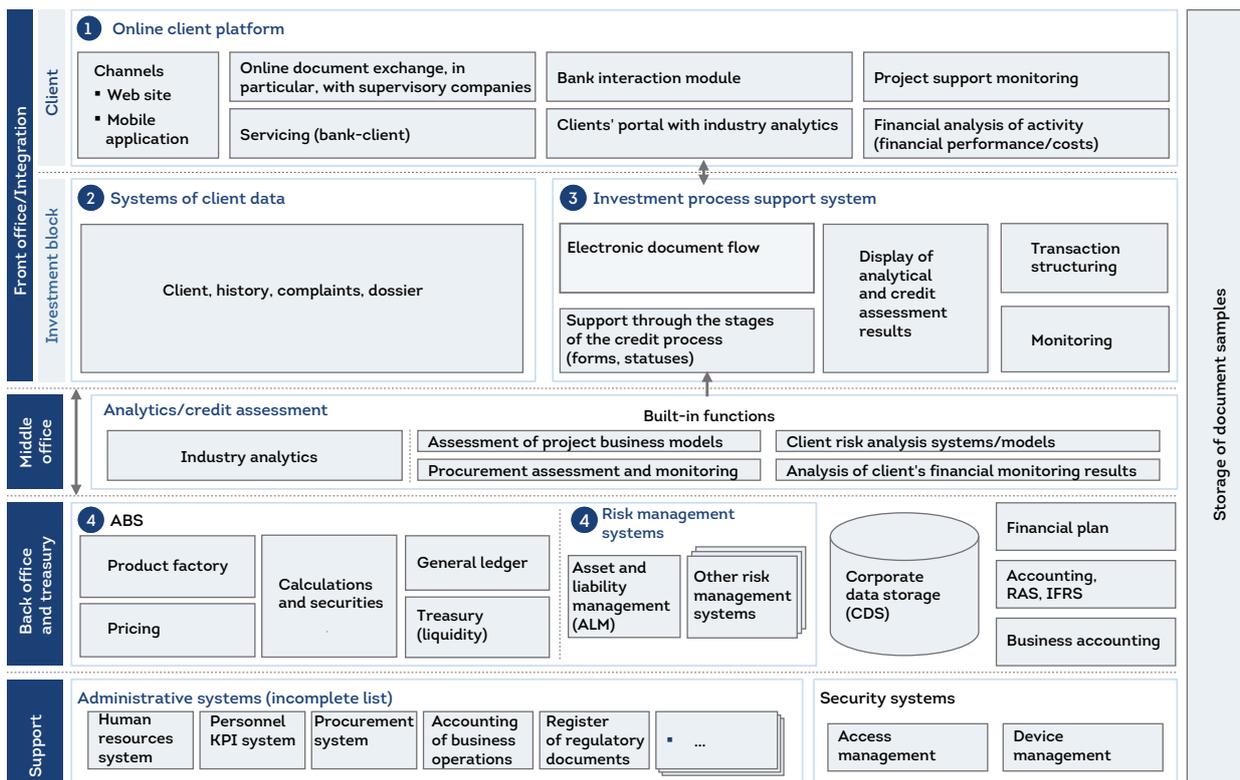
- » launch an extensive review of the processes which will be controlled by the newly established committee for process and technology management;
- » for the transformation of processes we will use the most advanced techniques:

“Design thinking” for the identification of the client’s needs, “lean production” for the achievement of high performance and “agile” for fast implementation of changes;

- » introduce a uniform business architecture and process management system in VEB Group;
- » adopt the project management system;
- » ensure the development and introduction of cutting-edge information technologies.

The extensive renovation of the bank imposes new requirements for the functionality of IT systems. We will develop and adopt a new IT architecture, which key elements are represented below:

We will build and introduce an online client platform, which will include client requests, online document flow, financial monitoring, monitoring of the project progress and online banking services.



We see possibilities for considerable improvement of current IT solutions, especially, of the client data system, the investment process support system, the main banking system, the risk management system and human resource systems.

We will perform an audit and, where necessary upgrade the equipment to enhance the system fault tolerance. We will extend the data storage and processing capacities by upgrading the data processing center.

We will explore the possibilities of using "cloud" solutions.

Place of Subsidiaries in the New Model and Corporate Governance

6.14

The current VEB Group structure reflects the investment priorities of the old business model and does not reflect new strategic goals of Vnesheconombank. In the new conditions, it is necessary to adjust the list of the Group member companies, to optimize the subsidiary management model and to unlock the synergy potential of the Group.

We determined the place of subsidiaries in VEB's target business model proceeding from the following basic principles:

- » correspondence to the priority investment areas. First, we will keep within the Group those subsidiaries that are directly involved in the core processes in the selected investment areas;
- » conformity with international practice. We have analyzed to what extent the development banks worldwide include in their structure particular activities and corresponding subsidiaries;
- » possibility of fast withdrawal from the structure, depending on the asset quality.

After the decisions on keeping or withdrawal of subsidiaries in/from VEB structure are taken we shall consider how fast we can withdraw non-core subsidiaries from the Group.

- » possibility to optimize the legal structure. We have analyzed to what extent the performance of a particular VEB function requires a separate legal entity.

Following these principles, we divided our subsidiaries into 4 groups:

- 1. phased (2017-2018) withdrawal from the Group:** Prominvestbank (Ukraine), Svyaz-Bank, Globexbank. These entities are inconsistent with new priorities, but require special measures to be taken before the withdrawal;
- 2. retention in the Group and realization of synergies:** Russian Export Center (REC), EXIAR, Roseximbank, VEB-Innovations, FCPF, VEB Engineering, VEB Capital, Monocity Development Fund. These entities are on the whole consistent with the priority investment areas, and we use the available synergies;
- 3. restructuring and strategy development:** VEB-Leasing. A large asset of the Group, due to its current financial situation requires restructuring and development of a new strategy, before the final decision is taken in its respect.
- 4. further clarification of the place:** BelVEB Bank (Belarus), the Far East Development Fund, the North Caucasus Development Corporation. Together with the government we will explore VEB's role in the control of these institutions.

In the near future, we will consider optimization of subsidiaries of the second and third levels.

For the subsidiaries remaining part of the Group we defined the following roles

Subsidiary	Role
	Center for Support of Non-Resource Export
 Innovation	Institute for Support of Innovative Development, including NTI projects
 Federal Center For Project Finance	Institute for Support of Early Stage of Infrastructural and Industrial Projects
 Engineering	Center for Support of Digital Technologies in Engineering and Project Management
 Capital	Center of Competence for Restructuring and Operational Transformation of Troubled Assets
	Institute for Support of Infrastructure Development and Diversification of Monocity Economy

We consider it necessary to strengthen corporate governance in respect of all subsidiaries, even those from which we are going to withdraw. We have to:

- » realize business synergies and improve the performance and controllability of subsidiary entities through the centralization of a number of functions;
- » update business models of a number of subsidiaries;
- » realize short-term measures for the improvement of financial conditions;
- » set up a single financial control and risk management system;
- » strengthen the coordination of client relations;
- » focus the goal-setting process on the new priorities and increase the responsibility of the subsidiaries' management for the result.

The corporate governance of the REC and the member companies of its group are performed in accordance with a special procedure.

Financing Model

6.15

We encountered two challenges in the financing sphere: the necessity to address issues of financing and capital of the existing bank and the necessity to select a financing model for the new portfolio (VEB 2.0), which will allow financing of projects at an acceptable price and with allowed credit risk level.

Challenges of Financing Model

The problems with the business model of the “old” VEB brought about financial loss and the need of additional capitalization to be provided by the government.

VEB’s former financing model does not work:

- » the bank’s mainly Ruble-denominated assets cannot be financed by foreign currency liabilities, for its gives rise to high foreign currency risk;
- » the potential for borrowings in external markets is limited;
- » there are no possibilities for the refinancing of the existing external debt;
- » borrowings in the domestic market are expensive and do not allow VEB to lend to long-term projects at an acceptable price.

We took some measures, including fund raising from the government, preparation of partial sale of assets, active work with troubled debts, obtaining of clients’ funds, which considerably improved the liquidity situation in 2016 and ensured our conformity with the requirements for the capital and liquidity.

During the next several years, we will work with two challenges: the necessity to restructure bad assets and special projects and, at the same time, make payments in discharge of our external and internal debt.

New Financing Model

We will launch a new financing model for the renewal of economy support.

The goals of our new financing model are:

- » meeting existing obligations for project financing and servicing of external and internal debts;
- » meeting obligations and standards for liquidity, capital sufficiency and other risks;
- » provision of long-term financing at an acceptable price for the selected areas.

This model will comprise the following elements:

- » financing from the government in the form of capital which makes it possible to reduce the total price of resources and maintain the required level of capital for the increase in lending;
- » project financing from the National Wealth Fund subject to agreed limits;
- » use of the state guarantee mechanism for the projects with an increased risk level realized by VEB for the benefit of the state;
- » market financing in the domestic market (VEB bonds, resources of private pension funds, deposits of major clients). It is necessary to raise the appeal of VEB bonds by improving their regulation mechanism in accordance with international practice of development institutions and to provide favourable conditions for investing private pension funds into VEB bonds;
- » use of the interest rate refinancing and subsidy mechanism provided by the government;
- » use of external tied and bridged financing;
- » working out, together with the government, additional sources of inexpensive funding for VEB.

Key Indicators of the New Strategy



We will measure the strategy performance through key indicators. These indicators correspond to our key priorities:

- » positive effect on the development of the Russian economy;
- » VEB transformation;
- » achievement of financial indicators of the strategy.

We suggest the following figures as indicators showing the influence on the Russian economy:

- » amount of provided project financing directly influences the growth of investments and export;
- » share of financing corresponding to the government priorities (Ministry of Economic Development of Russia, Ministry of Industry and Trade of Russia, Ministry of Transport of Russia, NTI);
- » export support includes export financing, guarantees and is the most important VEB objective;
- » amount of raised co-financing means the funds obtained from private investors and development institutions into the Russian economy;
- » performance of STMC functions ensures effective investment of pension accruals into the Russian economy.

The customer satisfaction index shall become an important transformation indicator.

Among the financial performance indicators, we see the portfolio quality, the costs to assets ratio, the amount of non-performing assets, etc. Why we have selected these indicators:

- » the portfolio quality is crucial for the observance of the bank's break-even operation principle;
- » the operating costs to assets ratio demonstrates how efficiently the bank manages its costs;
- » the amount of non-performing assets demonstrates the manager's work with the existing portfolio, especially with the troubled assets.

We will also monitor several indicators intended to maintain VEB's stability, including the capital sufficiency, risk management and liquidity indicators.

KEY INDICATORS OF THE NEW STRATEGY

Indicator	2017	2018	2019	2020	2021
Amount of provided financing ¹ , bln RUB	110	120	160	180	200
Share of financing corresponding to the government priorities (Ministry of Economic Development, Ministry of Industry and Trade, Ministry of Transport, NTI)	50	70	70	80	80
Export Support (granted credits and guarantees), bln RUB ¹	82	87	103	113	124
Performance of the STMC function, target index ²	2	2	2	2	2
Amount of raised co-financing, bln RUB	The calculation technique and target values will be developed before 30.06.2017				
Customer satisfaction index					
Loan portfolio quality					
Amount of non-performing assets, bln RUB					
Cost-to-assets ratio, %					
Capital adequacy, %					
Net tangible assets, bln RUB					
Liquidity (short-term and long-term)					
Aggregate foreign exchange exposure					
Market risk (VAR) for the trade portfolio					
Interest rate risk					

¹ Includes the debt and equity financing of VEB's projects. The value depends on the provision of special-purpose funding by the government and the interest rate subsidies and does not include the amounts granted to the REC..

² The value equal to "2" means positive return on investments.

VEB's Development Scenarios for the Term of the Strategy

8

VEB development scenarios for 2017-2021 differ from one another by the scale of credit activities in respect of financing of new investment projects. The amounts of new credits provided will depend on the amount of available funding from the public and market sources.

Baseline Scenario

8.1

In the baseline scenario VEB will focus on a limited range of projects in the priority sectors of economy. The amount of provided financing in the baseline scenario will be 770 billion Rub. before 2021, growing from 110-120 billion Rub. per annum in 2017-2018 to approximately 200 billion Rub. in 2021.

Indicator, bln RUB	2017	2018	2019	2020	2021
Amount of provided financing ¹ , bln RUB	110	120	160	180	200
Contribution to investments in fixed capital, % ²	1.1	1.0	1.4	1.7	2.0
Government support from the treasury (subsidy)	150	150	150	150	150

¹ Includes debt and equity financing of VEB's projects. Without the amounts granted to the REC.

² Including co-financing from other investors.

Given the co-financing obtained from other investors, the aggregate amount of financing for VEB's projects in 2017-2021 may be 1.4 trillion Rub.

For project financing, VEB will use the funds of the National Wealth Fund and market sources. Moreover, maintaining the necessary level of capital sufficiency in 2017-2021 will additionally require around 150 billion rubles from public sources in the form of additional capitalization. The share of market funding will gradually grow. The share of project co-financing by other investors is expected to reach 60%.

Scenario for Extended Support of Economic Growth

8.2

Given the need of the economy for crediting of investments and VEB's capabilities to find and structure projects, we see the opportunities for the scenario with a higher lending amount. Transition to a more optimistic scenario is possible with the increase of the available funding.

Indicator, bln RUB	2017	2018	2019	2020	2021
Amount of provided financing ¹ , bln RUB	150	200	300	350	400
Contribution to investments in fixed capital, % ²	1.2	1.3	2.1	2.6	3.1
Government support from the treasury	150	150	150	150	150

¹ Includes debt and equity financing of VEB's projects. Without the amounts granted to the REC.

² Including co-financing from other investors.

In the extended lending scenario, project funding will rely on additional public sources of long-term funding and new borrowings from market sources.

By 2021, the total amount of project financing from the part of VEB will reach 1.4 trillion Rub., and together with co-financing obtained from other investors may, in 2017-2021, reach 2.5 trillion Rub.

Financial Stabilization Measures

8.3

Both scenarios may only be realized subject to the financial stabilization of VEB. Financial stabilization measures are intended to address the following issues:

- 1. External Debt Servicing.** Difficulties with the refinancing of the external debt in the context of sanctions and the loss of income from non-performing assets create a need for financial support from the government. In 2016-2017, a part of liquid assets will be sold, however, in 2017-2021 VEB will need a subsidy for the repayment of the external debt.
- 2. Coverage of special project risk.** VEB's special project risks are expected to be covered by means of additional measures, subject to discussion with the government.

Transition to the New Model



In the realization of a new strategy we see several stages:



Stage one (crisis management)

The main objectives of this stage are:

- » stabilization of subsidiaries;
- » withdrawal from non-core assets;
- » search for resources for servicing VEB's obligations;
- » development of a new special project mechanism;
- » optimization of expenses.

In the **second stage (transformation)** we will begin to provide support for the Russian economy by increasing the economy crediting to 120 billion Rub. per annum (in the baseline scenario).

In order to achieve this goal, we will work in the following directions:

- » further work on the withdrawal from non-core assets;
- » new investment process and VEB's new organizational structure;
- » beginning of investments by target strategical areas;
- » launch of the new investment project support process;
- » introduction of new IT-solutions.

In the **final third stage (roll-out)** we expect a substantial growth of annual disbursements to 200 billion Rub. per annum (in the baseline scenario).

As a result, the main changes in the organization and processes will take place as early as 2016-2017, and before the end of 2018 we plan to withdraw from the greater part of non-core assets. By 2021, VEB will achieve the target financing levels.

We started to form project teams which will be performing the transformation work.

