



**BANK  
FOR DEVELOPMENT**

# **VNESHECONOMBANK GROUP NON-FINANCIAL REPORT 2017**

## **FULL VERSION**

*“We have recently decided to considerably renew and modernize VEB Group in its entirety. We believe that this will allow us to achieve the main goal of enabling Vnesheconombank to be effective as a development institution, the most important development institution in this country.”*

*Dmitry Medvedev*

*Russian Prime Minister*

*Chairman of the Supervisory Board, Vnesheconombank*

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## Address to the Reader

Dear colleagues and partners!

We present to your attention the Non-Financial Report 2017 of the Vnesheconombank Group. This Report recaps the most significant results of the work performed by the VEB team for renovating the Bank for Development and laying a solid foundation for its further effective participation in Russia's economic modernization.

In the past two years, VEB has come a long way resolving various acute problems posing threat to its financial stability. The state support measures and mobilization of the Bank's internal resources stabilized the liquidity situation and significantly reduced the level of external debt to western capital markets. The Bank also initiated measures on "prudential treatment" of problem assets. Individual treatment strategy was devised for each category of debts warranting strict preservation of interests of the Bank and of the State.

Along with implementation of the anti-crisis measures, the VEB team created favorable conditions for its future development. In 2017, the Bank embarked on a newly developed VEB 2.0 strategy aimed at the Bank transformation and enhancement of its efficiency. Within the framework of this strategy, VEB focused on the development of hi-tech processing industry, infrastructure, innovative technologies and support for exporters. Among VEB's other priorities stands promotion of "green" renewable energy, which has great potential from the point of view of sustainable development.

In 2017, VEB's investment in Russia's economy amounted to over 190 billion rubles, which is twice as much as was invested in the previous year. According to the results of 2017, the overall Bank's loan portfolio comprised ca. 14% of the total bank loans issued in Russia for a term of more than 3 years. The Total Economic Impact of the VEB investment projects implementation has reached 0.34% of the GDP.

Noteworthy, while carrying out its investment activities, VEB pays special attention to the formation of a high-quality project portfolio. Thus in 2017, the Bank started the development of a highly professional sectoral expertise and launched a new model of its interactions with the regions. It stipulates that its regional managers take part in the selection of VEB projects since they are well versed in the regional business' specificities and have long passed a multi-stage selection system.

Kickoff by the VEB team of the Project Financing Factory deserves special recognition. Russia's Prime Minister Dmitry Medvedev formally launched the Factory in 2018 in the

context of the Russian Investment Forum in Sochi. Within short order, this new project is bound to boost the influx of private investments in the priority sectors of the Russian economy.

Vnesheconombank today faces the challenge of acting as a powerful partner of the Russian Government in undertaking a socioeconomic breakthrough in the country development in accordance with the May Decree of the President of the Russian Federation. We will need to drastically augment the Bank's loan portfolio, initiate new large-scale projects that could become drivers for the development of the Russian economy.

Vnesheconombank will be resolving this problem in close cooperation with Russia's leading banks, primarily, the Sberbank and the VTB, as well as with other development institutions. These joint coordinated efforts will give the Russian economy a new impetus for growth and add new qualitative substance. In the meantime, Vnesheconombank per se is ready for a significant renovation, for more efficient and dynamic performance by adoption of the best examples of the world and domestic management practices.



Deputy Chairman of Vnesheconombank

(Chief Economist) — Member of the Management Board     Andrei Klepach

# 1. VEB Group: Today and Tomorrow

## 1.1 Vnesheconombank as Russia's Leading

### Development Institution

“We have recently decided to considerably renew and modernize VEB Group in its entirety. We believe that this will allow us to achieve the main goal of enabling Vnesheconombank to be effective as a development institution, the most important development institution in this country.”

Dmitry Medvedev  
Russian Prime Minister  
Chairman of the Supervisory Board, Vnesheconombank

State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” is a national development bank and one of Russia's largest financial institutions. The Bank was established in 1924. Since 2007, Vnesheconombank has been operating under the special Federal Law No. 82-FZ “On Bank for Development” dated 17 May 2007. The highest governing body is the Supervisory Board chaired by Russian Prime Minister Dmitry Medvedev.

Vnesheconombank carries out its activities in accordance with the Development Strategy until 2021 whereby Vnesheconombank provides long-term financing and expert support for such industries where market-based mechanisms and other development institutions are ineffective. Vnesheconombank's investments are aimed at restructuring the economy and changing its quality, increasing workforce productivity, reducing the country's dependence on imports and exported raw materials.

Vnesheconombank applies its expert and analytical competencies to reveal new growth points in the economy, search for and select promising projects and attract businesses to such projects. When selecting investment projects, Vnesheconombank takes into account their effect on sustainable development and energy efficiency enhancement. The implementation of its strategy will enable Vnesheconombank to become a leader in long-term financing for Russia's most important economic development projects and contribute to a better investment climate in the country.

### Vnesheconombank's Functions as a Financial Development Institution

Vnesheconombank's mission is to promote Russia's long-term economic development, primarily by providing support for downstream industries, high-technology projects, exports and infrastructure underpinning the economic growth.

Vnesheconombank's activities are aimed at facilitating the achievement of the government's goals in socio-economic development

- Diversified economy and reduced dependence on raw materials
- Import substitution
- Innovation support and improved workforce productivity
- Export development
- Development of territorial clusters
- Use of defence facilities to make non-military products

In its activities, Vnesheconombank focuses on the system of values, which have become the goals for all employees of the Bank

- Development
- Leadership
- Partnership
- Team
- Honesty
- Patriotism

## 1.2 Highlights 2017

### INNOVATION AND BREAKTHROUGH TECHNOLOGY

June

As resolved by Vnesheconombank's Supervisory Board, VEB Innovations was established to become Vnesheconombank Group's key instrument for supporting and developing innovation in Russia

July

Vnesheconombank hosted the first meeting of the working group, chaired by First Deputy Prime Minister Igor Shuvalov, to discuss the use of blockchain technology in public and corporate administration

### NEW BUSINESS MODEL FOR REGIONAL OPERATIONS

February

Vnesheconombank unveiled a new business model at the Russian Investment Forum in the presence of Prime Minister Dmitry Medvedev

Vnesheconombank signed a cooperation agreement with the Agency for Strategic Initiatives, selected as the key partner of the programme

April

The selection of Vnesheconombank's regional managers started in the regions

October  
Vnesheconombank presented blockchain-based prototypes at the Open Innovations 2017 Forum

December  
The Centre of Blockchain Competencies was formally opened by Vnesheconombank and National University of Science and Technology MISiS

The Million-Ruble Idea game show sponsored by Vnesheconombank premiered on NTV

September  
Vnesheconombank launched an online platform for electronic applications for project financing

December  
Vnesheconombank started considering more than ten projects received online from regional managers

### VNESHECONOMBANK'S PROJECTS

February  
Talion Arbor, a high-technology innovative OSB production facility, was opened in the Tver Region

December  
Asia-les started pellet production in the Khabarovsk Territory

September  
A timber production facility was put into operation in Amursk, Khabarovsk Territory

Vnesheconombank financed the first delivery of two Sukhoi Superjet 100s to Aeroflot

### ATTRACTION OF INVESTMENT

July  
Vnesheconombank and the China Development Bank agreed to cooperate in high technology and innovation through equity financing and project financing of up to CNY 6 billion in Russia for a period of up to 15 years

November  
Vnesheconombank and China EximBank signed a CNY-denominated frame agreement to finance infrastructural and innovative projects in Russia in the amount equivalent to USD 3 billion

### CORPORATE LIFE

July  
Vnesheconombank started introducing a new employee remuneration and motivation system

October  
Vnesheconombank launched a new corporate portal, VEB Life

December  
Vnesheconombank's CEOs and employees held a meeting to discuss the year-end results

### LEGAL FRAMEWORK

December  
A restated version of the Federal Law "On Bank for Development" and the syndicated lending law were approved

### CREDIT RATINGS

July  
The Analytical Credit Rating Agency (ACRA) evaluated Vnesheconombank's credit risks for the first time and assigned the highest rating (AAA(RU), outlook: stable)

Standard & Poor's revised its rating outlook on Vnesheconombank to positive from developing

December  
Fitch improved Vnesheconombank's long-term issuer default rating to positive from stable and affirmed its long-term rating at BBB-

### SIGNIFICANT SUBSEQUENT EVENTS

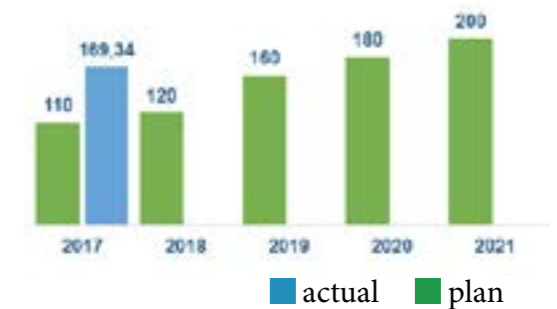
By Decree of Russian President Vladimir Putin dated 24 May 2018 Igor Shuvalov was appointed as Chairman of Vnesheconombank.

## 1.3 Vnesheconombank Strategy Implementation

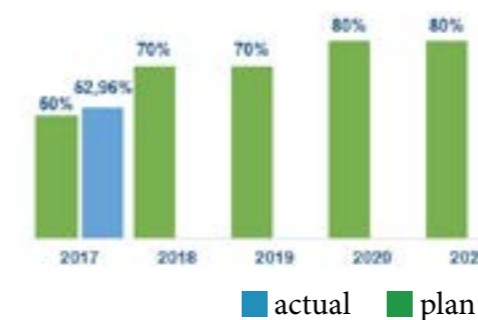
### Achievement of the VEB 2.0 Strategy Key Targets<sup>1</sup>

For the implementation of the VEB 2.0 Strategy,<sup>2</sup> aimed at supporting the long-term economic development of Russia, the Bank has focused on the business areas that are most important for the transformation of the Russian economy. These include, primarily, the support for the downstream industry and high technology projects, as well as export and infrastructure development.

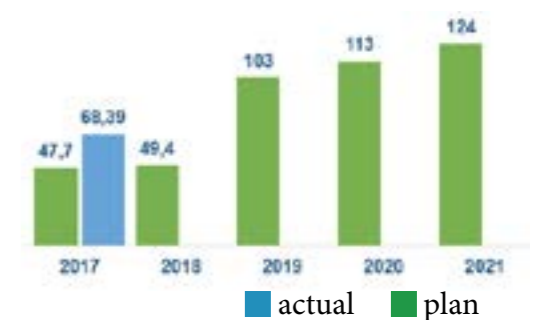
Amount of financing (in billions of rubles)<sup>3</sup>



Share of financing for the strategic priorities<sup>4</sup>



Export support (in billions of rubles)



<sup>1</sup> The targets are aligned with the basic strategy scenario, except for export support targets for 2017-2018 that are brought into line with the target KPI for Export Support. While determining the KPI for 2018, the Bank took into account the inclusion of certain Russian companies in the U.S. Sanctions list, which may significantly decrease the Bank's support for exports in 2018 against the Bank's strategy 2021 targets.

<sup>2</sup> Full Strategy at: [https://new.veb.ru/upload/files/21VEB\\_Strategy\\_Rus.pdf](https://new.veb.ru/upload/files/21VEB_Strategy_Rus.pdf)

<sup>3</sup> Includes debt and shared financing for Vnesheconombank's projects. The value depends on special-purpose public financing and interest rate subsidisation. This does not include financing from Russian Export Centre.

<sup>4</sup> Investment priorities under the VEB 2.0 Strategy approved by the Ministry of Economic Development of the Russian Federation, the Ministry of Industry and Trade of the Russian Federation, the Ministry of Transport of the Russian Federation, NTL.

## Transition to the VEB 3.0 Concept

## Key Projects under the VEB 2.0 Strategy

In 2017, the Bank embarked upon key projects aimed at implementation of the VEB 2.0 strategy. The results of the work in these areas allowed the Bank to achieve significant progress in the field of internal transformations, enhance processes and technologies, introduce cutting-edge IT solutions, create new competencies and improve customer service.

A customer service and a one-stop-shop service were launched

A business solutions unit was established to explore and develop business models of the projects for the benefit of the customers

A new agile-based investment process was introduced

Industry-specific plans for priority areas of the VEB 2.0 strategy were formulated

A procedure for selecting projects in Russian regions to receive the Bank's funding was established

Vnesheconombank assumed a key role in implementing the government-approved Digital Economy programme

The Centre of Blockchain Competencies of Vnesheconombank and National University of Science and Technology MISiS were established

The prototypes of internal systems based on the distributed ledger technology were put into pilot operation

The service functions of VEB Group companies were centralized

A pilot project for automation of the Bank's business processes was set up

### Strategic Planning Mechanisms

In 2017, the Bank's senior management held **three strategic sessions** devoted to strategic planning

#### 30 January - 1 February

During the strategic session, the key challenges were formulated and the Bank management objectives and KPIs for 2017 were determined.

#### 28 - 29 July

The participants of the strategic session discussed the H12017 performance, made decisions regarding the further steps aimed at implementing the VEB 2.0 strategy and outlined the VEB 3.0 strategy

#### 5 - 8 October

During the strategic session, the participants worked out in more detail the objectives and the expected outcomes in the VEB 2.0 priority areas by the end of 2017 and determined the VEB 3.0 concept

In 2017, Vnesheconombank started developing the VEB 3.0 concept to meet the new challenges faced by the Russian economy in the rapidly changing world.

The concept is based on the government's latest policies and expands the horizons of how VEB 3.0 sees the future.

#### Russia's innovative economy

increased portfolio of projects aimed at ensuring outstripping development, creating an ecosystem of innovations and building Russia's global leadership in high-priority areas by establishing

#### Platform for supporting the government's priority industries

establishment of a Vnesheconombank-based platform for syndication and securitisation, a network-based intellectual expert platform, a project financing factory and a project proactive management system

#### Investment logics and partnership business model

transition from lender to investor thinking, attraction of co-investment, allocation of capital to a new portfolio and innovations, establishment of a family of innovation investment funds

#### Integration of Vnesheconombank and its strategic subsidiaries

a 'one-stop-shop' product offer and investment process within VEB Group, an end-to-end KPI and incentive scheme, integrated decision-making

## 1.4 Vnesheconombank Companies

Russian Export Centre  
Head office: Moscow  
Authorized capital: RUB 71 billion  
Vnesheconombank's share: 100%  
Staff number: 531 employees

Russian Export Centre performs the functions of a state development institution responsible for setting up a nationwide export support system. Russian Export Centre Group, which includes the Export Insurance Agency of Russia (EXIAR) and Eximbank of Russia, offers a wide range of financial and non-financial support measures to Russian exporters

Federal Centre for Project Finance  
Head office: Moscow  
Authorized capital: RUB 4.93 billion  
Vnesheconombank's share: 100%

Federal Centre for Project Finance performs the functions of an institution providing early-stage support for infrastructure and industrial projects, participating in the preparation and finalization of projects eligible for Vnesheconombank's funding, developing the PPP market and preparing PPP projects for funding by VEB Group and other financial institutions

VEB Engineering  
Head office: Moscow  
Authorized capital: RUB 0.338 billion  
Vnesheconombank's share: 100%  
Staff number: 68 employees

VEB Engineering acts in the interests of VEB Group by providing project support services for Vnesheconombank's and the group companies' projects and performs the functions of a supervisory company engaged by the Bank's borrowers. VEB Engineering is also responsible for developing an engineering ecosystem

Vnesheconombank's Investment Company VEB Capital  
Head office: Moscow  
Authorized capital: RUB 61.04 billion  
Vnesheconombank's share: 100%  
Staff number: 185 employees

VEB Capital is responsible for managing Vnesheconombank's distressed assets with an aim to make them attractive for investors by way of transformation and recovery, supporting Vnesheconombank's non-strategic portfolio and launching new strategic projects.

VEB-Leasing  
Head office: Moscow  
Authorized capital: RUB 0.168 billion  
Vnesheconombank's share: 99.25%  
Staff number: 1,415 employees

VEB-Leasing was established to support Russian economy using leasing instruments and promoting domestic products. VEB-Leasing's activities focus on integration into VEB Group's single investment process and building a lease portfolio complementary to Vnesheconombank's strategic priorities.

Far East and Baikal Region Development Fund  
Head office: Moscow  
Authorized capital: RUB 18.4 billion  
Vnesheconombank's share: 100%  
Staff number: 73 employees

Operations of the Fund are aimed at facilitating the development of the Far Eastern Federal District and the Baikal Region by implementing (together with other investors) projects aligned with the government's policy and creating a multiplicative socio-economic effect.

Monotown Development Fund  
Head office: Moscow  
The sole founder's (Vnesheconombank) contribution: RUB 0.016 billion.  
Staff number: 93 employees.

The Fund works to ensure job creation and attraction of investment to single-industry towns. The Fund co-finances expenses of Russian constituent entities for the construction of infrastructure required for new investment projects in single-industry towns, and also takes part in the preparation and implementation of such projects.

VEB Innovations  
Head office: Moscow  
Authorized capital: RUB 1.8 billion  
Vnesheconombank's share: 100%  
Staff number: 27 employees

VEB Innovations was set up in 2017 as VEB Group's main instrument to support and develop innovation in Russia. The company's priorities include financing projects of the National Technology Initiative and helping Russian innovation companies gain entry into international markets.

VEB Innovations Fund  
Head office: Moscow  
The sole founder's (Vnesheconombank) contribution: RUB 1.52 billion.  
Staff number: 12 employees.

VEB Innovations Fund provides financial support for innovation projects of Skolkovo Foundation and is involved in the project to create the first Russian Centre of Blockchain Competencies rendering services mostly to domestic state-run companies and government authorities. The project is aimed at accumulating and promoting knowledge of blockchains and other innovative technologies, as well as creating, developing and certifying digital platforms for state-run companies.

VEB Service  
Head office: Moscow  
Authorized capital: RUB 0.007 billion  
Vnesheconombank's share: 100%  
Staff number: 246 employees

VEB Service was set up in 2017 as VEB Group's single service centre to render administrative, IT, legal and accounting services for the group, to provide centralized procurement support and introduce a single approach to personnel management in VEB Group.

VEB Asia Limited  
Head office: Hong Kong (China)  
Authorized capital: RUB 0.97 billion  
Vnesheconombank's share: 100%  
Staff number: 4 employees

VEB Asia assists in expanding the sources of funding available to Vnesheconombank, its subsidiaries and customers, takes part in creating the infrastructure to promote Russian exports to China and Southeast Asian countries and supports activities of Russian innovation companies in the region

#### VNESHECONOMBANK GROUP'S UNIVERSAL COMMERCIAL BANKS

Bank BelVEB  
Head office:  
Minsk (Republic of Belarus)  
Authorized capital: RUB 13.71 billion  
Vnesheconombank's share: 97.52%  
Staff number: 2,270 employees

Bank BelVEB ranks fourth among Belarusian banks by equity size, third by loan portfolio size, fifth by assets and sixth by the amount of client money. In 2017, Bank BelVEB earned RUB 2 billion, accounting for 101.9% of planned revenues. Bank BelVEB's priority is to increase funding of transactions aimed at Russian-Belarusian integration.

Sviaz-Bank  
Head office: Moscow  
Authorized capital: RUB 37.61 billion  
Vnesheconombank's share - 99.78%  
Staff number: 3,655 employees

Sviaz-Bank is Russia's thirty-second largest bank by assets according to Interfax-100 ranking, the fifteenth most reliable bank according to Forbes magazine, and the twenty-sixth most effective bank according to Kommersant newspaper. At the year-end, the Bank received a positive interest margin of 4.4% per annum, which exceeds the business plan's target of 3.4% per annum.

<sup>5</sup> The authorized capital is stated in accordance with the IFRS consolidated financial statements as at 31 December 2017.

**GLOBEXBANK**  
 Head office - Moscow  
 Authorized capital - RUB 20.429 billion  
 Vnesheconombank's share - 99.99%  
 Staff number - 1,517 employees

Globexbank is the sixty-first largest bank by assets according to Interfax-100 ranking. The bank reported H1 2017 operating profit of RUB 1.4 billion and an annual net profit for the first time in four years.

**Prominvestbank**  
 Head office - Kyiv (Ukraine)  
 Authorized capital - RUB 104.36 billion  
 Vnesheconombank's share - 99.77%  
 Staff number - 1,479 employees

Prominvestbank ranks second by authorized capital among Ukrainian banks. At the year-end, the bank achieved a capital increase in the amount equivalent to USD 395 million and was able to meet the liquidity and capital adequacy requirements, including the immediate liquidity ratio that was five times higher than the statutory requirements.

## 2. Investment Performance

### 2.1 Vnesheconombank: Sectoral Priorities

**“Russia is in a unique economic situation—it is crucially important for us to bet on two horses at the same time. On the one hand, we have to overtake other countries, for example, in high technology. On the other hand, there are sectors where we should be ahead of the rest, such as quantum technology and blockchains in IT”**

Sergey Gorkov  
 Chairman of Vnesheconombank in 2016-2018

The VEB 2.0 Strategy and Business Model provide for support for any project or project initiative in the key economic industries by five priority investment areas, including downstream industries, infrastructure, export support, defence production diversification, innovations and projects of the National Technology Initiative (NTI).

Vnesheconombank's innovative activities promote the achievement of the Sustainable Development Goals:

**9 INDUSTRY, INNOVATION AND INFRASTRUCTURE**

**8 DECENT WORK AND ECONOMIC GROWTH**

**7 AFFORDABLE AND CLEAN ENERGY**

In 2017, Vnesheconombank developed and approved for each priority investment area its industrial plans prepared in accordance with its new integrated approach based on:

deep industrial analysis identifying the key trends, characteristics of industries, drivers and barriers for their development, competitiveness factors;

identification and prioritisation of niches the development of which was crucial for the country and which required the tools of the development institution;

identification of the key industry players and main sources for Vnesheconombank's potential projects.

When preparing industrial plans for the following areas: Energy Infrastructure, Energy Engineering Industry and Electrotechnical Industry, Vnesheconombank considered the “green” power industry as one of the most promising areas for the Russian economy. In 2017, Vnesheconombank started evaluating several projects for construction of solar power plants. The total amount of financing provided by the Bank for the renewable energy sector development projects in 2018–2021 was about RUB 242 billion.

#### VEB 2.0 INVESTMENT PRIORITIES OVERTAKING DEVELOPMENT

##### INFRASTRUCTURE

Priority: projects to develop transport and energy infrastructure, high-technology healthcare infrastructure, industrial production infrastructure

##### NON-COMMODITY EXPORT SUPPORT

Priority: support for unique large projects, high-technology exports, complicated markets in Asia, Africa and Latin America, pre-export investment projects in Russia, investment projects for Russian equipment abroad

##### DOWNSTREAM INDUSTRY

Priority: projects in downstream industries to promote innovative economic development in line with the government's priorities

#### OUTSTRIPPING DEVELOPMENT

##### TRANSITION TO NON-MILITARY PRODUCTION

Priority: projects to involve defence production companies in making non-military high-technology products

##### NTI'S INNOVATIONS AND PROJECTS

Priority: launch and scaling of innovative productions and services, investments in breakthrough technologies

### 2.2 Vnesheconombank Project Portfolio

#### Projects Funded by Vnesheconombank as at the End of 2017

As at the end of 2017, Vnesheconombank was involved in providing financing for 222 projects, totalling RUB 4,487.0 billion, including RUB 2,303.9 billion provided by the Bank

The portfolio of projects funded by Vnesheconombank includes 110 projects in high-priority strategic sectors, totalling RUB 2,522.3 billion with the Bank's commitment standing at RUB 983.9 billion

<sup>6</sup>The authorized capital is stated in accordance with IFRS consolidated financial statements as at 31 December 2017.

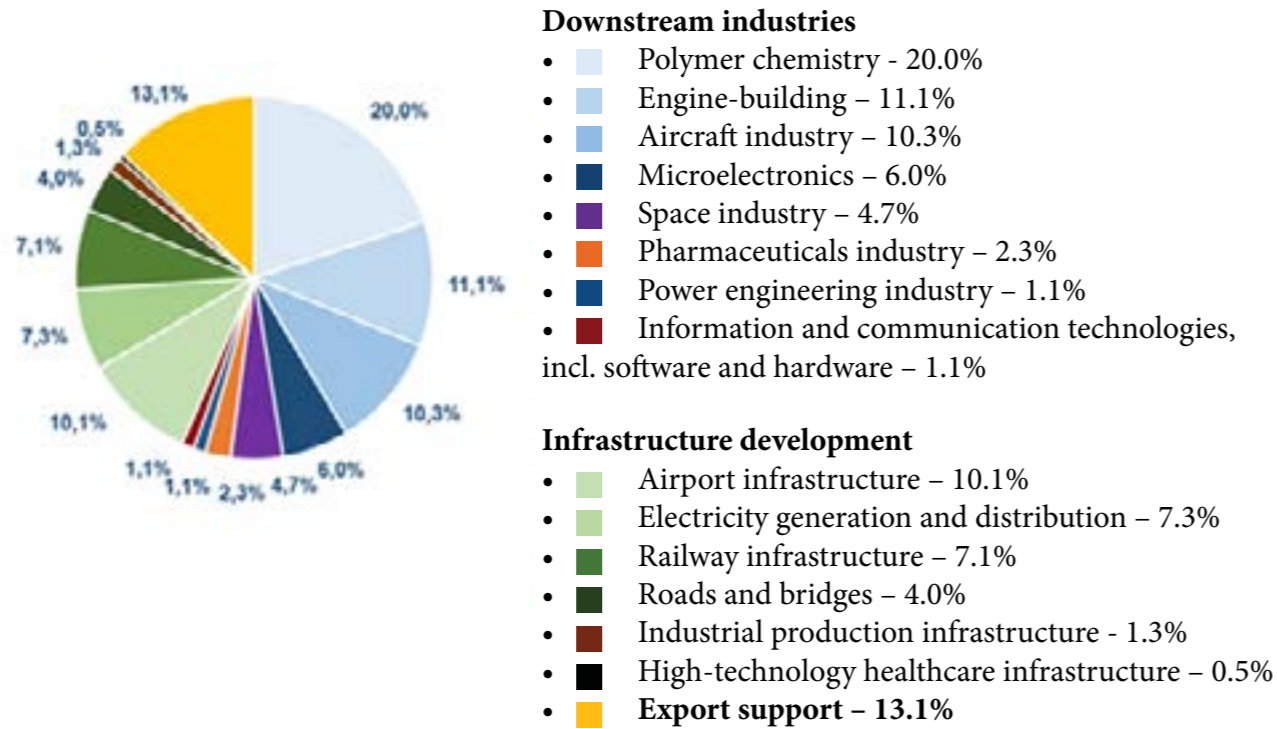


Downstream industries  
33 projects, totalling RUB  
1,209.3 billion, including RUB  
556.7 billion provided by the  
Bank

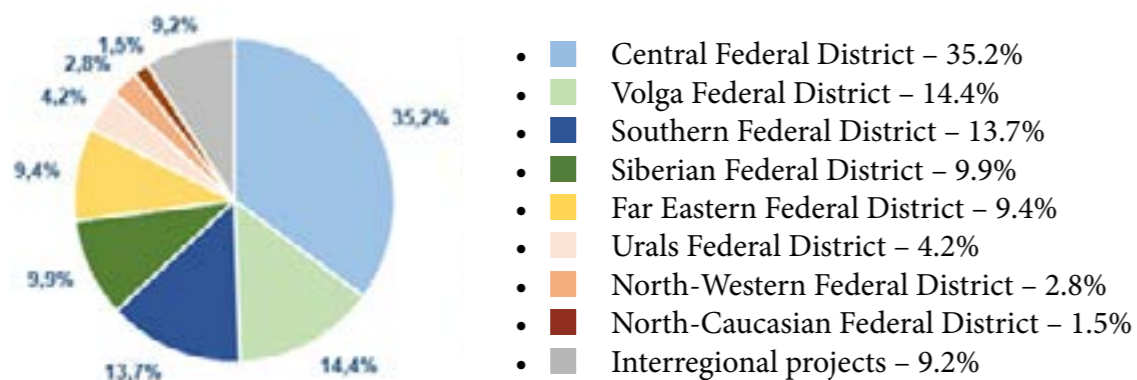
Infrastructure  
21 projects, totalling RUB  
615.1 billion, including RUB  
298.1 billion provided by the  
Bank

Export support 7  
56 projects, totalling RUB  
697.9 billion, including RUB  
129.0 billion provided by the  
Bank

**Structure of Projects Funded by Vnesheconombank in Priority Strategic Sectors as at the End of 2017 (% of the Bank's Commitment)**



**Projects Financed by Vnesheconombank in Russia, by Region, as at the End of 2017 (% of the Bank's Commitment)**

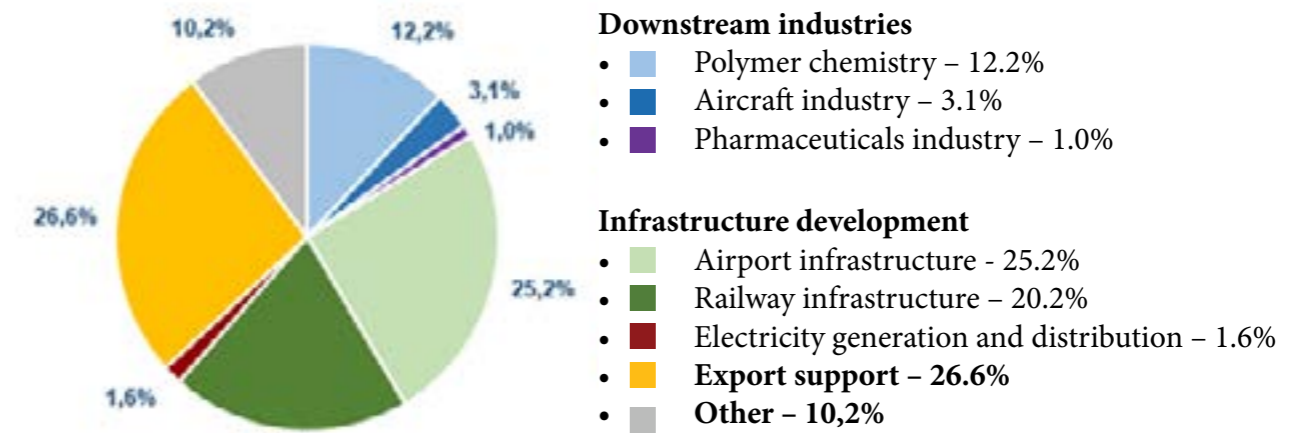


**Projects Approved by Vnesheconombank in 2017**

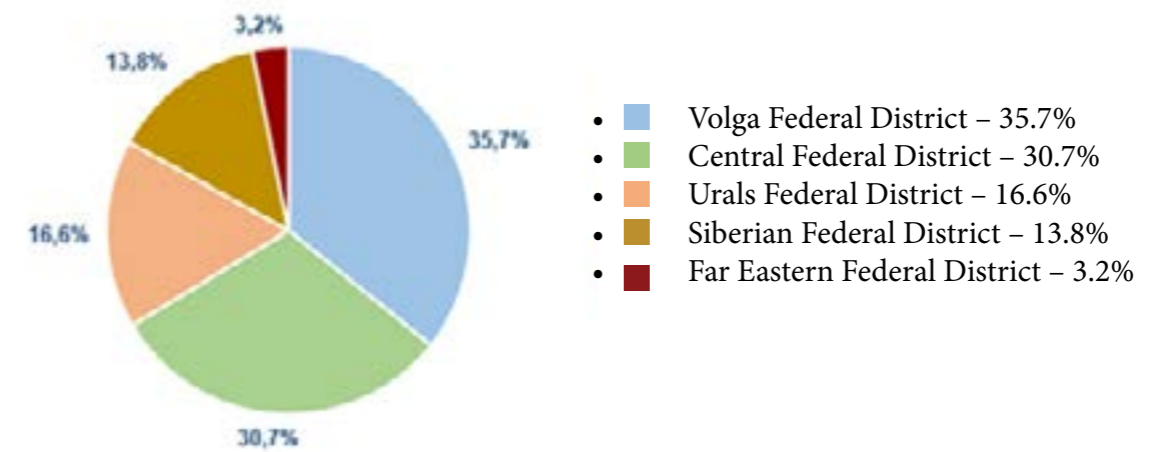
In 2017, Vnesheconombank approved financing for 26 projects, totalling RUB 845.1 billion, including RUB 189.3 billion provided by the Bank. 25 of them are related to high-priority strategic sectors

<b>Downstream industries</b> 5 projects, totalling RUB 552.8 billion, including RUB 30.7 billion provided by the Bank	<b>Infrastructure</b> 5 projects, totalling RUB 120.0 billion, including RUB 89.1 billion provided by the Bank	<b>Export support</b> 15 projects, totalling RUB 70.0 billion, including RUB 50.3 billion provided by the Bank
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**Projects Approved by Vnesheconombank for Financing in 2017, by Sector (% of the Bank's Commitment)**



**Projects Approved by Vnesheconombank for Financing in Russia in 2017, by Region (% of the Bank's Commitment)**



<sup>8</sup> Excluding guarantees and trade finance.

## 2.3 Success Story: Vnesheconombank's Completed Projects

### PROJECT CONSTRUCTION OF THE DRIED TIMBER PRODUCTION FACILITY

PROJECT INITIATED BY BORROWERS	Dallesprom Amur Timber Company,
TOTAL PROJECT VALUE VNESHECONOMBANK'S COMMITMENT	Amur Industrial Centre RUB 6,925.8 million RUB 4,280.6 million

At the third Eastern Economic Forum in September 2017, Russian President Vladimir Putin pressed a symbolic button during a videoconference to open a dried timber production facility in Amursk, Khabarovsk Territory. Funded by Vnesheconombank, the construction of facilities to produce dried timber and boards is part of an integrated investment project, Far Eastern Centre for Added-Value Wood Processing, which will have a multiplicative effect on the development of various local industries.

#### EXPECTED RESULTS

Creation of production facilities with a capacity of 230,000 m3 of dried timber a year and 50,000 m3 of boards a year	Promotion of the implementation of an integrated investment project in forest exploitation
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### PROJECT CREATION OF THE INTEGRATED WOOD PROCESSING FACILITY IN THE SOLNECHNY DISTRICT, KHABAROVSK TERRITORY

PROJECT INITIATED BY/BORROWER	Asia Les
TOTAL PROJECT VALUE	RUB 9.8 billion
VNESHECONOMBANK'S COMMITMENT	RUB 6.8 billion

During the Days of the Far East in Moscow event in December 2017, Russian Prime Minister Dmitry Medvedev in the presence of Deputy Prime Minister and Presidential Plenipotentiary Envoy to the Far Eastern Federal District Yury Trutnev headed an official ceremony via a conference call to open the pellet production facility of Asia Les at Berezovy, Khabarovsk Territory. The launched pellet production is part of the project financed by Vnesheconombank to create the integrated wood processing facility in the Solnechny district, Khabarovsk Territory.

#### EXPECTED RESULTS

Facilitation of the integrated utilisation of forest resources, including recyclables and waste wood	Improved structure and increased output of the Far Eastern forest sector
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## 2.4 Potential for Growth: Vnesheconombank's New Projects

### PROJECT ORGANISATION OF HIGH-TECHNOLOGY SPECIAL GLASS PRODUCTION

PROJECT INITIATED BY/BORROWER	Saratov Glass Institute
TOTAL PROJECT AMOUNT	RUB 1,115.0 million
VNESHECONOMBANK'S COMMITMENT	RUB 820.0 million
PRIORITY INVESTMENT AREA	Downstream industries

Vnesheconombank began in 2017 to finance a project to upgrade a production facility, Saratov Glass Institute, in order to increase its capacity and organise the manufacture of new import-substituting added-value products. The unique high-technology facility is designed to make various types of special glass (tinted, bulk tinted, colourless, with a high light transmission coefficient and strength) used in the aircraft, transport, construction, industrial processing and furniture industries in Russia.

#### EXPECTED RESULTS

Daily output increased from 150 to 350 t	New facilities making import-substituting advanced products
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### PROJECT PURCHASE AND SUPPLY OF MOSCOW UNDERGROUND RAILWAY CARRIAGES (LEASING)

PROJECT INITIATED BY BORROWER	Transmashholding Transholdleasing
TOTAL PROJECT AMOUNT	RUB 63,546.0 million
VNESHECONOMBANK'S COMMITMENT	RUB 38,308.0 million
PRIORITY INVESTMENT AREA	Infrastructure

Vnesheconombank began in 2017 to finance the purchase and supply of new underground railway carriages for the Moscow Metro on a leasing basis under a life cycle contract. The project is implemented under the Moscow Government Programme "Development of the Transport System" for 2012–2016 and until 2020. Vnesheconombank paid the first tranche for the supply of 664 carriages in 2017 from the National Wealth Fund administered by the Bank. The project is part of the priority areas of a new strategy, VEB 2.0, providing for the Bank's investment in infrastructure, including underground transport.

#### EXPECTED RESULTS

Supply of 768 new carriages (96 trains) produced by Metrovagonmash to the Moscow Metro in 2017–2020	Development of the Moscow Metro infrastructure and enhancement of passenger service quality
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## 2.5 Socio-Economic Effects of Projects

In accordance with Vnesheconombank's Development Strategy until 2021, the Bank works to find solutions for a wider range of issues of Russia's socio-economic development. To analyse its achievements in this area, Vnesheconombank estimates and calculates socio-economic effects of completed projects on a regular basis.

### Vnesheconombank's Contribution to the GDP

Vnesheconombank's contribution to the GDP is calculated as a cumulative direct effect of completed projects financed by the Bank at the investment and operational stages. At the investment stage, this means the purchase of equipment, construction and other expenses to create new production facilities. At the operational stage, this means the added value of products and services of new facilities.

The cumulative effect of Vnesheconombank's completed projects in 2017 is estimated at 0.34% of Russia's GDP, which is more than in 2016 (0.33%).

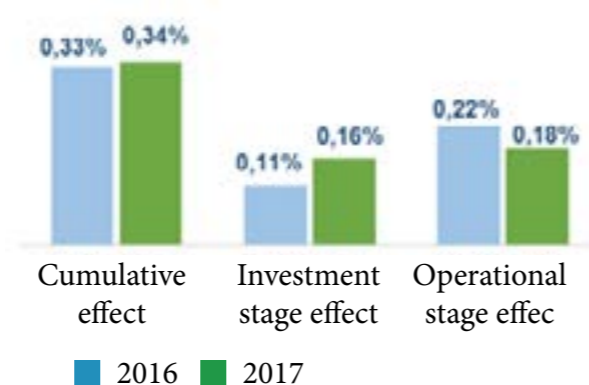
The indicator improved due to a considerable rise in loans provided by Vnesheconombank in 2017, resulting in the increased effect of investment-stage projects.

In accordance with Vnesheconombank's development strategy, if project financing increases as expected, the effect of project implementation at the investment stage will grow to 0.2-0.3% of Russia's GDP by 2021 (2017: 0.16%).

### Vnesheconombank's Contribution to Financing for the Russian Economy

VEB is a major long-term lender to the Russian economy. At year-end 2017, Vnesheconombank's loan portfolio accounted for 14.6% of the bank loans with tenors exceeding 3 years.

Effect of projects implemented by Vnesheconombank: contribution to the GDP



### Vnesheconombank's Role in Financing Fixed Assets Investments

The loans extended in 2017 to the projects from the analysed selection account for 0.8% of total investment in fixed assets across the economy.

Vnesheconombank significantly increased its share of bank loans to fixed asset investments to nearly 10% in 2017 (2016: 7%).

### Vnesheconombank's Contribution to Regional Development

Vnesheconombank carries out projects in 48 regions. In some regions, lending from Vnesheconombank is the primary source of long-term borrowings.

In six regions, financing provided by Vnesheconombank for regional businesses accounts for over 20% (Tver, Bryansk and Kaluga Regions, Dagestan, Krasnodar Territory, Chuvashia).

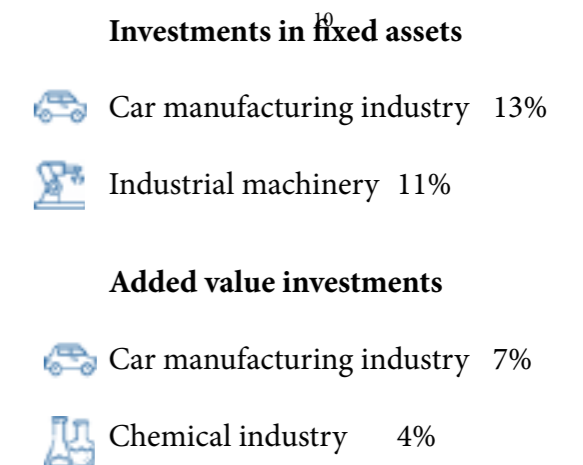
### Support for Development of Certain Industries

Vnesheconombank finances more than 30 projects in downstream industries, including industrial machinery and chemical industry. Industrial manufacturing projects represent about 30% of the Bank's

Vnesheconombank's lending support allowed the borrowers to ramp up investment in fixed assets and increase their output. In 2017, the Bank's borrowers in car manufacturing industry (AvtoVAZ, Ford, Mazda) accounted for 13% of total fixed asset investments and 7% of total added value investments.

The Bank's borrowers in chemical industry (manufacturing of polymers and mineral fertilizers) accounted for 4% of total added value investments.

Vnesheconombank's corporate-borrowers by industries



## 3. Management of Investment Activities

### 3.1 New Investment Process

#### Changes in Vnesheconombank's Regulatory Framework

In 2017, as part of the implementation of the project "Improvement of the Investment Process at Vnesheconombank" the following key documents regulating the Bank's investment activities were approved:

Regulations for Expert Examination of Investment Projects

*Vnesheconombank's new investment process is being developed in close cooperation with key corporate customers during joint discussions with the Bank's senior management and in-depth interviews with customers*

<sup>9</sup> Effects are calculated in accordance with the analysed selection of Vnesheconombank's loan portfolio projects. The selection does not include any subsidiary, foreign borrower, export support transaction or non-investment project. Effects are calculated subject to the contribution factor reflecting Vnesheconombank's share in financing. As for the borrowers, the aggregate direct effect of the Bank's projects in 2017 is calculated based on the available data for 9 months.

<sup>10</sup> The share of Vnesheconombank's corporate borrowers against relevant indicators in the industries in 2017, taking into account the Bank's commitment.

The document is aimed at introducing the new principles of expert examination for investment projects in accordance with the VEB 2.0 Development Strategy

**Regulations for Administration and Monitoring of Investment Projects**  
The document determines new approaches to administration and monitoring of investment projects and ensures Vnesheconombank's effective participation in financing for investment projects, keeping an acceptable quality of the loan portfolio

**Regulations for Vnesheconombank's Project Team**  
The document governs the interaction of Vnesheconombank's units at all stages of the life cycle of any investment project using the best agile process management principles (agile principles)

### Support for the National Technology Initiative projects

In 2017, Vnesheconombank approved Regulations on Expert Examination of NTI projects aimed at launching and/or expanding innovation production facilities. The Regulations provide a framework for:

- > Vnesheconombank's expert examination of the NTI projects requiring more than RUB 500 million of funding to prepare an opinion on eligibility for funding on a repayable basis
- > Vnesheconombank's in-depth expert examination of projects worth over RUB 1 billion that require more than RUB 500 million of funding and have a payback period of more than five years - to assess their eligibility for funding on a repayable basis

### Key Changes in the Investment Procedure

PROJECT SEARCH	EXPERT EXAMINATION AND CONSIDERATION	PROJECT SUPPORT AND MONITORING
In 2017, Vnesheconombank launched a regional manager network to be responsible for searching for and selecting projects in regions. Vnesheconombank's website was redesigned to enable online submission of funding applications	In 2017, Vnesheconombank changed its project examination procedure to reflect the introduction of an agile approach to management and to improve the speed and quality of project consideration	In 2017, Vnesheconombank changed its project support procedure to enable monitoring of progress against key milestones, assessing the effect of any identified deviations and adjusting the financial model accordingly

### Project Examination Stages

Express-examination	Preliminary examination	Resolution of the Investment Committee	Preparation for comprehensive examination	Comprehensive examination	Decision of corporate management bodies
7 business days	21 business days Establishment of an agile team	on the feasibility of a comprehensive examination	55 business days	70 business days	on Vnesheconombank's participation in the project

### Basic Principles

- > **Objectivity**  
Independent, unbiased evaluation of the investment project parameters and the project members' performance in terms of compliance with the Bank requirements
- > **Continuity**  
Clear formalized sequence of Vnesheconombank's steps during all phases and stages of the investment projects examination
- > **Timeliness**  
Meeting deadlines of investment projects examination in accordance with Vnesheconombank's requirements
- > **Completeness**  
Taking into account all information available to the Bank about the parameters of the project and the activities of the project participants during the projects examination
- > **Consistency**  
Structuring and combining findings of the Bank's units involved in the project examination into a single assessment of the investment project and its participants, adequately reflecting the risk level of the project in general

### Assessment of the Socio-Economic Effects of the Project

#### Assessment criteria

Contribution to national GDP	Export development
Economic diversification and reduced dependence on raw materials	Improved workforce productivity
Infrastructure development	Innovations introduced in industry and infrastructure
Import substitution	Energy efficiency and energy conservation

#### Assessment Mechanisms

At the express assessment stage, Vnesheconombank uses calculation of budgetary efficiency and population employment efficiency based on the information of the project's business model provided by the project member	At the comprehensive examination stage, Vnesheconombank generates a report on the socio-economic benefits of the project
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## Project's Environmental Impact Assessment

### Assessment of environmental compliance

- > Valid permits to finance and implement projects in the Russian Federation, issued by the authorized bodies for state environmental assessment and the state expert examination of the project documentation
- > Positive opinion following an environmental expert review, if required in the country of the project and/or if it is a condition precedent to the foreign legal entity's participation in the project financing

### Assessment of environmental efficiency

- > Vnesheconombank performs assessment using the information and methodology specified by the project participants in the project concept
- > If the project concept does not provide information and methodology for ecological efficiency assessment, Vnesheconombank may require from the project members:
  - an additional substantiation of environmental efficiency based on industry averages and project progress figures;
  - an assessment of environmental efficiency by an external expert
- > Vnesheconombank determines, based on the environmental opinion by the external expert, whether the project implemented abroad complies with environmental efficiency standards

## 3.2 New Business Model for Regional Operations

“We want to build up a flexible system allowing us, together with certified professionals with insights into a local business environment, to find high-quality projects, promptly select and evaluate them and make financing decisions.”

Alexey Ivanchenko  
Deputy Chairman, Vnesheconombank

Vnesheconombank continued in 2017 to introduce a new business model into its regional operations to attain the objectives of the VEB 2.0 Strategy and create a wide range of the development bank's investment projects selected in Russian regions. The new model is intended to accelerate the consideration of projects by Vnesheconombank, increase the effectiveness of communications and improve project efficiency by aggregating regional measures of government support.

Vnesheconombank's institution of regional managers has become the key element of the new model. Its tasks include proactive search, selection and further support for the projects approved for financing by the Bank. The cooperation of Vnesheconombank and regional managers is focused on the result and is carried out under cooperation agreements. Such agreements provide for payment of remuneration to regional managers directly depending on the success of any project supervised by them.

In 2017, Vnesheconombank held three selection rounds to choose candidates to the regional manager position. Preference was given to candidates who have a strong knowledge of the project finance tools, an in-depth understanding of the local economic situation and a broad contact base. The candidates were selected through a procedure adopted by Agency for Strategic Initiatives, including on the basis of specialized LEADER-ID platform.

Remote training was organized for the winners of the multi-stage selection to provide them with the necessary knowledge and skills to search for investment projects meeting the Bank's requirements. During the meetings with government officials and business leaders held in September and December 2017, the regional managers managed to gain a deeper insight into the specifics of the Bank's business and its investment processes.

At year-end 2017, the Bank has already set up teams of three managers in five regions: the Republic of Tatarstan, the Udmurt Republic, the Krasnoyarsk Territory, the Ulyanovsk Region, and the Chelyabinsk Region. Vnesheconombank continues building partnership relations with the regions in the new format, taking into account the priorities of constituent entities of the Russian Federation.

### Launch of Vnesheconombank's New Work Model in Regions

#### February

Vnesheconombank and Agency for Strategic Initiatives entered into a cooperation agreement for interaction as part of the creation of Vnesheconombank's regional manager network

#### June

Vnesheconombank, Agency for Strategic Initiatives, SME Corporation, Industry Development Fund, Russian Direct Investment Fund, Roscongress, ITAR-TASS and TASS Information Technologies signed a Memorandum of Understanding and Cooperation for unification of the forms and procedure for provision of information about support measures

#### September

The Regulations for Regional Managers and the Procedure for Their Operation on the Online Platform were approved

#### September

VEB started its Online Platform for applications for project lending in electronic form characterized by:

- online express assessment of the project
- drafting the project documentation together with the project's initiator and VEB regional manager
- online interaction between the users
- message exchange through a project chat-room
- project status report
- notices on changes of the project stages
- VEB personal managers rating based on their performance

### Regional Managers Selection and First Performance Indicators

#### April

Vnesheconombank started selecting regional managers in 23 pilot regions

#### June

Vnesheconombank launched the second stage of the selection of regional managers in 62 regions

Vnesheconombank received **770 applications** for the positions of regional managers

Candidacies were selected in through a procedure adopted by Agency for Strategic Initiatives, including on the basis of a specialised platform of the agency, LEADER-ID

All of Vnesheconombank's regional managers had a **remote training**

The teams consisting of three managers **were fully formed** in five regions

Two meetings of Vnesheconombank's regional managers were held to exchange experience, knowledge and present project initiatives

**October**  
Vnesheconombank held the third stage of the selection of regional managers

**Eighty candidates from 51 Russian regions** passed the multiple-stage selection system and became Vnesheconombank's official representatives in their regions

**Performance** of Vnesheconombank's regional managers of the first selection stage **was assessed**

Vnesheconombank's regional managers have presented 112 project initiatives for one and a half months of their work only; 25 of such initiatives have been recorded on the online platform and are at the initial stage of assessment, including:

- eight are at a high level of readiness for the beginning of the expert examination;
- one has been received at the preliminary expert examination stage

### 3.3 Project Finance Factory

“The Ministry of Economic Development, as a major proponent of the project for creating a project finance factory, recognizes the particular relevance of such initiative. This is evidenced by a new pool of projects envisaging funding through syndicated loan agreements and able to offer a strong impetus to the Russian economy”

Maxim Oreshkin  
Minister of Economic Development of the Russian Federation

Vnesheconombank decided to set up its project financing factory as instructed by Russian President Vladimir Putin after the St. Petersburg International Economic Forum. The factory will focus its activities on syndication, which will make it possible to increase the inflow of private investment in new real-economy projects. Vnesheconombank will use the factory to invest in the industries that are not able to obtain market-based support but meet the strategic priorities of the development bank.

The factory's project financing model is to take part in syndication of at most 80% of total project investments through borrowings from commercial banks and other institutional investors. Project risks will be reduced by effectively and transparently structuring and selecting projects, monitoring them throughout their life cycle and combining all support mechanisms: government guarantees, subsidies, resources of other development institutions.

In late 2017, the factory's operation mechanism proposed by Vnesheconombank received legislative support. The enactment of the syndicated lending law and amendments to the Law “On Bank for Development” provided Vnesheconombank with new syndication functions. It is intended that the factory will begin to provide project financing in 2018.

#### Launch of the Project Finance Factory

**July**  
The factory's operation principles were approved

**September**  
Formation of the pipelines of factory projects was started

**December**  
The rules and regulations of the factory were approved

The syndicated lending law was enacted

**August**  
The factory's structure and estimated value of guarantees and subsidies were determined

**October**  
The pool of potential participants of the factory was formed

#### Advantages of the Project Finance Factory

**GOVERNMENT**  
Economic growth due to new projects implementation

Consistency and effectiveness of support for the real economy

Development of the financial market infrastructure (syndicated lending, interest swaps)

**FINANCIAL MARKET PARTICIPANTS AND INVESTORS**

Platform for participation of the private capital in large-scale projects

Reduced risks due to additional participants in project financing

Loan portfolio growth

#### BORROWERS

Better availability of project financing in Russia

Longer terms of financing and increased volume of floating-rate loans

Reduced total cost of project financing

#### Basic Principles of the Project Finance Factory

- > No competition with commercial banks
- > The factory portfolio includes projects aligned with the Bank's industry priorities and based on the project finance principles
- > Participating banks may cause a project to be included in the factory portfolio, conduct their own examination and analysis of the project, which does not preclude the need for the Bank's own preliminary examination
- > Risks are shared between banks, institutional investors and Vnesheconombank
- > Projects from the factory portfolio are backed by governmental support mechanisms

- > Vnesheconombank may support projects from the factory portfolio through:
  - equity financing;
  - junior debt financing;
  - participation in the management through its own representatives in the Board of Directors;
  - participation in the operational management and control, including by appointing senior management (if required)
- > Vnesheconombank (VEB Group) assumes the risks of cost and time overruns and other adverse circumstances only in proportion to its equity share and subject to the structuring terms for junior debt finance

<sup>11</sup> Vnesheconombank may select investment projects which do not fall within its industry-specific priorities, if the relevant resolution was passed by Vnesheconombank's Supervisory Board after 1 December 2017.

## 3.4 Synergy within Vnesheconombank Group

### Federal Centre for Project Finance: Preparing Quality Projects

The new FCPF Development Strategy to 2022, formulated in 2017, enables the Federal Centre for Project Finance (FCPF) to play a more important role as an institution providing early-stage support for infrastructure and industrial projects, and helping VEB Group to achieve more synergies. In accordance with the new strategy, the Federal Centre for Project Finance will be a growth driver for the PPP and industrial markets in the strategic sectors of the Russian economy, laying the groundwork for development and implementation of quality projects and subsequent funding from Vnesheconombank, including via Vnesheconombank's project finance factory.

The Federal Centre for Project Finance will support preparation and finalization of projects through equity financing, including as part of its role as a manager of, and investor in, PPP investment funds. In its advisory role, FCPF will be responsible for preparation and finalization of projects potentially eligible to receive funding from Vnesheconombank and for expert examination of PPP and energy efficiency projects for the Bank.

#### Overview of the FCPF Development Strategy to 2022

##### Key objectives

- > Establish on the basis of FCPF a Centre of PPP Competencies serving the interests of Vnesheconombank, the Russian Ministry of Economic Development and the PPP market
- > Ensure VEB Group's participation in the Infrastructure Mortgage on the terms acceptable for the Bank
- > Bring to the market new financial tools to launch and implement PPP projects

##### Strategic targets to 2022

- > Prepare at least 50 projects for the Bank with total funding of up to RUB 400 billion.
- > Take part in preparation of Russia's largest PPP projects
- > Establish PPP investment fund(s) in the priority industries, with a total worth of at least RUB 30 billion
- > Ensure positive EBIT excluding income from deposits

##### Key priorities

##### > Transport infrastructure

including public transport and border check points

##### > Health infrastructure

including health centres and hospitals

##### > Energy infrastructure

including solid household waste management

##### > Diversification of the military-industrial complex and smart cities

on the basis of Konversia research and development company

#### Key outcomes in 2017

##### Improved efficiency of the new investment process

- > Approved concept for selection and quality control of projects
- > Approved concept for project reporting
- > Approved concept for supervising the permitted use of drawdowns

##### Integration into the Bank's target investment process

- > Approved model of interaction between FCPF and Vnesheconombank
- > Vnesheconombank's Investment Committee considered seven projects prepared by FCPF
- > Prepared and completed deal to join Konversia and to include the company in the list of Vnesheconombank's specialized companies

#### PPP Market and Infrastructure Development

- > Approved action plan for PPP market development
- > Developed and introduced new mechanisms to finance infrastructure development (as part of the infrastructure mortgage programme and the concept of "loans against future tax revenues")
- > Contributed to the PPP efforts of non-profit organizations and associations ( PPP National Centre, National Association of Concessionaires and Long-Term Investors in Infrastructure (CoLTI), the Bank of Russia's Expert Council on Long-Term Investments)
- > Established a PPP Committee within FCPF's Supervisory Board

#### FCPF's Major Projects in 2017

- > Providing financing to prepare an industrial project on energy and environmental security while building gas holders ensured through the construction of a plant to produce industrial and edible salt in Kaliningrad Region
- > Providing financing to prepare design specifications and estimates for the project on petroleum refinery expansion in Kaluga Region
- > Advisory services to prepare a project for constructing a federal highway based on a concession model
- > Advisory services to support the preparation and filing of an application to participate in a private concession initiative, as well as the preparation and conclusion of a concession agreement for the construction and operation of a major port facility in the Far Eastern Basin
- > Construction of a joint venture with Rostekh to support the sales of civilian industry products manufactured by NPO Konversiya defence industry enterprises

### VEB Engineering: Project Support

VEB Engineering's Strategy 2018-2020 was approved in 2017 to address the issues related to the development of an engineering ecosystem in Russia and improvement of the quality of the Bank's projects. According to the strategy, VEB Engineering is to give special attention to developing an engineering Marketplace and promoting the Bank's project standards in construction. The strategy places an increased focus on serving the interests of VEB Group both when conducting an expert examination of projects of the Bank and the Group companies and when performing the functions of a supervisory company engaged by the Bank's borrowers.

### VEB Engineering's Strategic Targets for 2018-2020

Support the Bank's "old" project portfolio when conducting financial supervision and audit

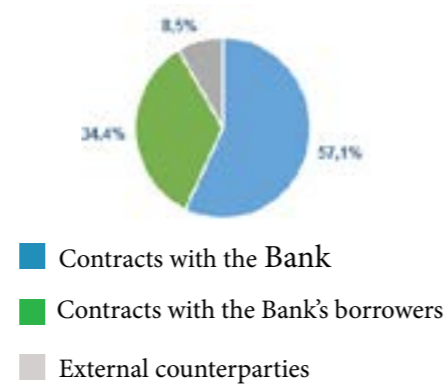
Introduce Vnesheconombank's standards in relation to digital design of industrial facilities to be created as part of the projects seeking the Bank's finance

Introduction of mechanisms of verification and ranking of contractors and vendors involved in the Bank's projects

Introduction of mechanisms of quality management for the services rendered by VEB Engineering for the Bank's projects

In 2017, VEB Engineering was mainly engaged in financial and technical supervision and audit of the projects. VEB Engineering provided support to 25 projects, including 8 projects of the Bank and 11 projects of the Bank's borrowers. VEB Engineering's proceeds amounted to RUB 132.5 million in 2017, including RUB 72.4 million from support services for the Bank's projects.

**VEB Engineering's proceeds in 2017 by the type of customers**



In 2017, Vnesheconombank and VEB Engineering together with the Russian Ministry of Economic Development took an active part in the project to create a Federal Centre of Competencies to meet the objectives set out in the priority programme to improve workforce productivity and boost employment. As part of the programme, VEB Engineering developed an Internet portal for the Federal Centre of Competencies operating as a unified platform to provide services and expertise in workforce productivity improvement, including tools of diagnostic assessment, online benchmarking and a MarketPlace for training and consulting services.

As part of the programme, the Russian Ministry of Economic Development and VEB Engineering established the Federal Centre of Competencies in Workforce Productivity in accordance with the Order of the Russian Government issued in November 2017. The Centre will assist in formulating effective strategies to maintain labour productivity, creating conditions and identifying potential for achieving sustainable qualitative improvement of workforce productivity, introducing organisational innovations in production and management processes.

### VEB-Leasing: Integration into a Single Investment Process

In September 2017, VEB-Leasing's Board of Directors determined the priority areas for expansion of a new business complementary to Vnesheconombank's strategic areas. Another challenge is to integrate the company's products and services into VEB Group's single investment process, develop IT services and automate key business processes, improve risk and distressed asset management.

At year-end 2017, the company has a stable position in the industry, as confirmed by independent valuation. According to preliminary findings of the study of the Russian leasing market in 2017 conducted by RAEX (RA Expert) rating agency and the United Leasing Association, VEB-Leasing ranks fourth by lease portfolio and third by new business size.

Moreover, as at year-end 2016, VEB-Leasing is in the TOP-50 European leasing companies according to the ranking of the European Federation of National Associations of Leasing Companies Leaseurope.

Over 2017, VEB-Leasing has been actively seeking to replace its old portfolio with a new business. As a result, the company's portfolio decreased while the new business grew at a rate above the market average. VEB-Leasing priorities include the development of domestic aviation, transport infrastructure and innovative production, as well as support for export of high technology products to international markets.

As at year-end 2017, liabilities of the company's leaseholders net of already received lease payments (net lease portfolio) totalled RUB 324 billion and RUB 36 billion in the corporate segment and SME segment, respectively. Over 2017, VEB-Leasing entered into more than 16,000 deals with small and medium-sized enterprises.

### VEB-Leasing's Major Projects in 2017

#### Lease of SSJ100s to Aeroflot

At MAKS International Aviation and Space Salon, VEB-Leasing signed in the presence of Russian President Vladimir Putin an agreement for lease of 20 Sukhoi Superjet-100 aircrafts, of which 12 jets were supplied in 2017. The total value of the deal is USD 700 million, making it the biggest in the Russian aircraft industry in 2017.

#### Lease of SSJ100s to Yakutia

VEB-Leasing and Yakutia Airlines resigned an agreement for lease of two Sukhoi Superjet-100 aircrafts, changing the lease currency from US dollars to Russian rubles

#### Transaero's assets remarketing

VEB-Leasing has significantly reduced the amount of non-performing assets remaining after Transaero's bankruptcy: by the end of 2017, only five of the twenty-one aircrafts remain unleased or unsold with the remarketing deals to be completed in 2018.

#### Support for the Russian car industry

In 2017, VEB-Leasing financed the lease of over 1,500 KAMAZ vehicles and over 1,000 Lada cars

#### Rail car supplies to Kazakhstan

VEB-Leasing started supplying freight rail cars to Kazakhstan on a financial leasing basis. 2,600 Russian-made freight rail cars were delivered to Eurasian Resources Group (ERG) companies under a memorandum signed by Vnesheconombank and ERG Group in 2017

## New Approaches to Distressed Asset Management

Being continuously involved in complicated projects in the interests of the state, Vnesheconombank has accumulated a substantial portfolio of distressed assets. In 2016-2017, the VEB Group developed a new approach to managing distressed assets. Vnesheconombank established a committee for distressed asset management and a fund of distressed industrial assets and initiated restructuring of its subsidiary company VEB Capital, which manages the bulk of the Group's distressed assets.

In managing distressed and non-core assets VEB Group takes a proactive approach and develops different strategies depending on the current state of the asset, its operational performance and market value. These include restructuring, sale to a strategic investor, asset development using the Bank's own resources with the possibility of additional funding if there are prospects of increased market value. The strategies aim to ensure an optimal balance of interests of the Bank and the government and are developed in close consultation with all interested parties.

Additionally, Vnesheconombank takes into account the importance of troubled projects for socio-economic development on national and regional levels. In its work with distressed assets, the Bank focuses its efforts on restoring debtors' solvency, which may be followed by a controlled transfer of the asset to the ownership of the Russian Federation or its sale for consideration. This approach helps pre-



serve and create new jobs, prevent bankruptcies of counterparties and achieve the expected socio-economic effects from the Bank's projects.

In 2017, Vnesheconombank's Management Board approved the priorities of VEB Capital's strategy for 2018-2022 requiring VEB Capital to focus on transformation of distressed assets, support for VEB Group's non-strategic portfolio and new strategic start-ups in the Bank's priority areas.

#### VEB Capital: Performance and Targets

##### Key results of 2017

- > Developed and partially approved separate strategies for VEB Group's distressed and non-core assets
- > Launched support for the Bank's non-strategic portfolio as part of credit and operational monitoring and industry research activities
- > Started its first project to create Southern Urals Industrial Park in the Orenburg Region on the basis of distressed Orsk Plants.
- > Established a monitoring committee and facilitated a constructive dialogue with Evrodon's management
- > Stabilized operation and financial performance of a number of agricultural projects, including Voshchazhnikovo Agricultural Company, Bashkir Meat Company, Titan-Agro, Orsk Bacon, and Baltagrokorm
- > Prepared opening of Golden Ring Resort hotel complex in 2018

##### Strategic targets for 2018-2022

- > Ensure operational recovery and restructuring of VEB Group's troubled assets, turn them into an attractive investment
- > Sell VEB Group's non-core assets, determine the best way to dispose of such assets and find investors
- > Provide industry-specific expert examination for the Bank's non-strategic portfolio
- > Build a platform for projects in the Bank's priority areas, select promising projects and conduct expert examination
- > Sell the government's assets on the most beneficial terms subject to VEB Capital's expert assessment
- > Create business synergy between Vnesheconombank and its subsidiaries and affiliates

the formal opening of which took place in December 2017. The Centre united world's leading experts and Russian professionals for the implementation of blockchain-based pilot projects in various public administration spheres: from registration of real estate transactions to monitoring of medication supply chains. Such international companies as Ethereum, Bitfury, Waves, E&Y and PwC became the first partners and residents of the Centre.

### Vnesheconombank's Role in Forming the Innovation Ecosystem

#### Vnesheconombank's High-Priority Goals of Developing Blockchain Technology

Study the possibilities of applying distributed ledger technology (blockchains) to the development of Russia's digital economy

Create the personnel, R&D and technological potential to develop the digital economy

Promote the implementation of commercially successful investment projects to create, develop and upgrade the digital economy infrastructure

Improve the regulatory framework

#### Promotion of Blockchain Technology in 2017

##### June

Vnesheconombank held a panel session, Blockchains as the Birth of a New Economy, at the St. Petersburg International Economic Forum

##### August

Vnesheconombank launched a federal project, Blockchain Pitch, for searching for innovation companies who were ready to create and implement blockchain-based pilot projects

##### September

Vnesheconombank launched the Vnesheconombank's Teenager Department project aimed at forming teenagers' practical skills and competences in blockchains

##### July

Vnesheconombank hosted the first meeting of the working group, chaired by First Deputy Prime Minister Igor Shuvalov, to discuss the use of blockchain technology in public and corporate administration

Vnesheconombank launched a federal hackathon, Blockchain in Action, the largest in Europe, for blockchain-based product developers

##### October

Vnesheconombank presented blockchain-based product prototypes at the Open Innovations 2017 Forum

Vnesheconombank took part in the conference "Blockchain: New Russian Petroleum"

Vnesheconombank organised an open blockchain discussion with Vitalik Buterin, the founder of Ethereum

##### December

The Centre of Blockchain Competencies of Vnesheconombank and National University of Science and Technology MISiS was formally opened in Moscow

In 2017, Vnesheconombank launched six blockchain-based pilot projects. These are joint projects with the Federal Service for State Registration, Cadastre and Cartography, the Pension Fund, the Federal Service for Intellectual Property, Agency for Housing Mortgage Lending, in the timber industry in respect of inventory taking of forests and in the healthcare in the Novgorod Region in respect of the validation of the use of medications.

## 4. Investing in Development

### 4.1 Innovation and Breakthrough Technology

"We can say as early as now that blockchains change traditional business processes. Very soon we will see a giant socio-economic effect of blockchain technology in various spheres of human life."

Sergey Gorkov  
Chairman of Vnesheconombank in 2016-2017

In 2017, Vnesheconombank achieved a considerable progress in one of the priority areas of its new strategy in outstripping development and breakthrough technology. As one of Russia's key development institutions, Vnesheconombank acted as a key player in the implementation of the government-approved Digital Economy programme and took on the role of promoting the introduction of advanced blockchain technology into corporate and public administration by bringing together the world's leaders in blockchain technology.

The most important result of the work in this area was the establishment of the Centre of Blockchain Competencies of Vnesheconombank and National University of Science and Technology MISiS,

These absolutely different industries were selected in order to identify where blockchain technology would be more useful. In the long run, Vnesheconombank predicts Russia's considerable breakthrough in three key high technology areas: blockchain, quantum and convergent technologies.

## Vnesheconombank's Teenager Department

The Vnesheconombank's Teenager Department Project started in mid-2017 at Vnesheconombank and MISiS's Centre of Blockchain Competencies.

Teenagers of 14-17 from different Russian cities take part in the project, completing online training and solving tasks to create high-technology information products for real customers.

A blockchain-based prototype for an information service for accounting of forestry was one of the products in the development of which the Teenager Department took place in 2017. The service is intended for identifying the nature and reasons for forestry damage, including consequences of forest fires or illegal deforestation. The product prototype created by teenagers was represented at the Open Innovations Forum and successfully defended in the presence of Russian Deputy Minister of Industry and Trade Viktor Evtukhov.

### Support for the National Technology Initiative Projects

**In 2017, the Russian Government approved amendments to the Memorandum on Vnesheconombank's Financial Policy required for financial support of the National Technology Initiative (NTI) projects**

#### In its role of providing support for the NTI projects, the Bank will be responsible for:

- > Expert support for the projects with commercial potential seeking repayable funding at early start-up stages (with ready product prototypes) to assist in developing a fully-fledged business model and to ensure that the project is ready for financing by Vnesheconombank
- > Accelerator support to develop business models, prepare projects for market entry and attract investors
- > Financial support for launching and scaling innovative production and services

#### Vnesheconombank will provide repayable funding for the NTI projects meeting the following criteria

- > Total project value: over RUB 1 billion
- > Investment commitments: over RUB 500 million
- > Payback period: over 5 years
- > Financing period: 5-10 years
- > The project involves launching or scaling up innovation businesses and has been approved by the Interdepartmental Working Group on NTI Development and Implementation at the Presidium of the Presidential Council for Economic Modernization and Innovations in Russia

VEB Innovations, a company established by Vnesheconombank in 2017, will finance NTI projects under RUB 500 million after the product prototype stage subject to the Interdepartmental Working Group's approval

## International Cooperation for Innovation

Seeking to attract international investments in the Russian economy, in 2017, Vnesheconombank signed a number of cooperation agreements with foreign financial institutions setting out the main terms and conditions for the establishment of mutual innovation funds

In June 2017, the Memorandum and the Term Sheet were signed on the margins of Harbin EXPO to create a number of innovation funds in cooperation with the Bank of Harbin for up to USD 700 million

In September 2017, the Memorandum of Cooperation was signed with the Chinese CMC Group

In December 2017, the Term Sheet was signed to create an IT technology and innovation fund together with the Indian SREI Group for up to USD 200 million.

## Vnesheconombank Group's Support for Innovations

### VEB Innovations – First Results in 2017

In 2017, VEB Innovations signed agreements of intent to jointly support projects carried out by SmartSeeds and StartTrack

In 2017, VEB Innovations, ROSCOSMOS and Russian Venture Company signed a contract to set up a venture capital fund in 2018 under an investment partnership agreement

SmartSeeds is the developer of an IT platform designed to automate the transport of agricultural products by providing major customers in the market, such as agricultural producers, exporters and processors, with access to Russia's largest database of reliable carriers

The Fund will finance small-sized innovation companies in ROSCOSMOS' activity areas. The establishment of the Fund testifies to the readiness of the Russian rocket-and-space industry to work in the "new cosmonautics" development conditions where private businesses, college-level laboratories and spin-off companies of large corporations become fully-fledged participants in space programmes.

StartTrack is a leading Russian crowdfunding platform enabling small and medium-sized businesses, whether existing businesses or start-ups, to obtain financing, starting from seed funding

### Million-Ruble Idea Game Show

"The goals of the Million-Ruble Idea game show are to contribute to the development of an innovative economy, search for new ideas and subsequently implement them. It is important for Vnesheconombank as a development institution to popularise the lifestyle of people who use their ideas and innovations to make money, along with the opportunities available in this country."

Alexey Ivanchenko  
Deputy Chairman, Vnesheconombank

In December 2017, the Million-Ruble Idea game show launched by Vnesheconombank premiered on NTV. The key goals of the game show were to support national high-technology products and their developers and popularise innovations. The Internet Initiatives Development Fund (IIDF) and the Skolkovo Foundation were the partners of the project.

The judges of the game show consisted of representatives of businesses, relevant ministries, investment funds, development institutions, show business stars and top managers. Research intensity, availability of a prototype, skills of the team and commercialisation of developments were considered the key criteria for the selection of competitors.

The best projects went through to the final of the game show broadcast during two weeks on NTV, where three winning projects were selected, and developers of these projects received 60 million rubles for business development from Vnesheconombank and its partners. Maxim Oreshkin, Russian Minister of Economic Development, presented the prizes to the winners. In addition to prize money, the winning start-ups will be provided with the opportunity to pitch to Russian and foreign investors at the Roscongress Foundation's forums and the field sessions of the St. Petersburg International Economic Forum.

#### Million-Ruble Idea Game Show – Participants and Winners

**More than 500 applications** were submitted for participation in the game show in the following five areas:

- bioinformation technology
- biotechnology
- energy-efficient technology
- space
- industry

The long list of the game show included 35 start-ups, later taking part in the two-week Million-Ruble Idea game show on NTV where three winning projects were selected

#### First place: AgroBot

Unique robotic farm tractors simplifying human labour and increasing production efficiency

#### Second place: Una Wheel

Powerchair drive systems allowing people with disabilities to have an active lifestyle

#### Third place: Motorika

Multifunctional prosthetics for children and adults, using achievements of medical science and robotics

## 4.2 Export Support

“The export potential of Russian industry has recently grown to a great extent. Russian exporters deal with new products and gain experience of working abroad. Our goal is to support Russian export companies and help their products with entry into foreign markets.”

Daniil Algulyan  
Senior Vice-President, Vnesheconombank

As the head entity of the Group, Vnesheconombank plays an important role in financial support for export. The Bank promotes geographic diversification of exports and helps Russian companies to gain entry into new markets and retain their existing market share. The key regions of Vnesheconombank's activities to promote Russian exports are the CIS, South-East Asia, Latin America, Africa and Europe.

Vnesheconombank used the following tools in 2017 to expand its export-related operations:

- export loans to buyers/suppliers;
- bank guarantees, Stand-by letters of credit, sureties;
- acceptance and post-financing of letters of credit issued by foreign banks in favour of Russian exporters;
- interbank reimbursement;
- special-purpose lending (or credit facilities) to foreign banks to provide financing for importers of Russian products.

Vnesheconombank's export-related activities strictly comply with the requirements of the WTO and OECD and follow the principles and rules of the Russian and international laws, including in respect of bribery to foreign public officials when entering into international business transactions. The

PROJECT	PROMOTION OF THE ENTRY OF SUKHOI SUPERJET 100 AIRCRAFT INTO THE EUROPEAN MARKET
BORROWER	RJ Leasing Limited (Republic of Ireland)
FINAL CUSTOMER	CityJet Designated Activity Company (Irish airline)
TOTAL PROJECT AMOUNT	USD 92.8 million

In 2017, Vnesheconombank's continued promoting the entry of the Sukhoi Superjet 100 aircraft into a high competitive European market; in particular it funded the delivery of three aircraft to an Irish company, CityJet. For the purposes of implementing the project on lending and leasing in the jurisdiction with the relevant taxation and customs laws, a specialised leasing company, RJ Leasing Limited, was established, who was the borrower under the loans and the purchaser of the aircraft, with further delivery thereof for operating leasing to CityJet Designated Activity Company.

EXPECTED RESULTS	Entry into a promising European market with a high competition level on the part of foreign aircraft producers
National export diversification	

## Russian Export Centre

In accordance with the development strategy of the Russian Export Centre (REC) until 2019 approved in May 2017, the activities of REC are focused on creating a uniform efficient development institution to set up a nationwide export support system. The Export Insurance Agency of Russia (EXIAR) and Eximbank of Russia are integrated in the Russian Export Centre Group, thus providing a wide range of extensive measures of financial and non-financial support for Russian exporters. REC is also actively improving the export activity conditions in Russia through the interaction with the relevant ministries and agencies, major industry organizations and businesses.

In 2017, REC Group was involved in strengthening the financial support for Russian non-resource exports, expanding the range of non-financial export support products and developing the Group's regional and global coverage network. REC Group also participated in an integrated state programme for support of Russian exporters (International Cooperation and Exports line), with Vnesheconombank acting as a co-participant.

REC Group companies strictly follow the international regulations governing export credits, including the OECD recommendations on assessing social and environmental impact, and the OECD Convention on combating bribery of foreign public officials.

## Environmental and Social Assessment of Projects by REC Group

In 2017, REC Group approved the Regulations for the Assessment of Environmental and Social Impact While Considering Requests for Export Financial Support as a uniform document intended for all entities of the Group and prepared in accordance with the OECD's recommendations.

In 2017, the workshop called "Procedure for the Assessment of Environmental and Social Risks While Providing Export Financial Support" was organized for employees of REC Group. 31 employees of REC Group took part in the workshop

### In 2017, REC Group

**Made a social and environmental assessment in respect of 133 requests** for provision of export support services under 70 projects, including 63 requests for insurance from EXIAR and 70 requests for financing from Eximbank of Russia.

**Exercised control over the performance of the established social and environmental covenants of three projects**, including the YAMAL LNG construction project monitored jointly with an independent environmental adviser

In 2016, as part of REC Group integration, the system to combat bribery of foreign public officials operating at EXIAR since 2013 was adopted by all companies of the Group. REC Group applied a uniform regulation to prove non-involvement of applicants and exporters in bribing foreign public officials. The system provides for obtaining relevant declarations and identifying applicants and exporters blacklisted by global financial institutions. In 2017, in addition to internal regulations that already exist and are binding on all employees, REC Group approved the REC Group Anti-Corruption Policy, set up a "security hotline" and approved an operating procedure for receiving, recording and verifying the incoming information. The Service Desk managers work 24/7.

### REC Strategic Initiatives 2017

**Export environment infrastructure development**  
Creation of "ideal" regulatory environment and enabling infrastructure for Russian exporters

- > The Russian Government passed a number of resolutions to approve the rules governing the provision of subsidies to the Russian Export Centre in certain areas of export support
- > REC implemented an evaluation procedure for export support programmes of business associations and approved the rules of interaction with sectoral, non-profit and business associations
- > REC launched an electronic information retrieval system to facilitate international contracting, and an online platform for business community to discuss export-related issues
- > REC developed a procedure to support the National Technology Initiative participants, as well as a model product (export contract) introduced in a pilot mode in 22 constituent entities of the Russian Federation

### Maintaining and promoting Russian non-resource exports

Direct support to exporters and Russian investors abroad, support for non-resource export projects

- > In 2017, REC Group's export support totalled USD 14.4 billion, with USD 8.5 billion channelled to the priority export areas determined by the Russian Government
- > EXIAR provided USD 13.1 billion worth of export insurance to promote exports
- > Eximbank of Russia issued loan guarantees for the total of USD 1.5 billion under export transactions (USD 0.6 billion excluding EXIAR's insurance)
- > By the end of 2017, the export loan portfolio of Eximbank of Russia totalled RUB 58 billion (including the RUB 2.4 billion export guarantee and letter of credit portfolio, and the RUB 6.5 billion portfolio of exporters' bonds)
- > More than 6 thousand exporters received non-financial support

### Export culture development

Improving financial literacy and creating export culture to expand a range of potential Russian exporters, especially among SMEs

- > REC Group expanded its educational project to **41 regions** of Russia
- > **One hundred and seventeen** coaches and instructors received certificates
- > Regional operators participating in the project conducted 367 training events
- > Over the past year, more than **2 thousand** exporters participated in training courses
- > REC Group held 10 regional Made in Russia tracks, which were attended by over **600 corporate exporters**

Generating demand for Russian goods and services

Working with the existing and potential recipients of the Russian export, and promoting the image of Russia

- > REC Group arranged about 20 business missions in Algeria, Vietnam, Germany, Iran, China, Morocco, the UAE, Japan, Indonesia, Turkey, Mongolia, Paraguay, Colombia and Mexico
- > REC arranged 6 foreign Russian Gastroweek events in India, the UAE, Iran, Japan, China, and Vietnam
- > REC helped organize the 5th International Export Forum Made in Russia, and other international events in Russia

Developing export support foreign infrastructure

Expansion of REC Group's geographical reach and diversification of its infrastructure abroad in order to foster export support in priority markets for Russian export

- > By the end of 2017, REC Group opened 8 offices in Belarus, Kazakhstan, Iran, Vietnam, Azerbaijan, China, Tajikistan, and Uzbekistan
- > In 2017, the Group's pilot office in Argentina (on the basis of the Russian trade mission) continued its work
- > In December 2017, three permanent pavilions for demonstration and tasting of Russian agricultural products were opened in Dubai, Ho Chi Minh City and Shanghai
- > REC Group is developing a concept of REC Trading House that would provide Russian exporters with an integrated foreign infrastructure

REC's institutional development  
Internal changes aimed at improving service quality standards and efficiency of REC's operation as a development institution, and ensuring financial sustainability

- > REC Group established a new customer service department to accommodate its customers at every stage of interaction
- > REC Group launched a new business process to manage customer service quality, which includes regular monitoring of customer feedback, evaluation of customer satisfaction, and handling of complaints
- > REC Group created new means of communication with exporters via online channels. About 40% of customer messages came through this new system in 2017 (almost twice as much as in the previous year).

### Russian-Belarusian Economic Cooperation

In accordance with Bank BelVEB's Strategic Development Plan for 2016–2019 approved in 2017, one of the bank's main focuses is increasing the funding to Russian-Belarusian integration projects. The strategy aims to increase financing for Russian-Belarusian integration projects to RUB 77.0 billion in 2019, which is 13% more than in 2016.

Bank BelVEB supports Russian non-resource high-technology export to the Republic of Belarus, Belarusian export to Russia and Russian-Belarusian joint export to third parties. As part of Russian-Belarusian trade finance transactions, Bank BelVEB cooperated in 2017 with Vnesheconombank in developing a prototype for the Digital Letter of Credit system and testing it in simulated transactions.

#### Strategic Initiatives to Increase Bank BelVEB's Financing for Russian-Belarusian Integration

Financing integration projects at subsidized rates using Vnesheconombank's funding	Preparing and implementing joint projects with VEB Group to finance Russian exports	Shaping relevant approaches and backing up the exports of Russian-Belarusian products to third countries
Promoting cooperation with the Development Bank of the Republic of Belarus to finance Russian-Belarusian exports	Expanding the range of integration products	

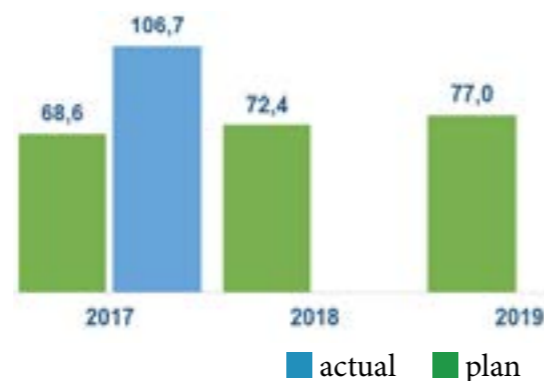
### Bank BelVEB's Performance in Respect of Development of the Russian-Belarusian Economic Cooperation

Provision of RUB 106.7 billion for Russian-Belarusian integration projects in 2017.

Russian-Belarusian integration projects accounted for 55.8% of the total amount of financing for Bank BelVEB's corporate customers.

Spending RUB 20.9 billion in 2017 on special-purpose financing for Russian exports to Belarus, including RUB 7.4 billion at preferential interest rates for Russia.

Amount of financing for Russian-Belarusian integration projects (in billions of Russian rubles/per annum)



In 2017, Bank BelVEB continued to coordinate the operation of the Export Development Project Office established under the resolution of the Prime Minister of the Republic of Belarus in 2016. Furthermore, the Bank was elaborating a development integration platform envisaged by the Memorandum entered into December 2016 by and between the Government of the Republic of Belarus, Vnesheconombank, Eximbank of Russia, Development Bank of the Republic of Belarus and Bank BelVEB and aimed at developing the Russian-Belarusian economic cooperation.

Bank BelVEB actively implements the legal and practical initiatives designed to improve foreign trade financing tools within its integration platform development. These include, among others, the Concept of Financial Support for Exports to Third Countries that Bank BelVEB, as a key initiator, developed and approved in 2017. The Bank also made a list of projects implemented in the Republic of Belarus that involve a significant amount of Russian supplies and investments, a list of Belarusian industrial products with a large share of Russian components, as well as created a uniform database of the Russian-Belarusian export projects and projects with a high integration potential.

In 2017, Bank BelVEB took part in the preparation of Vnesheconombank's report On Interaction with Belarusian and Russian Institutions to Develop and Implement the Union State Programmes and Introduce Programme Outcomes, and to Promote Exports of Joint Products. The Union State Council of Ministers approved the proposals included in the report after reviewing a draft of Priority Development Areas and Primary Objectives of the Union State for 2018-2022.

### PROJECT NUCLEAR POWER PLANT CONSTRUCTION IN THE REPUBLIC OF BELARUS

<b>PROJECT INITIATED BY</b>	Belarusian Government
<b>PROJECT OWNER</b>	Belarus Nuclear Power Plant (NPP)
<b>GENERAL CONTRACTOR</b>	Atomstroyexport, Russia
<b>VEB's PARTICIPATION</b>	Performs the functions of an agent bank for the Russian party for state lending and a lender under a loan agreement for advance payments

**BANK BelVEB's PARTICIPATION** Performs the functions of an agent bank for the Belarusian party for state lending and a settlement bank under a loan agreement for advance payments

**TOTAL PROJECT VALUE** USD 9.1 billion

Nuclear plant in the Grodno Region of Belarus is constructed under a Russian-Belarusian Intergovernmental Agreement to provide the Republic of Belarus with a state export loan. Agent banks of the parties thereto are Vnesheconombank and Bank BelVEB. In 2014, the government of Belarus as the borrower, VEB as the lender and Bank BelVEB as the settlement bank entered into a loan agreement for up to USD 500 million to cover the expenses related to advance payments to Atomstroyexport, Russia, which carries out the construction. The two Russian-made power units of high manufacturability, safety and efficiency will generate a total capacity of 2,400 MW. The environmental impact of the Belarus NPP was assessed subject to IAEA recommendations. In the NPP location area, a protected area and an area for monitoring the radiation environment and public health will be organised.

## EXPECTED RESULTS

Higher energy and economic potential of Belarus	Reduced electricity production costs and a slower rise in tariffs for consumers
	Replacement provided for natural gas, which is the principal energy source in Belarus
	Greenhouse gas emissions decreased by 7-10 million tonnes a year; and replacement of up to 5 million tonnes of organic fuel

## 4.3 Vnesheconombank Group in Single-Industry Towns

“A single-industry town is a town depending very much on the largest local employer. For example, if a large factory shuts down, many local residents will lose their jobs. Our goal is to redesign the economy of these towns to reduce such dependence and create other jobs. This will allow local residents to be confident about the future.”

Irina Makieva  
Deputy Chairperson, Vnesheconombank

Vnesheconombank is a key player in the implementation of a priority programme, Integrated Single-industry Town Development (the Programme), approved in 2016 by the Russian Government, under the supervision of Vnesheconombank’s Deputy Chairperson Irina Makieva.

Vnesheconombank Group’s activities in single-industry towns aim to achieve the Sustainable Development Goal:

### 11 SUSTAINABLE CITIES AND COMMUNITIES

The Programme focuses on reducing the dependence of single-industry towns (monotowns) on the largest local employers and includes projects related to the competences of various ministries, agencies and development institutions and common events with other high-priority projects and programmes in respect of Russia’s strategic development areas. The Programme is administered by Vnesheconombank.

The Programme specifies the creation of 230,000 jobs by the end of 2018, with the number of single-industry towns to be decreased by 18. Under the Programme, 319 single-industry towns will all host the events entitled Five Urban Improvement Steps to enhance their urban environments and train local development management team.

### Integrated Single-Industry Town Development Programme

#### Key objectives

- > Create managerial competencies in single-industry towns
- > Generate new business opportunities and niches in single-industry towns
- > Ensure coordination of support, including support for priority healthcare, education, road quality, housing and utilities, urban environment, SMEs, and industrial development projects

#### Priority projects providing for cross-cutting activities

- > Safe and Quality Roads
- > E-health
- > Hi-Tech HR
- > Innovative School Education Environment
- > Individual and Small Entrepreneurship
- > Comfortable Urban Environment
- > Affordable Supplementary Education for Children

## Expected Results

- > Ensuring necessary conditions for attracting investors, implementation of investment projects, and creating new jobs
- > Mobilizing resources for strategic development priorities when implementing joint (‘cross-cutting’) activities under priority programmes and projects in key areas of strategic development of the Russian Federation; achieving synergy by using various integrated development tools in single-industry towns
- > Responding to pressing challenges of single-industry towns, improving assessment of the socio-economic situation in single-industry towns by their residents
- > Improving the quality of municipal management, and management of regional and local businesses and development institutions
- > Improving the attractiveness of single-industry towns as territories for business, education and residence
- > Involving residents in single-industry town development

### Implementation by the end of 2017

#### Central street repairs

Repairs of central streets as chosen by local residents via online voting on the моногорода.рф website; repairs fully completed in 285 single-industry towns

#### Refurbishment of registration desks in medical institutions

Refurbishment (renovation) of registration desks and waiting areas in medical institutions fully completed in 266 single-industry towns

#### Achievement of the Target and Analytical Values of the Integrated Single-industry Town Development Programme in 2017

Results of achievement of target and analytical values in 2017

According to the Russian Ministry of Economic Development, 253,400 jobs not related to the largest local employers were created under the Programme in 2016-2017, including 155,200 in 2017.

Capital investment in single-industry towns was RUB 777.4 billion and RUB 761.9 billion in 2016 and 2017, respectively

The Five Urban Improvement Steps Programme is implemented in all 319 single-industry towns. The programme events were completed in 2017 in 170 of them.

319 local development management teams received training

#### Providing single-industry towns with ambulance cars

The Russian Government adopted two resolutions to allocate funds for the purchase of domestically produced ambulance cars recommended for priority distribution in single-industry towns.

In 2017, all single-industry towns were provided with class “B” ambulance cars based on their needs

Target and analytical values for 2017  
Create 85,000 jobs not related to the largest local employers

Attract at least RUB 50.0 billion of investment, including extrabudgetary financing, in single-industry towns

Hold the Five Urban Improvement Steps events in at least 100 single-industry towns

Provide training for 319 local development management teams

## Performance of the Monotown Development Fund

The Monotown Development Fund works to ensure job creation and attraction of investment in single-industry towns. The Fund co-finances expenses of Russian regions for the construction of the infrastructure required for launching new capex projects in single-industry towns, and also takes part in the preparation and implementation of such projects.

The Fund is an active participant in a priority programme, Integrated Single-industry Town Development, including in its capacity as a project office of the Programme. The project office assists regional authorities, local authorities and businesses in the implementation of projects and events aimed at improving the socio-economic situation in single-industry towns. Line managers (employed by the Monotown Development Fund) are assigned for all 319 single-industry towns.

In 2017, the Monotown Development Fund assessed a pilot rating of Russian single-industry municipalities in 125 single-industry towns. The results were presented at the Russian Small- and Medium-sized Enterprises Forum. The rating allows identifying the strengths and weaknesses of single-industry towns and prioritising proposed development programmes and projects. A full-scale rating covering all Russian single-industry towns is scheduled for 2018.

### Performance of the Monotown Development Fund in Respect of the Creation of Infrastructure Facilities Required for Launching Investment Projects in Single-Industry Towns

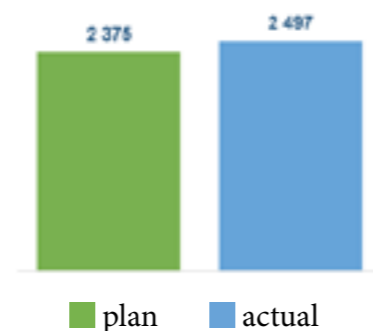
The Monotown Development Fund entered into 76 framework agreements in relation to 100 single-industry towns in 48 Russian regions to provide co-financing for infrastructure construction and/or rehabilitation required for launching investment projects in single-industry towns, 19 of which were signed in 2017.

The Monotown Development Fund's co-financing commitments to create infrastructure facilities in 27 single-industry towns is RUB 12.3 billion, including the obligations of RUB 4.2 billion assumed by the Monotown Development Fund in 2017 in respect of 11 single-industry towns.

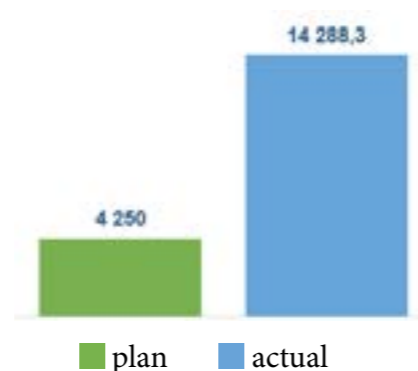
The Monotown Development Fund allocated RUB 6.85 billion for the creation of infrastructure facilities in single-industry towns, including RUB 3.16 billion in 2017.

As at 1 January 2018, as a result of the direct financial support from the Monotown Development Fund 30 infrastructure facilities worth RUB 6.3 billion were put into operation in 13 single-industry towns.

Number of jobs created in 2017 in single-industry towns supported by the Monotown Development Fund



Value of investment raised in 2017 for single-industry towns supported by the Monotown Development Fund (in millions of rubles)



## Performance of the Monotown Development Fund Related to Investment Projects in Single-Industry Towns

As at the end of 2017, the Monotown Development Fund was involved in 7 investment projects in single-industry towns totalling RUB 11.1 billion, with the Fund's commitment standing at RUB 4.0 billion, including 5 projects totalling RUB 5.5 billion, with the Fund's commitment standing at RUB 2.1 billion, launched in 2017.

The Fund's investment projects are intended to result in creation of more than 2,400 jobs in single-industry towns and raise over RUB 11 billion worth of investment.

Investment Projects of the Monotown Development Fund in Single-Industry Towns

- Naberezhnye Chelny: Master Kama Industrial Park
- Naberezhnye Chelny: Service metal-working facility for EPS metal refining
- Cherepovets: Fiber board and wainscoting production
- Kumertau: oil extraction plant construction
- Luza: laminated log production
- Zarinsk: tanyard construction
- Beloretsk: carriage spring production line

## 4.4 Far East Development

Vnesheconombank Group pays special attention to creating the conditions for the accelerated development of the Far Eastern and Baikal macroregion. One of the Group's entities, the Far East and Baikal Region Development Fund, plays a leading role in achieving this goal. In the macroregion, the Fund implements investment projects meeting the government's policy and creating a multiplicative socio-economic effect and works to make macroregion more attractive to investors.

The Fund's priority areas include infrastructure projects and projects in strategically important industries, including agriculture, tourism, manufacturing and mining, and projects in territories selected for outstripping development. The portfolio administered by the Fund in 2017 became more than twice as large as previously. The Fund also increased the amount of financing for top-priority investment projects from RUB 4.7 billion in 2016 to RUB 18 billion in 2017.

As instructed by Russian President Vladimir Putin, the Fund has improved the procedure for providing access to the Far Eastern Fishery Basin areas for fish farming in 2017. As a result, the Fund has developed and put into trial operation an online one-stop-shop service for investors to bid online for the right to use areas in the Far Eastern Fishery Basin. The first online bidding is scheduled to start in 2018.

In 2017, the Fund proceeded with its programme, Available Loans to SMEs, implemented jointly with the Russian major banks with government ownership, including Sberbank and VTB Bank. The programme involved extension of over 550 loans worth RUB 8.5 billion at the preferential average weighted interest rate of 10.5% per annum for a term of up to 10 years, including RUB 4.9 billion of loans granted by the Fund. The total value of the SME projects financed under the programme approximated RUB 13.5 billion.

### Far East and Baikal Region Development Fund Project Portfolio

The Fund's portfolio comprises 15 approved projects totalling over RUB 185.3 billion, with the Fund's commitment standing at RUB 44.6 billion

As at the end of 2017, the Fund engaged in 11 projects totalling RUB 112.4 billion, with the Fund's commitment standing at RUB 31.7 billion.

In 2017, the Fund approved financing for 8 projects totalling RUB 137.9 billion, with the Fund's commitment standing at RUB 30.6 billion.

In 2017, the Fund completed its participation in the Kamchatka's Gold: Infrastructure project totalling RUB 5,025 million, with the Fund's commitment standing at RUB 66 million.

The projects financed by the Fund as at the end of 2017 are to create more than 3,800 jobs and generate over RUB 38.7 billion in taxes.

The projects approved by the Fund for financing in 2017 are to create more than 3,200 jobs and generate over RUB 32.5 billion in taxes.

The Kamchatka's Gold: Infrastructure project is to create more than 1,268 jobs and generate over RUB 891.2 billion in taxes.

### The Fund's High-Priority Projects Entrusted by the Russian Government

Construction of the railway bridge crossing Nizhneleninskoye-Tongjiang (Russia-China)

Construction of residential space for employees of the Zvezda Shipbuilding Facility

New aquaculture development model

Provision of soft-term financing for recipients of the Far Eastern Hectare

Establishment of the Far Eastern Development and Hi-Tech Fund

Construction of passenger-and-freight automobile and railway ferries at the Vanino-Kholmsk Crossing in the Tatar Strait

Creation of a Russian-Japanese platform with the Japan Bank for International Cooperation (JBIC)

### PROJECT KHABAROVSK AIRPORT DEVELOPMENT

<b>BORROWER</b>	RUB 2.0 billion (at stage 1)
<b>TOTAL PROJECT AMOUNT</b>	Khabarovsk International Airport
<b>VNESHECONOMBANK'S COMMITMENT</b>	RUB 17.0 billion (RUB 4.9 billion at stage 1)
<b>FUND'S COMMITMENT</b>	RUB 1.9 billion

As part of the project, a new terminal for domestic airlines with an area of over 26,000 m<sup>2</sup>, fitted with an improved landside and state-of-the-art waiting spaces, passenger registration areas and entertainment areas will be built at Khabarovsk Airport. The terminal will be equipped with all necessary devices for people with disabilities and passengers with children. The project is part of the integrated programme for the development of Khabarovsk (New) International Airport as the largest airline hub for the Russian Far East, central Russia and the Asia-Pacific Region and will become a transport, logistic and economic centre of regional activities.

### EXPECTED RESULTS

Increase of the gross regional product (GRP) by RUB 10.4 billion

Increase of the passenger service quality

Additional tax proceeds of RUB 0.7 billion

Growth of the investment attractiveness of the region

Additional capacity of the terminal amounting to 2.7 million people

## 5. Stakeholder Interaction

### 5.1 Customer-Focused Practices

"Customer E-Office is a new important service offered by the Bank and VEB Group. Online document presentation will save our customers time and significantly reduce paperwork. For investment business, where time is one of the most valuable resources, it is of great importance."

Dmitry Kurdukov

First Deputy Chairman of Vnesheconombank in 2017-2018

In 2017, Vnesheconombank pressed on with a new model of customer service to ensure a better customer focus for its processes and products. Underlying the new model is the principle of close cooperation between the Bank and its customers at every stage of joint project implementation: from developing a business model and project structuring to entering external markets. To this end, Vnesheconombank Group in 2017 increased its internal competencies in sectoral analysis, engineering, government support, and public-private partnership mechanisms.

Aiming to increase the efficiency and transparency of its customer communications, Vnesheconombank introduces state-of-the-art digital technology and creates a shared information space for the Bank and its customers. Primarily, the efforts resulted in the Regional Model online platform launched in 2017. The platform offers a clear and simple mechanism for applying for project financing in electronic form. Also in 2017, the Bank launched Customer E-Office to serve as the basis for a shared information space for the interaction between the Bank, its customers and external experts.

Seeking to improve the process efficiency and introduce innovative technology, Vnesheconombank in 2017 set about developing approaches to in-house use of blockchains. Two prototype technology solutions are launched and operate in test mode. For investment project management, the Bank developed a prototype digital contract technology and tested it in its investment and commercial contracts. As part of its trade finance transactions, Vnesheconombank together with Bank BelVEB launched a beta-version of the Digital Letter of Credit system tested by simulated transactions.

Vnesheconombank's Initiative to Improve Customer Service Quality

#### Internal transformation projects implemented in 2017 as part of a new customer service model

> VEB established a customer service and an operations one-stop solution for customers significantly enhancing its customer service package

#### Measures to capture customer feedback in 2017

> VEB conducted a customer survey to assess satisfaction with its services and products. Out of the seventy-nine respondents, more than 50% were completely satisfied and willing to recommend the Bank to their business partners



- > VEB established a block of industry business solutions to build project business models for the customers' benefit
- > VEB introduced a new agile investment process and keeps upgrading IT-solutions for customer interaction
- > VEB successfully completed testing and put into pilot operation its in-house blockchain prototype systems

- > To implement and enhance its business processes, VEB conducted 8 in-depth customer interviews
- > To streamline its bank-customer interaction procedures, VEB held a number of design thinking events, as well as a presentation and discussion of a new investment process with the participation of the Bank's senior management and 19 customers

## VEB Group's Customer Satisfaction Surveys in 2017

### SVIAZ-BANK

Corporate customers  
SMEs  
Retail customers

### REC GROUP

Corporate customers, SMEs,  
sole entrepreneurs

### Vnesheconombank

Corporate customers

### CUSTOMER SATISFACTION SURVEY MECHANISMS

Questionnaire surveys  
Interviews  
Focus-groups  
Face-to-face meetings  
Hot lines  
Corporate website  
Mystery customer

### BANK BELVEB

Corporate and Retail customers

### PROMINVESTBANK

Corporate customers and  
SMEs

### VEB-LEASING

SMEs

### VEB-ENGINEERING

Corporate customers

## Grievance Management at VEB Group in 2017

### SVIAZ-BANK

Corporate customers - 132  
complaints  
SMEs - 197 complaints  
Retail customers - 10,025  
complaints

### GLOBEXBANK

Corporate customers - 40  
complaints  
Retail customers - 526  
complaints

### Vnesheconombank

Corporate customers - 16  
complaints

### MOST COMMON GRIEVANCE MECHANISMS

Post  
E-mail  
Telephone  
Corporate website  
Customer surveys  
Customer feedback book

### BANK BELVEB

Corporate customers - 12  
complaints  
Retail customers - 186  
complaints

### PROMINVESTBANK

Corporate customers - 1  
complaint  
Retail customers - 2,001  
complaints

### VEB-LEASING

Corporate customers - 315  
complaints

### FEDERAL CENTRE FOR PROJECT FINANCE

Corporate customers - 5  
complaints

### REC GROUP

Corporate customers - 13  
complaints  
SMEs - 25 complaints  
Sole entrepreneurs - 3  
complaints

## Customer Service Practices at Subsidiary Banks

### Sviaz-Bank

In 2017, Sviaz-Bank sought to increase capitalization and business growth and diversification, expand its customer base, and also performed the functions of VEB Group's settlement bank. Over the year, Sviaz-Bank significantly expanded its retail services both in terms of deposits raised and loans granted. As a result, the retail deposits increased by 21% since the beginning of 2017 to reach RUB 64.6 billion. In the reporting year, Sviaz-Bank also initiated a new strategic project to provide small and micro businesses with high technology, user-friendly, integrated, and affordable services.

Loan portfolio by customer type as at 31 December 2017



■ Corporate customers - 3,385  
■ SMEs - 17,672  
■ Retail customers - 992,607

### Customer Interaction

The measures Sviaz-Bank took in 2017 to promote customer interaction in the retail sector resulted in the 89%- and 87%-satisfaction of the customers with the service quality and bank products, respectively. In 2017, Sviaz-Bank conducted three satisfaction surveys for SMEs in the form of telephone interviews with at least 300 customers. Based on the survey results, Sviaz-Bank supplemented its action plan 2018 with measures aimed at enhancing its products and improving the customer service quality, and amended the existing tariffs, procedures, and business processes. Sviaz-Bank also conducted interviews and face-to-face meetings with corporate customers to reveal a high level of customer satisfaction.

### Sviaz-Bank's Socially Important Products for Retail customers

#### MILITARY MORTGAGE

- > According to the Rusipoteka analytical centre, Sviaz-Bank makes the TOP-20 of Russian banks in terms of home loans granted
- > In 2017, Sviaz-Bank granted 3,487 loans totaling RUB 6.3 billion under the Military Mortgage programme at a special interest rate of 10.9%
- > As at the end of the year, such products accounted for 57% of the bank's retail loan portfolio

#### PREFERENTIAL SERVICES

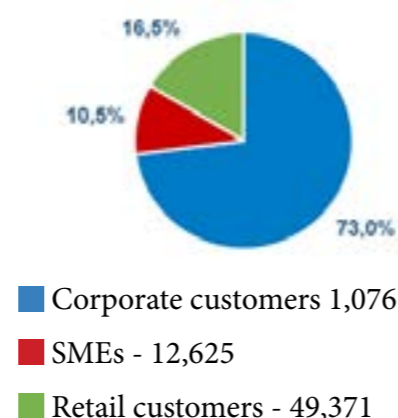
- > In 2017, Sviaz-Bank offered its customers special bank cards on preferential terms, and issued:
  - > 1,732 social cards in the Ulyanovsk Region and 26 social cards in Nizhny Novgorod for pension payments;
  - > 2,117 MIR cards for payments from the Russian Federation budget system

## REDUCING DEBT-TO-INCOME RATIO

- > Pay Without Penalty!  
988 debtors repaid RUB 25 million in overdue principal and interest
- > Moments of Spring  
721 debtors repaid RUB 24 million in overdue principal and interest

- > New Year Without Debts  
1,146 debtors repaid RUB 39 million in overdue principal and interest
- > Loan restructuring  
178 loans restructured with RUB 232 million of debt repaid

Loan portfolio by customer type at 31 December 2017



■ Corporate customers 1,076  
■ SMEs - 12,625  
■ Retail customers - 49,371

## GLOBEXBANK

In the reporting year, Globexbank addressed the issues related to maintaining capital levels and ensuring operating profit by both increasing operating income and cutting general and administrative costs.

To improve the customer satisfaction level, the bank primarily used its grievance procedures handling complaints on the case-by-case basis. Furthermore, the bank's training centre provided its employees with regular training in customer quality service.

### Globexbank's Socially Important Products for Retail customers

#### Agency for Housing Mortgage Lending Programme

- > Since October 2017, Globexbank has been acting as the agent under the AHML affordable home loan programme
- > In 2017, Globexbank extended RUB 155.7 million worth of 95 affordable home loans

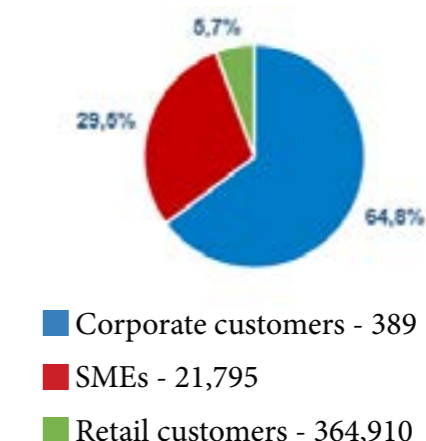
## REDUCING DEBT-TO-INCOME RATIO

- > Globexbank participates in a borrower aid programme run in compliance with the Russian Government Resolution and providing for one-time payments under residential mortgage loans to certain categories of benefit-entitled citizens
- > In 2017, Globexbank made compensation payments under six mortgage loans for the total of **RUB 2.8 million**

## Bank BelVEB

Bank BelVEB's priority objective set in its Strategic Development Plan 2016-2019 is to create a high-technology bank drawing on the modern customer-focused technology designed to ensure the bank's leading position in developing digital business in the Republic of Belarus. In Belarus, Bank BelVEB was the first to provide its retail customers with an online lending option via the Online Bank system. Furthermore, the bank implemented a mechanism for electronic credit agreement execution without digital signature, and launched other financial services unique for the Belarusian market.

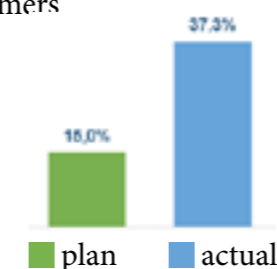
Loan portfolio by customer type as at 31 December 2017



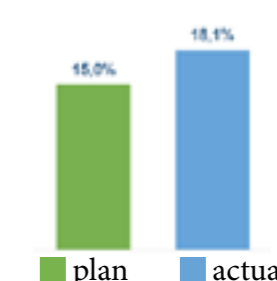
■ Corporate customers - 389  
■ SMEs - 21,795  
■ Retail customers - 364,910

In 2017, Bank BelVEB completed several new projects aimed at improving the customer service quality. These include a project to allow non-customers to execute online transactions via the Interbank Identification System, and a project to upgrade WEB-design, expand functionality and ensure harmonization of the online retail banking

Resources raised in 2017 via online banking services: corporate customers



Resources raised in 2017 via online banking services: retail customers



At year-end 2017, Bank BelVEB improved its position and was the 5th and 10th largest Belarusian bank in terms of retail deposits and retail lending, respectively, being up from the 7th and 11th positions last year. Bank BelVEB also bolstered its corporate lending and climbed up to the 3rd position. Furthermore, in 2017, Bank BelVEB expanded its participation in the SME financial aid program run together with the Development Bank of the Republic of Belarus. At year-end, the bank ranked in top three best partner banks and was the winner in the Rapid Growth category. Bank BelVEB also won the lead in The Best Info-Kiosk category at Consumer Experience-2016 and received a diploma for introducing Verified by Visa of Visa International.

### Customer Interaction

In 2017, the corporate customer surveys revealed the aggregate satisfaction level of 90.05%, and average service quality level identified using the "mystery customer" method was 90%. On a scale from 1 to 5, the private customer satisfaction level was estimated at 4.27. Retail business departments and cashiers' customer service quality levels averaged 91% and 93%, respectively. In order to improve its customer service quality, Bank BelVEB in the reporting year held regular seminars and trainings, conducted quarterly analysis of customer appeals, and developed a list of measures to enhance the customer service quality.

**Prominvestbank**

In 2017, Prominvestbank engaged in ensuring high liquidity and financial solvency levels, reducing the share of bad loans and meeting the economic requirements. The bank's current strategic objectives also include improving the customer service quality and promoting the advanced service technology.

Since 2017, the bank has been providing its retail customers with online banking services. The bank also launched the PIB mobile banking service. At year-end, the bank ensured a 23%-increase in corporate customer deposits and a reduced outflow of retail customer deposits.

Prominvestbank also effected RUB 1.2 million worth of restructuring and partial debt repayment of loans to eight individual borrowers.

**Customer Interaction**

To assess the customer satisfaction, the bank's managers in 2017 held over 4.5 thousand meetings with corporate customers and over 900 meetings with SMEs. The meetings resulted in changes to the terms and conditions of the overdraft and bid guarantee products.

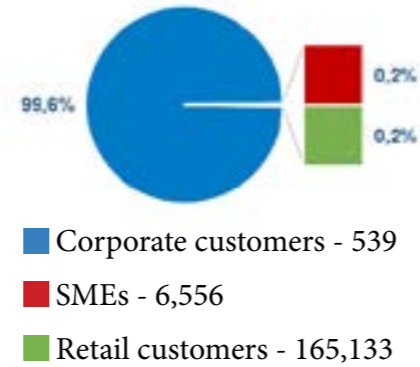
**Online Retail Customer Services at VEB Group Subsidiaries**

<b>SVIAZ-BANK</b>	- Internet-banking - Call-centre information system	<b>BANK BELVEB</b>
<b>GLOBEXBANK</b>	- Online Consultant service - Mobile bank - Information kiosks - Interaction Channels in social networks and messengers	<b>PROMINVESTBANK</b>

**VEB Group Subsidiaries' Initiatives on Easier Access to Financial Services for Disabled People**

<b>SVIAZ-BANK</b>	<b>BANK BELVEB</b>
> Easy access for people with limited mobility, in particular, threshold-free entrances and stairlifts in 54 bank offices	> 25 offices, or 46.3% of the total number equipped with ramps
> 40 offices, or 40% of the total number equipped with ramps	<b>GLOBEXBANK</b>
> All 463 ATMs operated by the bank feature embedded Braille buttons	> 8 offices, or 23.5% of the total number equipped with ramps

Loan portfolio by customer type as at 31 December 2017



## 5.2 Maximizing Intellectual Potential

“As the leading high-tech focused development institution, Vnesheconombank both supports innovative projects and introduces new tailor-made education programs. This allows us to involve talented youth all across Russia and start training blockchain specialists that are currently in acute shortage.”

Sergey Gorkov  
Chairman of Vnesheconombank in 2016-2018

As a national development institution, Vnesheconombank gives priority to creating in Russia an innovative eco-environment that would bring together the efforts of all stakeholders involved in the development and promotion of breakthrough technologies. In 2017, Vnesheconombank together with the MISiS National University of Science and Technology established the Centre of Blockchain Competencies, which became the Bank's main blockchain platform to welcome Russian design engineers, global innovative leaders, and representatives from business and academic community.

The Centre pursues a comprehensive policy to develop workforce, scientific, research, and technology potential required to boost digital economy. The Centre also encourages student initiatives in promoting new products and technologies. In the reporting period, the Centre hosted major international blockchain-hackathons, educational programmes and events of Vnesheconombank's Teenager Department designed to help teenagers build practical skills in developing high-technology products<sup>12</sup>.

To create innovative eco-environment, Vnesheconombank seeks to engage as many representatives from the business, expert and scientific community as possible in a dialogue on recent trends in breakthrough technology. To this end, the Bank organizes open discussions and shares its experience. In 2017, Vnesheconombank took part in the major national and global economic and digital forums, and organized the respective panel discussions, exhibitions, contests and other events<sup>13</sup>.

Vnesheconombank encourages talented youth being the future intellectual elite of the country. The educational initiatives Vnesheconombank undertook in 2017 for children and young people cover a wide range of issues relating to project management, the 21st-century economy, and digital technology development. In particular, these include thematic lectures by Vnesheconombank's top managers at the

Vnesheconombank consistently pursues sustainability goals

**4 QUALITY EDUCATION**

<sup>12</sup> For more information, see Innovation and Breakthrough Technology Section.

<sup>13</sup> Videos of the forums with Vnesheconombank's participation at: <https://new.veb.ru/press-tsentr/?god=2017&tip=1563>

## VNESHECONOMBANK'S PARTICIPATION IN MAJOR FORUMS IN

### ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM (SPIEF)

- > Vnesheconombank held the panel session, Blockchains: Birth of New Economy, to discuss the prospects of blockchains in Russia, their potential for addressing business problems and improving the public administration system, and the respective regulatory issues
- > Vnesheconombank's stand featured a prototype blockchain-based technology solution for digital transactions with borrowers

### INTERNATIONAL FORUM "OPEN INNOVATIONS"

- > Vnesheconombank arranged the panel discussion, Applied Quantum Technology: How is the World Changing?
- > Vnesheconombank presented blockchain-based prototype products designed to improve the efficiency of public services in healthcare and forest conservation
- > VEB representatives took part in the plenary meeting, Technologies Serving the Society. Digital State

### EASTERN ECONOMIC FORUM

- > VEB representatives took part in the panel discussion, New Technologies in Financial Sector of Asia-Pacific Region. How Blockchain Changes Real Life, and in the session, Financing Innovation as a Driver for Economic Growth in the Far East

### ALL-RUSSIAN CONFERENCE, BLOCKCHAIN: RUSSIA'S NEW OIL

- > In conjunction with the Conference, Vnesheconombank launched the federal blockchain hackathon, Blockchain in Use, (Europe's largest by the number of participants) for developers of blockchain products applicable in public and corporate governance
- > On the forum's sidelines, Vnesheconombank and Ethereum Russia entered into a partnership agreement providing for cooperation on blockchain projects and the joint development and running of educational programs

### MAKER FAIRE MOSCOW FESTIVAL

- > Vnesheconombank presented its Department of Teenagers and took part in the preparation of an educational program that was carried out during the festival and included a quest, lectures and master-classes on future digital technologies

## Practical Training and Internship at VEB Group

On a regular basis, Vnesheconombank and its group companies organize practical training and internships at their structural units for students of specialized higher educational establishments. In 2017, some five hundred students took up the opportunity. Moreover, 26 recent graduates who had previously received practical training at the group companies got permanent employment. During the year, 45 students from the Lomonosov Moscow State University, Financial University under the Government of the Russian Federation, MGIMO University, the Russian Presidential Academy of National Economy and Public Administration, the Higher School of Economics, and other educational institutions had practical and pre-degree trainings at Vnesheconombank. Three graduates received an offer of employment with the Bank.

In 2017, Vnesheconombank started a new internship programme at its investment units. The programme aims to select up-and-coming specialists with potential to rise to the challenges facing Vnesheconombank. During the four-month internships, young people guided by the Bank specialists and top managers had an opportunity to expand their knowledge and skills in project finance, investment and syndicated lending, deal structuring, investment project evaluation, and financial and technical monitoring. Based on the results of the internship, two graduates received a job offer from the Bank.

### Vnesheconombank Group's Investments in Intellectual Potential in 2017

<b>Vnesheconombank</b>	Knowledge sharing tools	<b>Russian Export Centre</b>
<b>Sviaz-Bank</b>	Practical training and internships	<b>Bank BelVEB</b>
	Participation in forums and conferences	<b>FEDERAL CENTRE FOR PROJECT FINANCE</b>
<b>GLOBEXBANK</b>	Joint programmes with universities and educational centres	<b>Prominvestbank</b>
<b>VEB Engineering</b>	Master-classes and lectures	
	Activities for customers and partners	
	Welcome Days and tours	
	Thematic information resources	
	Competitions and championships	

### VNESHECONOMBANK GROUP'S FINANCIAL LITERACY INITIATIVES IN 2017

- Bank BelVEB > The bank held meetings with more than 50 enterprises of the Republic of Belarus with the aim to promote new products, services, and online banking

> The bank arranged educational activities for students from 25 educational institutions of the Republic of Belarus to support the global movement for promoting financial literacy among children and young people

> The bank held meetings with more than 50 enterprises of the Republic of Belarus with the aim to promote new products, services, and online banking

> The bank arranged educational activities for students from 25 educational institutions of the Republic of Belarus to support the global movement for promoting financial literacy among children and young people

> The bank's training centre organized educational events for seventeen employees' children aged 16-22

> The bank arranged a tour for its customers and their children to the bank's office in Pinsk, and a sightseeing tour for schoolchildren in the

GLOBEXBANK

> The bank acted as a partner in the IX Interregional Forum, Samara Platform for Business Development, and the Accountant's Day of IC company, and held advisory sessions for participants on the use of financial instruments for small and micro businesses

> The bank arranged 4 information and educational events devoted to support for small and micro businesses and state procurement in Perm, Tolyatti, Novosibirsk, and Saint Petersburg

> In Samara and Saint-Petersburg, the bank conducted events to raise the awareness of the bank's mortgage housing programmes among the real estate market specialists

SVIAZ-BANK

> The bank took part in the All-Russian Week of Financial Literacy, and arranged a series of training events for its partners and customers

PROMINVESTBANK

> As part of the educational initiative dedicated to the World Day of Savings, the bank held welcome days for children in five of its Kyiv offices

RUSSIAN EXPORT CENTRE GROUP

> REC Export School held a series of master-classes in the basics of exports attended by more than 400 participants, in particular, as part of such key federal and regional events as St. Petersburg International Economic Forum, International Export Forum Made in Russia, etc.

> REC Export School piloted advanced training courses attended by 38 employees of the Monotown Development Fund, and a series of master-classes for 47 representatives from Schwabe Holding

FEDERAL CENTRE FOR PROJECT FINANCE > FCPF continued its cooperation with the Financial University under the Government of the Russian Federation in the context of its participation in the master's degree programme, Public-Private Partnership Project Management

## 5.3 Development Award

"In 2017, the revamped development bank got a new strategy. The Development Award categories have been also harmonized to comply with its priorities. Our new objective is to look for, cultivate, scale up, and promote innovative projects and bring them to a whole new level.

Sergey Gorkov  
Chairman of Vnesheconombank in 2016-2018

Development Award is a national professional prize for major investment projects contributing to Russia's social and economic development<sup>14</sup>. Established by Vnesheconombank in 2012, this annual prize is designed to boost comprehensive modernization and renovation of the national economy, promote best practices in project management and create a favourable investment climate in Russia. This initiative allows the Bank to assess investment processes in the country and identify existing problems and potential points of growth.

In 2017, Development Award significantly changed its format. Its categories were revised to correspond to VEB 2.0 new strategic priorities. In project assessment, to the fore came an innovative character, export focus, import substitution potential, and social, economic and environmental impacts of projects.

The Development Award 2017 winners were chosen by the contest committee of independent experts from public and government organizations, development institutions, research and educational establishments that engage in promoting entrepreneurship and investment. The committee's decision was approved by the Management Board of Vnesheconombank.

The awarding ceremony 2017 was the first to take place during the Russian Investment Forum in Sochi. The winners received their awards from Dmitry Medvedev, Chairman of the Government of the Russian Federation and Chairman of the Supervisory Board of Vnesheconombank, and Sergey Gorkov, Chairman of Vnesheconombank.

In accordance with its new operational priorities that correspond to the global economic challenges, Vnesheconombank at the end of 2017 announced new categories of Development Award 2018: Best Project in Digital Economy and Best Innovative Start-Up. In just six years of its existence, Development Award saw over a thousand projects from all Russian regions, with over 30 projects showing an example of concerted and efficient efforts to unlock Russia's economic potential and announced as the winners.

<sup>14</sup> For more information, go to [www.premiya-razvitiya.ru](http://www.premiya-razvitiya.ru)

## Development Award 2017 Winners

In 2017, 34 projects representing 18 Russian regions took part in the contest

### BEST INFRASTRUCTURE PROJECT

- > The winning project:  
Free Wi-Fi network in Moscow metro trains
- > The winning company:  
MaksimaTelekom, Moscow  
Free access to the Internet for Moscow metro passengers

### BEST ENVIRONMENTAL AND GREEN TECHNOLOGY PROJECT

- > The winning project:  
Siberian fuel pellets
- > The winning company:  
Siberian Fuel Pellets, Irkutsk Region  
Recycling of lumber waste to produce biofuel from renewable energy sources

### BEST PROJECT ON INTEGRATED DEVELOPMENT OF TERRITORIES

- > The winning project:  
Chain of children's technology parks Quantorium
- > The winning company:  
The Republican State Centre of Multicomponent Information Computer Environment  
To provide more than 70% of children aged 5-18 from across Russia with access to quality general educational programs by 2020.

### BEST INDUSTRIAL PROJECT

- > The winning project:  
Industrial production of domestic high-performance and energy efficient processor Baikal-T1
- > The winning company:  
Baikal Electronics, Moscow Region.  
Mass production of domestically developed micro-processor for sale in the home and foreign markets

### BEST EXPORT PROJECT

- > The winning project:  
Export of Russian technology (JURECA supercomputer) to Jülich Supercomputing Centre, Germany
- > The winning company:  
T-Platforms, Moscow  
The project set the first precedent of one of the most powerful foreign computing systems built with the Russian equipment

### THE BEST INNOVATION/HIGH-TECHNOLOGY PROJECT

- > The winning project:  
High-technology production of biological substances and finished dosage forms to treat serious cancer and autoimmune diseases
- > The winning company:  
BIOCAD, St. Petersburg  
Domestic production of high-technology drugs to replace foreign analogues and reduce government spending on pharmaceutical provision

## 5.4 International Cooperation

Vnesheconombank cooperates with leading development institutions and international financial associations on a bilateral and multilateral basis to both raise funding for projects aimed at developing Russia's economy and promoting the interests of Russian exporters, and exchange experience and share best practices with foreign partners. In the context of international cooperation, Vnesheconombank actively discusses with the international financial community the prospects for further cooperation in the areas directly related to its strategic objectives, in particular, financing for projects in sustainable development and energy efficiency.<sup>15</sup>

Vnesheconombank takes part in multilateral international financial initiatives, including the BRICS Interbank Cooperation Mechanism, the Shanghai Cooperation Organization Interbank Consortium, the International Development Finance Club (IDFC), the Long-Term Investors Club (LTIC), the Latin American Association of Development Financing Institutions (ALIDE), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), and the Association of Export-Import Banks of North-East Asia where the Bank acted as the chairman in 2017. The key foreign partners of the Bank include the German Development Bank (KfW), the State Development Bank of China, the Bank of Harbin, the State Bank of India, Export-Import Bank of India, etc.

In 2017, the Bank further promoted its cooperation with financial institutions in the Middle East, including the Islamic Development Bank Group, whose headquarters Vnesheconombank delegation visited in March 2017. As a result of the visit, the parties agreed on greater cooperation in the joint financing of investment projects, promotion of export/import transactions between the countries, and exchange of experience in Islamic finance.

### Vnesheconombank's Participation in the BRICS Interbank Cooperation Mechanism and the Shanghai Cooperation Organization Interbank Consortium

#### BRICS Interbank Cooperation Mechanism

> Vnesheconombank took part in drafting agreements between BRICS ICM member banks on cooperation in credit ratings, and on local currency-denominated loan facilities that were signed at the BRICS ICM member banks' meetings in the run-up to the BRICS Summit in Beijing

> Vnesheconombank took part in the BRICS ICM experts' meeting and the working groups' meetings over a BRICS rating agency, macroeconomic analysis of developing economies, innovations, lending in local currencies, HR, and exchange of best practices

#### Shanghai Cooperation Organization Interbank Consortium

> Vnesheconombank took part in the seminar, Silk Road Economic Belt: Financial Innovation and Interrelated Development organized by the State Development Bank of China for SCO IBC member banks

> Vnesheconombank took part in the SCO IBC Council meeting in Kazakhstan, which saw the signing of the SCO IBC Development Strategy 2017-2021 and a memorandum of cooperation between the SCO IBC and the Silk Road Fund

> Vnesheconombank took part in the SCO Heads of States Council meeting in Sochi, a seminar on financial cooperation in the SCO region held in China, and in the Moscow Business Dialogue Shanghai Cooperation Organization

<sup>15</sup> For more information, go to the Sustainability Financing section.

## 5.5 Services to the Government

In 2017, Vnesheconombank continued to act as the agent for the government of the Russian Federation under the agency agreement signed in 2009 with Russia's Ministry of Finance. Vnesheconombank provides the government with professional services, in particular, issues, supports, administers, and executes Russian state guarantees, and accounts of, manages, services, and repays the external national debt and external financial assets of the Russian government. Highly professional specialists with their unique expertise and dedication to continuous skill improvement ensure the Bank's efficient operation in the agency function.

### State Guarantee Support Mechanism

In 2017, Vnesheconombank continued to perform its functions as the agent for the Russian government in terms of issuing Russian state guarantees to principals, and supporting, administering and executing the Russian state guarantees issued. In 2009-2017, the state guarantee support mechanism contributed to a sharp increase in the principals' total revenues, which considerably exceeded the amount of the state guarantees issued. The use of the mechanism also had a significant positive impact on the financial position of the beneficiary banks due to highly liquid collateral and, accordingly, a smaller estimated reserve.

### Social and-Economic Benefits of the State Guarantee Mechanism

#### Budgetary effect

- > In 2009-2017, tax revenues from the principals to the Russian budget exceeded RUB 1,020 billion, which is 15 times higher than in 2005-2008 before granting the state guarantees
- > Federal budget expenses incurred in meeting the claims under the state guarantees in 2009-2017 make RUB 5.9 billion, which is 0.58% of the tax revenues from the principals
- > In 2018-2021, tax revenues from the principals to the Russian budget are estimated at some RUB 780 billion.  
New jobs
- > In 2014-2017, principals who received the state guarantees created about 21,000 new jobs

#### Economic growth

- > Pharmaceuticals and medicine  
Production of active pharmaceutical ingredients, highly active biological products, multicomponent vaccines, and Russia's largest perinatal centre set up
- > Transport  
Three strategically significant airports built, traffic and operational condition of federal roads improved, railways and ports traffic capacity increased, year-round transportation of hydrocarbons from the Yamal Peninsula ensured
- > Agriculture  
Production of meat and dairy products, and vegetables increased

### Intergovernmental Debt

In 2017, Vnesheconombank continued to provide the Russian Ministry of Finance with methodological, information, analytical, accounting and clearing support with respect to the intergovernmental debt of the Russian Federation and other countries.

Vnesheconombank contributed to strengthening Russia's trade relations with other countries and promoting exports of Russian high-technology equipment, machinery and technical products, in particu-

lar, in such core national industries as energy production and mechanical engineering. In its agency capacity, the Bank promoted major projects delivered by Russian authorized exporters in Russia's partner states. Furthermore, the efforts Vnesheconombank took as the agent for the Russian government helped facilitate Russia's participation in international anti-poverty initiatives.

#### The Bank as the Agent for Intergovernmental Debt: Core Business Lines

##### Intergovernmental loans

Vnesheconombank provides a full package of accounting, clearing, payment and banking services throughout the cycle of intergovernmental loans, in particular, for settlements under export deliveries of the Russian goods, work and services against state export guarantees issued by the Russian Federation to foreign borrowers

##### Assistance to the world's poorest countries

Vnesheconombank effects settlements related to Russia's participation in international aid initiatives for the world's poorest countries. The Bank accumulates the funds received in repayment of such countries' indebtedness on its designated accounts and use the funds to finance healthcare, education, energy, and environment programmes and projects delivered in such countries.

##### Expert support

Vnesheconombank provides the Russian Ministry of Finance with comprehensive expert support in the elaboration and negotiation of terms and conditions for intergovernmental debt transactions, takes part in expert examination of loan documentation, and negotiates account management

### Pension Investment

As the state trust managing company for pension savings (STMC), the Bank invests pension savings seeking to increase those at minimum risk with the insured persons' benefit being its absolute priority.

STMC has two portfolios under its management: an extended investment portfolio (EIP) and a government securities investment portfolio (GSIP). Furthermore, as the government trust manager of payout reserve (STMC PR), VEB builds two investment portfolios: a payout reserve investment portfolio (PRIP) and a fixed term investment portfolio (FTIP).

In 2015-2017, the total yield on the extended investment portfolio exceeded the annual inflation rate. Thus, in 2017, the extended investment portfolio had the return of 8.59%, which was three times higher than the inflation rate of 2.52%.

In 2017, the State Trust Management Company ensured the return on investment of pension savings by reinvesting idle funds in its portfolios in Russian issuers' high yield non-government bonds and marketable federal bonds, and by depositing temporarily idle funds in commercial banks.

### Return on Investment of Pension Savings in 2015-2017

Market value (RUB million) Return	RUB %	EIP	GSIP	PRIP	FTIP
2015 Inflation in Russia: 12.91%		RUB 1,990,243 13.15%	RUB 22,694 15.31%	RUB 4,916 11.59%	RUB 565 11.28%
2016 Inflation in Russia: 5.38%		RUB 1,939,738 10.53%	RUB 28,817 12.20%	RUB 7,307 11.10%	RUB 1,889 11.24%
2017 Inflation in Russia: 2.52%		RUB 1,819,221 8.59%	RUB 29,153 11.09%	RUB 10,670 10.09%	RUB 2,771 10.52%

### STMC Investment Portfolio Structure as at 31 December 2017

Tools	EIP	GSIP	PRIP	FTIP
Government savings bonds	20.44%	9.72%		
Federal bonds	17.79%	36.11%	17.51%	17.01%
Non-government bonds	39.49%	43.47%	61.26%	64.08%
Cash	21.19%	9.38%	19.70%	17.23%
Accumulated coupon yield	1.09%	1.32%	1.53%	1.68%

## 6. Investing in Community

### 6.1 Corporate Volunteering and Charity

“I am confident that the core of all changes in the country is a nationwide volunteer movement. We at Vnesheconombank have formed a culture of proper attitude to the elderly. More than 500 employees of the Bank help retirement homes on a regular and voluntary basis.”

Sergey Gorkov  
Chairman of Vnesheconombank in 2016-2018

Since 2016 Vnesheconombank's employees together with the Enjoyable Aging Charity Foundation have engaged in a corporate volunteer project, Dreams Have No Age. The project is intended not only to provide assistance for retirement homes but also to change the attitude to the elderly in Russia and introduce the “enjoyable old age” concept.

Vnesheconombank operates to achieve the Sustainable Development Goals:

**1 NO POVERTY**

**3 GOOD HEALTH AND WELL-BEING**

In June 2017, Vnesheconombank and the Enjoyable Aging Charity Foundation signed a cooperation agreement to promote volunteer movement at the Bank. Throughout 2017, VEB Group's volunteers took care of more than 850 residents at three retirement homes in Dubna village, Tula Region, Vyshny Volochyok, Tver Region, and Ostashevo village, Moscow Region.

#### Results of the Dreams Have No Age Project in 2017

More than 500 employees of Vnesheconombank Group took part in the project in 2017

Vnesheconombank Group's volunteers collected over RUB 16 million in donations, four times as much as in 2016

Nine corporate volunteer promotional events and trips were organised under the project:

New Year celebrations for the Vyshny Volochyok and Dubna retirement homes

sports holiday for the Vyshny Volochyok retirement home;

volunteer clean-ups at the Vyshny Volochyok and Dubna retirement homes

As part of a promotional event, Give the New Year's Mood and Gifts, Vnesheconombank Group's volunteers prepared more than 1,500 presents and gave individual presents to all residents of the retirement homes

The retirement homes received medical rehabilitation equipment and care products

The Dubna retirement home received a garden house, kitchen furniture and utensils and equipment and working clothes for the staff

The Vyshny Volochyok retirement home received shower rooms, kitchen utensils and office furniture for the staff and got its IT infrastructure optimised

#### VOLUNTEERING INITIATIVES BY VEB GROUP COMPANIES

##### NATIONAL CAMPAIGN TO COLLECT NEW YEAR GIFTS FOR ELDERLY PEOPLE

> VEB Group volunteers actively engaged in a project National Initiative to Collect New Year Gifts for Lonely Elderly Residents of Retirement Homes initiated by the Enjoyable Aging Charity Foundation and held throughout Russia.

##### VEB GROUP'S BLOOD DONATION INITIATIVES

> VEB and group companies' employees took part in three two-day blood donation initiatives, organized by the Bank. They donated 143 litres of blood to the Dmitry Rogachev National Research Centre of Pediatric Hematology, Oncology and Immunology.

> REC Group organised the Donor Day event with the help of the Federal Medical and Biological Agency, which runs a large-scale programme to promote blood donation.

> Sviaz-Bank held four blood donation events, including a special campaign to donate blood for the bank's employee's daughter in need of medical help.



**INITIATIVES TO COLLECT SPENT BATTERIES FOR RECYCLING**

- > The initiative resulted in the Bank's employees collecting 63 kilograms of spent batteries for recycling.
- > The campaign took place at Globexbank, REC Group, FCPF, VEB Capital, and the Far East and the Baikal Region Development Fund.

**REC GROUP INITIATIVE TO HELP BUTTERFLY CHILDREN FOUNDATION**

- > REC Group held a charity auction among its employees and managed to raise and donate RUB 525,000 to the Butterfly Children Foundation, which helps some 300 children with a rare genetic disease, epidermolysis bullosa.

**FCPF INITIATIVES TO HELP CHILDREN**

- > FCPF employees rendered targeted assistance to orphan pupils of the Saint Alexis Monastery's Orthodox grammar school and the Kirov Orphanage for Mentally Deprived Children in Omsk.

**GLOBEXBANK AND THE AIF TENDER HEART FOUNDATION JOINT CAMPAIGN**

- > Globexbank and AiF Tender Heart Foundation held a charity campaign to raise funds to pay for medicine and treatment of a severely ill child with cystinosis.

**GLOBEXSBANK ENVIRONMENT INITIATIVES**

- > Employees of Gobexbank's Petersburg Branch took part in the National Forest Planting Day held by St. Petersburg Urban Improvement Committee and the administration of Kurortny forest park.

**INITIATIVES TO HELP COLLEAGUES**

- > VEB-Leasing, Sviaz-Bank, Globexbank, and VEB Engineering undertook initiatives to help colleagues and their families in difficult life situations

**Charity and Sponsorship**

In compliance with the resolution by Vnesheconombank Supervisory Board, in 2016-2017, the Bank suspended its charitable and sponsorship activities due to the need to stabilize operations. However, Vnesheconombank's Supervisory Board decided to support certain charitable and sponsorship projects required for the Bank to accomplish its objectives. Those included sponsorship for the 2017 St. Petersburg International Economic Forum and the 2017 Russian Investment Forum in Sochi.

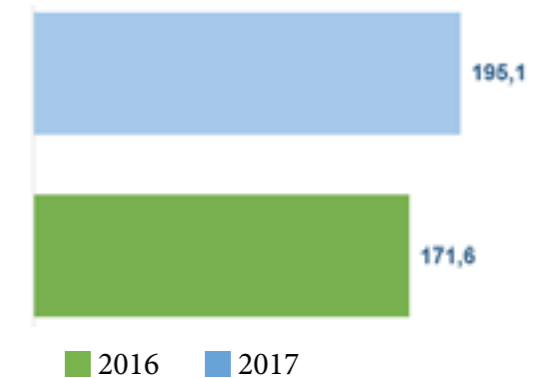
In 2017, some entities of VEB Group engaged in charitable and sponsorship activities in the form of their own projects and initiatives. The largest charitable projects were those of Sviaz-Bank and Bank BelVEB. The latter received a commendation, Patron of the Belarusian Culture 2016, and the grand

prix, Triumph, at the 56th National Contest, 2017 Book Art, from the Ministry of Culture of Belarus for the its project, Book Legacy of Francisk Skorina: Facsimile Edition).

**VEB Group Charitable Priorities in 2017**

- Science, education, arts and culture
- Healthcare and social welfare
- Assistance to children
- Environmental and nature protection projects
- Professional sports

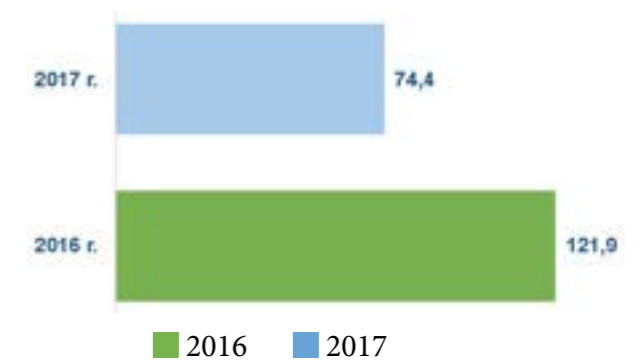
**Funds Allocated by VEB Group to Charitable Projects (RUBmn)**



**VEB Group Sponsorship Priorities in 2017**

- Forums, conferences, exhibitions
- Professional sports
- Science, education, arts and culture

**Funds Allocated by the VEB Group to Sponsorship Projects (RUBmn)**



**VEB GROUP CHARITABLE PROJECTS IN 2017**

**BOOK LEGACY OF FRANCISK SKORINA**

- > In 2017, Bank BelVEB completed its participation in the five-year project of the National Library of Belarus on facsimile edition of Francisk Skorina's, the Belarusian and Eastern Slavic first printer, books. A collection of books printed by Francisk Skorina in Prague (1517-1519) and Vilno (1522-1525) was published keeping the original structure, content, font features and prints. The project was completed to commemorate the 500-year anniversary of the Belarusian printing celebrated in 2017 in Belarus and abroad and was added to the UNESCO Memorable Dates Calendar

**THEATRE SUPPORT**

- > Sviaz-Bank rendered financial assistance to the Theatre Development Charity Foundation, which supports the Moscow Theatre, Fomenko, Workshop

> Bank BelVEB continued its cooperation with the National Academic Grand Opera and Ballet Theatre of the Republic of Belarus and sponsored the VIII Minsk International Christmas Opera Forum, which brought together leading foreign theatres and global opera stars

**ASSISTANCE TO THE ENJOYABLE AGING CHARITY FOUNDATION**

> REC Group held a charitable event to support the Foundation and its programme, One Day of Happiness, aimed at providing extra nursing personnel for the elderly at retirement homes

> VEB Leasing provided the Foundation with charitable assistance and 40 laptops

**ASSISTANCE TO CHILDREN**

> REC Group supported the Right to a Miracle Foundation. The Foundation addresses the issues of premature births and mitigating risks of dangerous borth

**RECONSTRUCTION OF LISTED BUILDINGS**

> Bank BelVEB supported a project on the reconstruction of a palace and garden complex in Svyatsk, Grodno Region, which is a monument of architecture and garden art of the 18th century and enjoys the status of historical and cultural heritage of Belarus

**VEB GROUP SPONSORSHIP PROJECTS IN 2017**

**THE FAR EAST DEVELOPMENT SUPPORT**

> The Far East and Baikal Region Development Fund carried out a number of sponsorship projects to pursue the government policy on the accelerated development of the Far East. The projects include an exhibition, Streets of the Far East, held during the 2017 Eastern Economic Forum. Days of the Far East, in Moscow, and a joint media project with Russia Today on the implementation of the Fund's programme, Affordable Credit for SMEs, in the Far East.

**MUSIC AND CINEMA SUPPORT**

> REC Group sponsored the Fifth Alexander Frauchi International Guitar Competition and Festival.

> VEB Capital sponsored the film, Na Rayone, directed by Danila Kozlovsky

**SUPPORT FOR FORUMS**

> REC Group is a sponsor and co-organizer of the National Forum, Territory of Business - Territory of Life, which will take place in February 2018, in Moscow. The Forum will include an awarding ceremony for the winners of the national award, Business Success established by the OPORA RUS-SIA National Non-Governmental Organization of Small and Medium Business, the Russian Public Chamber, and the Agency for Strategic Initiatives, with a view to promoting small and medium entrepreneurship

**6.2 Sustainability Financing**

“Vnesheconombank’s professionals are keeping a close watch on how the green market develops, using their close relationship with partners from international financial institutions and foreign development institutions. It is national development institutions that pursue the government policy in this area.”

Nikolay Tsekhomsky  
First Deputy Chairman, Vnesheconombank

As a leading development institution of Russia, Vnesheconombank promotes the best sustainable development and green finance practices at the national level and participates in the activities. Furthermore, VEB participates in the work of major international forums, which produce solutions to enhance the green financing system at the international scale.

Vnesheconombank Group’s activities aim to achieve the Sustainable Development Goals:

**13 CLIMATE ACTION**

**17 PARTNERSHIP FOR THE GOALS**

Regular exchange of experience with foreign financial institutions helps Vnesheconombank build up its in-house competences in energy efficiency, green finance and sustainable development finance.

In 2017, Vnesheconombank in cooperation with the International Finance Corporation (IFC) completed the elaboration of an energy-efficient project assessment methodology. The Bank approved a temporary procedure for the structural units’ interaction on energy-efficient projects, which remained in effect till June 30, 2017, and started the preparations to integrate the project energy efficiency assessment procedures into a uniform investment process. Vnesheconombank also continued its cooperation with the Russian Ministry of Economic Development in respect of its potential participation in the government’s energy conservation and efficiency programme.

### Vnesheconombank's Efforts to Promote Best Practices in Green Finance

VEB took part in international forums on green finance organised with support from the International Development Finance Club (IDFC) in Frankfurt and Paris	VEB took part in the International Development Finance Club (IDFC) green finance survey (Green Finance Mapping Report 2016)	Nikolay Tsekhomsky, First Deputy Chairman of Vnesheconombank, delivered a report Sustainability Financing, at the events timed to the annual NDB Board of Governors Meeting in New Delhi, India	
Development Bank of Japan Inc. held a workshop for VEB employees to share its experience in urban development and green finance	VEB delegation took part in the work of the Russian Pavilion at the 23rd Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change in Bonn	VEB organised a workshop, Green Finance: Development Prospects in Russia, Opportunities for Vnesheconombank, with the participation of government authorities and financial institutions	VEB took part in the G20 Green Finance Study Group (GFSG)

### Vnesheconombank's Interaction with International Financial Associations and Foreign Financial Institutions on Sustainable Development: Promising Areas

Attraction of foreign co-financing for sustainable development projects, in particular, on energy efficiency and green finance fields	Attraction of best international practices, including through IDFC, D20, LTIC, to develop Vnesheconombank's internal competences in green economy as part of VEB 3.0 Strategy
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## 6.3 Participation in the UN Global Compact

“Ambitious tasks require real leadership. We need creative corporate visionary leaders who will be able to build a sustainable world of tomorrow.”

Lise Kingo  
Executive Director, United Nations Global Compact

In 2017, Vnesheconombank, still remaining the chairman of the Global Compact Network Russia, summed up the 5-year results of its work in such capacity. During that period, not only did the network become a separate legal entity, Association “National Network of the Global Compact,” but also it obtained the UN Nations Global Compact “advanced level”.

Vnesheconombank operates to achieve the Sustainable Development Goals

## 17 PARTNERSHIP FOR THE GOALS

As the chairman of the Global Compact Network Russia, Vnesheconombank pays special attention to the harmonization of the network participants' activities with the 2030 Agenda for Sustainable Development (United Nations Sustainable Development Goals) and promotion of Russian responsible businesses' interests at the international arena. For this purpose, Vnesheconombank organised the participation of Russia's representatives in meetings of national networks of the Global Compact in New Delhi, India, and Rome, Italy, and in the UN Global Compact Leaders Summit in New York, United States, in 2017.

In 2017, Global Compact Network Russia for the first time organised the events of the Russian business and cultural programme at the United Nations Forum on Business and Human Rights held in Geneva, Switzerland. The forum delegates were provided with the opportunity to participate in the Russian-Swiss theme-based discussion where the Russian side presented its experience in complying with business guidelines related to human rights. A photographic exhibition, Breath-taking Russia, and an exclusive performance, I am Dancing, of the InterAction project-involving actors with Down's syndrome were organised as part of the forum.

### Initiatives of Global Compact Network Russia in 2017

#### Strategic priorities of Global Compact Network Russia approved in 2017

- United Nations Sustainable Development Goals-2030
- Responsible financial and investment practices
- Public non-financial statements
- Business and human rights
- Global climate agenda
- Education and training in corporate social responsibility and sustainable development

#### Long-term programmes under the auspices of Global Compact Network Russia first launched in 2017

- Expert examination of the UN Guiding Principles on Business and Human Rights
- Regional programme for promotion of Global Compact Network Russia's values in sustainable development in Russian regions to be implemented jointly with the Russian Ministry of Foreign Affairs and the Russian Chamber of Commerce and Industry under the cooperation agreement
- Programme for promotion of the development of the responsible financial and investment practice in Russia to be implemented jointly with the Russian Union of Industrialists and Entrepreneurs
- Programme for assistance to Russian businesses in achieving the Sustainable Development Goals

#### Key Events of Global Compact Network Russia Implemented in 2017 at National Level

Round tables devoted to the climate agenda for businesses, the Sustainable Development Goals, a responsible procurement and delivery chain, etc.

Special sections at large-scale forums, including the ECOTECH Exhibition Forum, the World Festival of Youth and Students in Sochi, etc.

Regional meetings and workshops in Kaluga, St. Petersburg, Norilsk and Sochi

Expert discussions and business lunches

## 7. Responsible Business Practices

### 7.1 Corporate Governance

Due to Vnesheconombank's special status its corporate governance system is regulated by Federal Law No. 82-FZ "On Bank for Development"<sup>16</sup> dated 17 May 2007, the Memorandum on Financial Policies of the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" approved by the Russian Government Decree No. 1007-r dated 27 July 2007, and statutory documents regulating the activities of the Bank's collective bodies. When building a corporate governance system, Vnesheconombank is geared to the best domestic and global standards and practices.

Vnesheconombank's governance bodies are the Supervisory Board, the Management Board, and the Chairman of Vnesheconombank. Powers of the governance bodies are governed by Federal Law "On Bank for Development". In 2017, the State Duma of the Russian Federal Assembly adopted Federal Law No. 454-FZ "On Amendments to Federal Law On Bank for Development" dated 29 December 2017 that substantially revised the powers of Vnesheconombank's Supervisory Board, Management Board and Chairman. Besides, in order to improve corporate governance of Vnesheconombank and the Group entities, the Bank established new collective executive bodies in 2017, and expanded powers of the current ones.

#### Vnesheconombank's Corporate Governance System

Collective Bodies of Vnesheconombank's Supervisory Board	VNESHECONOMBANK SUPERVISORY BOARD Supreme governance body	Vnesheconombank's Internal Control Service
Audit Committee		
HR and Remuneration Committee	CHAIRMAN OF VNESHECONOMBANK Sole Executive Body	Vnesheconombank Collective Working Bodies
Strategy Committee		
Working Group for Review of Materials for Vnesheconombank Supervisory Board Meetings		Vnesheconombank Expert Council Consultative Body

## Vnesheconombank Governance Bodies

The Supervisory Board composed of eight members and the Chairman of Vnesheconombank is the Bank's supreme governance body. The Russian Prime Minister is, ex officio, the Chairman of Vnesheconombank Supervisory Board. The Russian Government appoints members to Vnesheconombank Supervisory Board for a period of five years.

The Management Board of Vnesheconombank is the Bank's collective executive body. The Management Board includes the Chairman of Vnesheconombank, ex officio, and members of the Management Board appointed by a resolution of Vnesheconombank's Supervisory Board. The Chairman of Vnesheconombank directs the Management Board's activities.

The Chairman of Vnesheconombank is the Bank's sole executive body directing its day-to-day activities. The Russian President appoints the Chairman of Vnesheconombank (upon the recommendation of the Prime Minister) for a maximum term of five years.

#### The Governance Bodies' Performance in 2017

##### Vnesheconombank Supervisory Board

- > 21 meetings
- > 113 issues reviewed

##### Vnesheconombank Management Board

- > 369 meetings
- > 968 issues reviewed

##### Main Issues Reviewed by Vnesheconombank Governance Bodies in 2017

- > Credit and investment activities of the Bank
- > Finance activities of the Bank
- > Financial and guarantee export support
- > Equity participation in other companies and issues related to activities of Vnesheconombank's subsidiary banks and companies

In 2017, members of Vnesheconombank Supervisory Board received no remuneration. Vnesheconombank Supervisory Board approved the remuneration for the Management Board members based on the Bank-wide uniform requirements set forth in the Regulations on Vnesheconombank Payroll Scheme.

##### Remuneration to Vnesheconombank Management Board Members in 2017 (RUB, thousand)

Salary	333,141.57
Bonuses <sup>17</sup>	422,197.24
Financial aid	1,665.00

In 2017, attendance at meetings of Vnesheconombank Supervisory Board<sup>18</sup> and Management Board was 100%, except when the absence of Vnesheconombank Supervisory Board and Management Board members was due to business necessity or annual leaves.

<sup>17</sup> In June and August 2017, year-end 2016 bonuses were paid.

<sup>18</sup> See information on Vnesheconombank Supervisory Board decisions on the web-site at: <https://new.veb.ru/press-tsentr/?-god=2017&tip=1554>

<sup>16</sup> Federal Law "On Bank for Development": <https://new.veb.ru/files/?file=3858e0d69dccb2ade82dfd913032692.pdf>

## Members of Vnesheconombank Supervisory Board at 31 December 2017

### Dmitry Medvedev

Chairman of the Russian Government (Prime Minister) - Chairman of the Supervisory Board

- |   |   |
|---|---|
| > Andrey Belousov<br>Member of Vnesheconombank Supervisory Board, Presidential Aide                           | > Anton Siluanov<br>Member of Vnesheconombank Supervisory Board, Finance Minister of the Russian Federation                 |
| > Sergey Gorkov<br>Member of Vnesheconombank Supervisory Board, Chairman of Vnesheconombank                   | > Maxim Oreshkin<br>Member of Vnesheconombank Supervisory Board, Minister of Economic Development of the Russian Federation |
| > Arkady Dvorkovich<br>Member of Vnesheconombank Supervisory Board, Deputy Chairman of the Russian Government | > Alexander Khloponin<br>Member of Vnesheconombank Supervisory Board, Deputy Chairman of the Russian Government             |
| > Dmitry Kozak<br>Member of Vnesheconombank Supervisory Board, Deputy Chairman of the Russian Government      | > Igor Shuvalov<br>Member of Vnesheconombank Supervisory Board, First Deputy Chairman of the Russian Government             |

## Members of Vnesheconombank Management Board at 31 December 2017

Sergey Gorkov  
Chairman of Vnesheconombank

- |  |   |
|--|---|
| > Pyotr Zolotarev<br>Deputy Chairman of Vnesheconombank - Member of Management Board<br>*Appointed by Vnesheconombank Supervisory Board Resolution dated 27 July 2017        | > Sergey Lykov<br>Deputy Chairman of Vnesheconombank - Member of Management Board   |
| > Alexey Ivanchenko<br>Deputy Chairman of Vnesheconombank - Member of Management Board<br>*Appointed by Vnesheconombank Supervisory Board Resolution dated 2 March 2017      | > Mikhail Poluboyarinov<br>First Deputy Chairman of Vnesheconombank - Member of Management Board  |
| > Andrei Klepach<br>Deputy Chairman of Vnesheconombank (Chief Economist) - Member of Management Board  | > Nikolay Tsekhomskiy<br>First Deputy Chairman of Vnesheconombank - Member of Management Board  |
| > Dmitry Kurdyukov<br>First Deputy Chairman of Vnesheconombank - Member of Management Board<br>*Appointed by Vnesheconombank Supervisory Board Resolution dated 2 March 2017 | > Svetlana Yachevskaya<br>Deputy Chairman of Vnesheconombank - Member of Management Board<br>*Appointed by Vnesheconombank Supervisory Board Resolution dated 18 May 2017 |
|  | *New appointments to the Management Board of Vnesheconombank in 2017  |

In 2017, the following members of Vnesheconombank Management Board were relieved of their duties:

- > Yuliya Karpova  
by Vnesheconombank Supervisory Board Resolution dated 2 March 2017
- > Vladimir Shaprinsky  
by Vnesheconombank Supervisory Board Resolution dated 18 May 2017
- > Tatyana Sakharova  
by Vnesheconombank Supervisory Board Resolution dated 27 July 2017

## Collective Working Bodies under Vnesheconombank Supervisory Board

To efficiently meet its governance duties, Vnesheconombank Supervisory Board may form committees for preliminary consideration of issues within its competence. The committees are collective consultative bodies that have no governance functions. The committees provide Vnesheconombank Supervisory Board with opinions and recommendations on the issues under consideration, and make other decisions within their competencies. Vnesheconombank Supervisory Board appoints the committees' members and determines operation procedures.

In 2017, to enhance the efficiency of the corporate governance system, Vnesheconombank Supervisory Board formed two new committees:

Audit Committee designed to facilitate efficient control over Vnesheconombank's financial and business operations by the Bank's supreme collective body;

Strategy Committee monitoring the compliance of Vnesheconombank's loan portfolio with the priorities set.

## Collective Operating Bodies under Vnesheconombank Supervisory Board

Audit Committee	Established in 2017	Strategy Committee	Established in 2017
> FUNCTIONS Facilitate efficient control over Vnesheconombank's financial and business operations by Vnesheconombank Supervisory Board		> FUNCTIONS Form and update the Bank's development strategy; develop strategy efficiency guidelines; identify indicators/parameters/limits on priority investment areas; monitor the strategy progress	
> MEETINGS in 2017: 3		> MEETINGS in 2017: 3	
> MEMBERS Anton Siluanov, Finance Minister of the Russian Federation, Chairman of the Committee Sergey Gorkov, Chairman of Vnesheconombank Andrey Ivanov, Deputy Finance Minister of the Russian Federation		> MEMBERS Andrey Belousov, Aide to Russian President, Chairman of the Committee Maxim Akimov, First Deputy Chief of the Russian Government Staff	

Eldar Muslimov, Chief of the Russian President Aide Office  
 Maxim Oreshkin, Minister of Economic Development of the Russian Federation, Deputy Chairman of the Committee  
 Nikolay Tsekhomskiy, First Deputy Chairman of Vnesheconombank - Member of Management Board

Sergey Gorkov, Chairman of Vnesheconombank  
 Denis Manturov, Minister of Industry and Trade of the Russian Federation  
 Maxim Oreshkin, Minister of Economic Development of the Russian Federation  
 Anton Siluanov, Finance Minister of the Russian Federation  
 Maxim Sokolov, Minister of Transport of the Russian Federation

#### HR and Remuneration Committee

##### > FUNCTIONS

Address HR and remuneration issues regarding members of Vnesheconombank Management Board, Deputy Chairmen of Vnesheconombank who are not members of Vnesheconombank Management Board, heads of structural units and subsidiaries of Vnesheconombank

##### > MEETINGS in 2017: 7

##### > MEMBERS

Alexander Khloponin, Deputy Chairman of the Russian Government, Chairman of the Committee:  
 Andrey Belousov, Aide to Russian President  
 Sergeu Gorkov, Chairman of Vnesheconombank  
 Andrey Ivanov, Deputy Finance Minister of the Russian Federation  
 Eldar Muslimov, Chief of the Russian President Aide Office  
 Maxim Oreshkin, Minister of Economic Development of the Russian Federation  
 Valeriy Sidorenko, Director of the Russian Government Department of Economics and Finance  
 Andrey Ulanov, Chief of Staff of Deputy Chairman of the Russian Government

#### Working Group to Review Materials for Vnesheconombank Supervisory Board Meetings

##### > FUNCTIONS

Negotiate the agenda of scheduled meetings of Vnesheconombank Supervisory Board; provide recommendations to Vnesheconombank Management Board regarding issue finalization and eligibility for consideration by the Supervisory Board meetings

##### > MEETINGS in 2017: 24

##### > MEMBERS

Maxim Akimov, First Deputy Chief of the Russian Government Staff, Head of the Working Group  
 Yuriy Gazaryan, Deputy Chief of Staff of the First Deputy Chairman of the Russian Government  
 Andrey Ivanov, Deputy Finance Minister of the Russian Federation  
 Eldar Muslimov, Chief of the Russian President Aide Office  
 Vasiliy Osmakov, Deputy Minister of Industry and Trade of the Russian Federation  
 Mikhail Poluboyarinov, First Deputy Chairman of Vnesheconombank - Member of Management Board  
 Valeriy Sidorenko, Director of the Russian Government Department of Economics and Finance  
 Azer Talybov, Deputy Minister of Economic Development of the Russian Federation  
 Alexey Uvarov, Director of the Russian Gov-

## Collective Working Bodies of Vnesheconombank

Vnesheconombank Management Board and Chairman may establish committees, commissions, and other collective working bodies tasked with preliminary consideration and preparation of materials and taking decisions on issues within the competencies of Vnesheconombank executive governing bodies. Vnesheconombank collective working bodies provide executive bodies with opinions and recommendations on issues under consideration, and take other decisions within their competencies. Operation procedures and membership of collective working bodies are determined by Vnesheconombank executive governing bodies.

### Vnesheconombank Collective Working Bodies

#### Management Committee

##### Key Functions:

Improve efficiency of corporate governance and coordinate activities of Vnesheconombank independent structural units and officials; reach appropriate managerial decisions on strategic and institutional development and business planning; shape basic business policies and operational procedures  
 Business Continuity Management Committee (established in 2017)

##### Key Functions:

Improve business resilience and continuity management

#### Risk Management Committee

##### Key Functions:

Support the Bank's governance bodies regarding risk management by the Bank and its entities

#### Credit Committee

##### Key Functions:

Review the proposals from the Bank's independent structural units / Agile Team Coordinator and decide on financing investment, export and other projects (transactions) on a repayable basis and (or) by participating in companies' equity or managing the Bank's loan portfolio and credit risk; determine the interest rates and collateral requirements  
 Subcommittee on Proactive Response to Vnesheconombank Debtors' Insolvency (Bankruptcy) (established in 2017)

##### Key Functions:

Make a list of self-regulatory organizations of insolvency receivers to be selected by the Committee for consideration by the creditors' meeting with subsequent approval by a court;

#### Investment Development Committee

##### Key Functions:

Approve/deny/return for finalization the concept and business model of an investment or export project based on the results of the preliminary expert examination; decide on the possibility of financing the National Technological Initiative project on a repayable basis; consider the project's eligibility for the Bank expert examination

#### Budget Committee

##### Key Functions:

Form opinions and recommendations for the Bank's governance bodies on budget planning and control over the Bank's financial activities

#### VEB Group Security Committee

##### Key Functions:

Support the Bank's governance bodies and subsidiaries in ensuring VEB Group stable operation and sustainable development in a hostile external and internal environment

#### Distressed Asset Management Committee

##### Key Functions:

Organize a systematic and efficient treatment of bad debts and distressed assets; enhance the efficiency and quality of bad debt and distressed asset settlement procedures; make recommendations to the Bank's governance bodies on approving transactions designed to settle bad debts and manage distressed assets

#### Asset and Liability Management Committee

##### Key Functions:

Form opinions and make recommendations for the

include the self-regulatory organization of insolvency receivers in or exclude it (temporarily or completely) from the list; identify voting issues at the meetings of debtors' creditors; quickly respond to other issues arising in the course of debtors' insolvency (bankruptcy) proceedings

Process and Technology Management Committee

Key Functions:  
Draw up and implement uniform approaches and principles of project management; improve the Bank's business processes; launch up-to-date IT technologies

Working Group to Coordinate Public Borrowings by Subsidiary Banks and Companies

Key Functions:  
Support the Bank's subsidiaries and companies by forming opinions and recommendations on fundraising and determining the fundraising key parameter

Bank's governance bodies on of asset and liability management, including management of Vnesheconombank's market and structural risks, and the Bank's breakeven operation

Vnesheconombank Subsidiary and Affiliate Management Committee

Key Functions:  
Comprehensively consider and take decisions on activities of the Bank's subsidiaries and affiliates

Strategic Development Committee  
Key Functions:  
Consider the issues of the Bank's strategic development; assist the Bank's Management Board in taking justified and efficient strategic decisions aimed at enhancing the Bank's effectiveness on a long-term horizon

Working Group to Coordinate Liquidity and Risk Management at Subsidiary Banks and Financial Companies

Key Functions:  
Coordinate VEB Group's activities to manage liquidity and risks in VEB Group in a coherent manner; ensure efficient management of assets, liabilities and risks in VEB Group

## Vnesheconombank Audit System

The functions of internal audit are performed by Vnesheconombank Internal Control Service (ICS) reporting directly to Vnesheconombank Supervisory Board and to Vnesheconombank Chairman in terms of day-to-day activities. Such procedure ensures independent and efficient performance by ICS of its control functions. In 2017, Vnesheconombank's Supervisory Board reviewed the ICS reports on a quarterly basis.

VEB's annual financial statements are subject to independent audit by independent auditors selected through a bidding procedure and approved by Vnesheconombank Supervisory Board. LLC Ernst & Young was selected through bidding procedures to audit VEB's financial statements for 2017, with the amount of audit remuneration totaling RUB 7,498,900.

## Vnesheconombank Expert Council

The Expert Council is VEB's advisory body, which performs an in-depth scientific analysis and prepares proposals on the core business lines of the bank for development, thus allowing the Bank's governance bodies to make carefully weighed and scientifically valid decisions. The Expert Council comprises leading figures from academic and expert community.

In 2017, Vnesheconombank significantly transformed both the membership and work procedures of the Expert Council striving to create an authoritative discussion platform within the Council to offer recommendations on successful implementation of the VEB Development Strategy 2021 and strengthen the role of the Expert Council in promoting the Bank's stance and projects in government bodies and business environment. The first meeting of Vnesheconombank's reshuffled Expert Council was hosted by the Vnesheconombank blockchain commune in December 2017.<sup>19</sup>

### Expert Council Performance in 2017

In 2017, Vnesheconombank Expert Council held three sessions to discuss

- > Prospects of the Russian Economy and Vnesheconombank's Development Assistance
- > New Mechanisms for Project Finance
- > Digital Economy and Innovation

In 2017, Vnesheconombank approved the new membership of Expert Council for 2017-2018

- > The reshuffled Expert Council included 23 experts with a broad range of competencies in priority areas of the Bank's investment activities, including 12 new members of the Council
- > Andrei Sharonov, President of the Moscow School of Management Skolkovo, became the Chairman of the Expert Council, and Yevgeny Yasin, Head of the Higher School of Economics National Research University, became the Honorary Member of the Expert Council

## 7.2 Vnesheconombank Company Management

### Goals, Objectives, and Principles of Management of VEB Group Companies

In 2017, Vnesheconombank paid particular attention to improving the quality of management and control over its subsidiaries as provided for by the VEB 2.0 Strategy

Vnesheconombank Legal Entity Management Policy 2017 pursues the objectives set out in VEB Strategy

- |  |  |  |
|--|--|--|
| <ul style="list-style-type: none"> <li>&gt; Strengthen control over Vnesheconombank companies</li> <li>&gt; Reduce costs by sharing resources</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Facilitate functional integration, including multiobjective optimization for improved management of risks, liquidity, personnel, processes and technologies</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Implement the synergy initiatives and disseminate best practices and knowledge</li> <li>&gt; Enhance the efficiency of VEB subsidiaries and their commitment to achieving results</li> </ul> |
|--|--|--|

<sup>19</sup> Detailed information on the activities of Vnesheconombank Expert Council at: <http://veb.ru/about/adv/#about>

**When implementing the Legal Entity Management Policy, the Bank combines centralized and functional management and applies the principle of stewardship**

**Centralized management**

Vnesheconombank develops and implements uniform standards and methodologies, and coordinates the functional management in the VEB companies

Vnesheconombank introduces a communication one-stop-shop, develops and monitors the implementation of strategies and business plans by subsidiaries or affiliates, sets the performance goals and monitors their achievement, agrees key resolutions on subsidiaries or affiliates, and approves the CEO's nominees

**Functional Management**

The principle embraces all functional areas relating to Vnesheconombank's strategic companies that perform business functions key for the Bank's strategy, and have the synergy potential

The principle involves such functional areas as business, finance, strategy, security, legal support, and risks relating to the Bank's non-strategic companies that may lose their VEB Group corporate status or should prove their significance within the VEB Group

**Efficiency Improvement Measures for VEB Group Companies Management in 2017**

- > New development strategies for Vnesheconombank's key companies
- > Internal statutory documents to regulate VEB Group performance in corporate governance, funding and pricing of group transactions, investment process, functional management, etc.
- > Elaborated process of business planning, goal setting for subsidiaries and affiliates and control over goal implementation
- > Personal goals of VEB Group CEOs included into the incentive programme
- > Face-to-face meetings of supervisory boards/boards of directors of VEB Group companies on a quarterly basis
- > A shared service company of VEB Group to centralize a number of support functions, including administrative and maintenance support, accounting, information technology, HR management, etc.
- > Management reporting on VEB Group companies on a weekly, monthly and quarterly basis
- > Centralised corporate support for all VEB equity investments
- > Improved performance by VEB-Leasing and meeting the regulators' requirements on capital maintenance and mandatory standards compliance by VEB Group companies

## 7.3 Risk Management

In 2017, Vnesheconombank placed special attention to further developing its risk management system as a central pillar of its new business model and the VEB 2.0 Strategy. The Strategy gives special emphasis to risk management functions, particularly with respect to the unique portfolio of risks related to the Bank operating as a development institution. Furthermore, the Strategy identifies the main risks and risk management tools.

Pursuing the Strategy, Vnesheconombank has developed a target risk management model, which is sensitive to the conditions affecting the Bank's liquidity, capital and return on distressed assets. Seeking to boost the efficiency of its risk management system, Vnesheconombank stepped up the efforts to develop uniform approaches to the risk management across VEB Group, and to create risk culture among the Group employees.

VEB Group bases its risk management system on the principle of unity and continuity of processes. It represents a complex of methodological, organizational and IT measures to ensure financial sustainability of the Group. VEB Group's Risk Management Policy sets the main goals, objectives, principles and the procedure for risk management within the Group. The Policy provides for ongoing risk identification, evaluation and monitoring, as well as measures to mitigate such risks.

The Group's overall risk management is the responsibility of the Bank's management and collective bodies, i.e. Supervisory Board, Management Board, Management Committee, Business Continuity Committee, and Risk Management Committee. The management of the VEB Group companies take decisions in compliance with the requirements, policies, standards and limitations approved by the Bank's collective bodies. Any regulatory documents governing risk management at the Group companies are subject to prior approval by the respective structural subdivisions of VEB.

The Risk Directorate is a coordinating executive body at VEB Group in terms of risk management. The objective of this independent structural unit of the Bank is to ensure the Bank's adequate reliability and financial stability and coordinate risk management across the Group in accordance with the requirements of the supervisory and regulatory authorities, and international standards on banking risk management.

### VEB Group Risk Management System: Priority Development Areas

- > A uniform risk management system at VEB Group with three-level protection: at business units, risk management units, and control units
- > A uniform investment process at VEB and risk assessment and control standards at all stages
- > A uniform system of limits on products and groups of related borrowers
- > Risk appetite for key indicators; advanced risk metrics (economic capital, etc.)
- > More extensive expertise on bank book risks; elimination or hedging of asset and liability currency mismatch risks; interest and liquidity risk management
- > More efficient market risk control tools
- > Uniform risk management standards across VEB Group



### Enhancing risk management procedures

- > Introduction of Operational Risk Management Standard: internal regulations of the Bank subsidiaries and affiliates on joining the Standard approved; plans to introduce the Standard at subsidiaries and affiliates developed and approved
- > Approaches to consistent automation of operational risk management and creation of an operational risk management automated system developed; system implementation project devised and launched

### Enhancing information systems

- > Online platform to select investment projects as part of the regional model launched
- > First stage of the project, Vnesheconombank's Investment Process Improvement underway
- > Requirements to credit risk limit accounting and control system developed
- > Transition to VEB's new automated banking system arranged  
Fostering risk culture
- > All employees of the Bank Distance trained (on a remote basis) in collecting data on operational risk events

## Developing Risk Management System in 2017

### Methodological support

- > Regulations on Investment Project Evaluation within Unified Investment Process approved
- > Regulations on VEB Credit Policy approved
- > Procedure for Classifying VEB Counterparties as Related Borrowers approved
- > Procedure for Calculating Open Foreign Currency Positions Based on IFRS Financial Statements approved
- > Procedure for Maintaining VEB Risk Register approved
- > Standard for VEB Group's Liquidity Risk Management approved
- > To comply with VEB Group Liquidity Risk Standard, subsidiaries developed/updated in-house regulation on liquidity risk management as approved by VEB
- > VEB Group financial soundness indicators developed
- > Regulations on VEB Business Continuity Management Committee approved
- > Regulations on VEB Risk Management Committee approved
- > Procedure for Risk Appetite Identification and Control developed

### Risk-based analysis of business lines

- > Expert evaluation of operational risks across VEB structural subdivisions
- > Operational risk information collected and reviewed on a regular basis

### Organizational measures

- > VEB Committee on Continuous Business Management established, its composition determined
- > Composition of VEB Risk Management Committee determined

## Risk Management within VEB Business Model

### Project Finance Risks

- > Project finance risk  
Long-term project finance, early stage project support
- > Credit risk  
Financing for SPV companies
- > Industry risk  
Priority industries for investment in compliance with VEB 2.0 Strategy

### Mechanisms to Improve Risk Management Efficiency

- Single investment process, ensuring the best quality of the project elaboration
- Specialized models to evaluate risks of the project, the borrower and project portfolios
- Establishment of the system for monitoring the status of key industries and the system of industry-specific limits
- Special project oriented monitoring
- Procedures for the project individual support
- Active control of deviations during the project implementation
- Improving the system of limits and other credit risk restrictions
- Procedures for the financial monitoring of the borrower

### Risks Associated with Export Promotion

- Country risk  
Priority industries for investment in compliance with VEB 2.0 Strategy
- Sovereign risk  
Foreign state guarantees and other tools to cover credit risk
- Credit risk  
Financing foreign buyers and buyers' banks

### Mechanisms to Promote Risk Management Efficiency

- Building on expertise in country risk assessment, and upgrading the relevant limit system
- Specialized sovereign risk assessment models, and setting sovereign credit risk limits
- Building on expertise in counterparty assessment in foreign countries
- Setting country limits
- Setting limits and restrictions

### Risks Associated with Operations of VEB as a Development Financial Institution

Operational risk (including legal and compliance risks) Complexity and scale of Vnesheconombank's operations	Liquidity risk High concentration of assets and liabilities, and the need to find new sources of funding to replace the external debt and control differences in the terms of attraction and placement	Currency risk A substantial amount of obligations to foreign lenders, special purpose projects, and loan impairment	Interest risk Focus on long-term financing with limited opportunity of market-based capital raising for the relevant terms
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#### Mechanisms to Improve Risk Management Efficiency

Introduction of a proactive systematic approach to operational risk management at VEB	Development of approaches to evaluate risk factors, which may adversely affect VEB liquidity; financial planning procedures accounting for liquidity risks	Development of an application strategy for asset and liability currency structure hedging and restructuring tools	Improvement of approaches to evaluation and limitation of interest risk assumed
Introduction of Standard for Operational Risk Management at in the VEB Subsidiaries and Affiliates	Transition to consolidated management of liquidity at VEB Group		Estimation of economic capital required to cover interest risk
Delivery of a project to create an automated operational risk management system			

### Risks Associated with Liquid Asset Portfolio Management

Market risk Limitation of loss risks due to adverse fluctuation of market prices for financial instruments	Counterparty credit risk in financial markets Limitation of credit risk on transactions in financial markets
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#### Mechanisms to Improve Risk Management Efficiency

Modernization of the system of limits, in particular, establishing portfolio restrictions and eliminating high risk instruments	Strict requirements to counterparty credit quality and setting respective limits
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#### Distressed Asset Management

Risks associated with asset quality deterioration  
Enhancing distressed asset management at VEB and across the Group

#### Mechanisms to Improve Risk Management Efficiency

Creation of a system to identify potentially distressed assets and take preventive actions  
Strategies to deal with each distressed asset based on the Recovery Rate  
Identification and management of deviations at every stage of project implementation

## 7.4 HR Policy

“To be efficient, we change ourselves. We need a strong, reliable and professional team with every player focused on corporate values, leadership and high results.”

Sergey Gorkov  
Chairman of Vnesheconombank in 2016-2018

Vnesheconombank's HR policy is aimed at efficient accomplishment of its strategic goals by the employees, human capital development, and promotion across the Group of the corporate values developed in 2016 together with the employees<sup>20</sup>. Upholding corporate values is an integral part of the revamped Bank's corporate culture of over-achievements required to transform the Bank.

Vnesheconombank's HR policy promotes Sustainable Development Goals:

**3 GOOD HEALTH AND WELL-BEING**

**4 QUALITY EDUCATION**

**5 GENDER EQUALITY**

Pursuing its strategy, the Bank introduced in 2017 a new staff remuneration and incentive system, and a new approach to the employee development, which is central to the introduction of the HR system, The Five Success Keys to Team Development. Seeking to automate its business processes, in 2017, the Bank started transition to a new HR system, BOSS-HR Manager, which is to be introduced in 2018 for personnel record keeping and payroll accounting.

In 2017, the Bank proceeded with its new organizational structure drawing on foreign development banks' experience and taking into account the priorities of VEB as the national development institution. Organizational changes in the Bank's structure aim to develop new competencies in compliance with goals and objectives of the VEB 2.0 Strategy. At the same time, the Bank sought to improve operational efficiency, in particular, by reducing the number of management layers, building an end-to-end investment process, and introducing cross-functional agile teamwork on projects.

In creating a new organizational structure, the Bank focuses on the centralization of functions across both the Bank and VEB Group. An important step in this direction was the establishment in 2017 of VEB-Service as a shared service centre for VEB Group. VEB Service will serve as the basis for the centralization of certain back office functions, including legal and accounting support, administrative and IT support, procurement and HR management. In 2018, the Bank also intends to integrate the Group companies into a single HR ecosystem of VEB.

### Changes in the Bank Personnel Structure

By the end of 2017, Vnesheconombank headcount decreased by 97 employees to amount to 1,814 employees. In 2017, 525 new employees joined the Bank, and 613 employees quit. In 2017, Bank registered a staff turnover rate of 34%, which is an increase on the previous year (22%).

A high staff turnover rate in 2017 was due to the Bank's efforts to build a new organizational structure complying with the goals and objectives of the VEB 2.0 Strategy. Furthermore, an increase in the turnover rate growth also resulted from some of the Bank's employees' transition to VEB-Service established in 2017.

<sup>20</sup> Corporate values at: <https://new.veb.ru/about/missiya/>

The Bank implemented headcount optimization measures in strict compliance with the Russian laws, and made all mandatory payments to the redundant employees. Labour inspection conducted in 2017 in the wake of a collective complaint from former employees revealed no breach of the regulatory requirements.

## Changes in VEB Group Personnel Structure

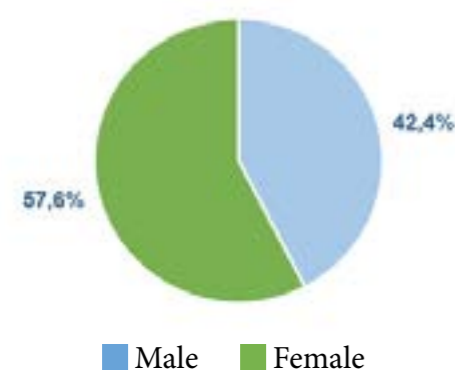
By the end of 2017, VEB Group headcount was 13,435.<sup>21</sup> In 2017, VEB Group recruited 3,606 new employees, and discharged 3,994. In 2017, the Group's staff turnover rate stood at 30% against 26% in the previous year.

In 2017, the most significant downsizing took place at Prominvestbank, Sviaz Bank and Globexbank with the staff turnover reaching 30%, 34% and 49%, respectively. The Group also recorded a high level of staff rotation in a number of its companies (VEB-Leasing, FCPF and VEB Engineering, by way of example), whose priority business lines were adjusted due to their integration into the VEB 2.0 Strategy.

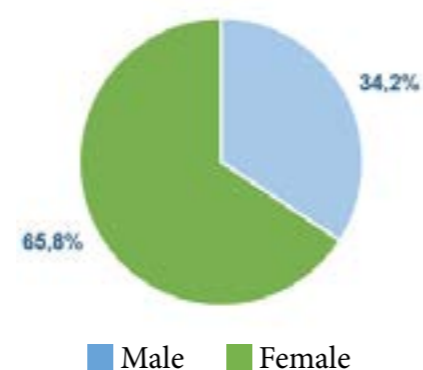
In 2017, VEB Group registered 19 complaints from its employees concerning labour relations, and 18 individual labour disputes. In most cases, such complaints were caused by redundancy dismissal, bonus payments and wage indexation. All complaints and disputes were resolved in accordance with the Russian laws.

## Personnel Structure, by Gender<sup>22</sup>

### Vnesheconombank



### VEB Group



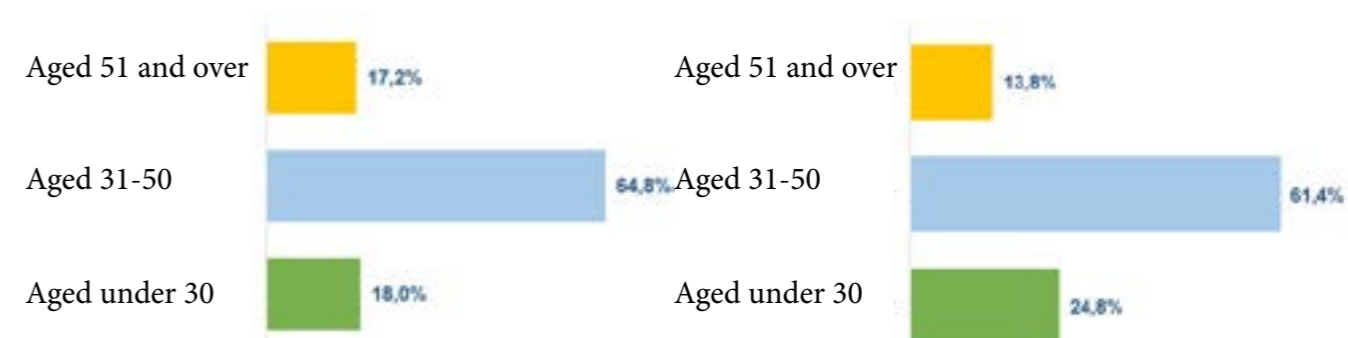
<sup>21</sup> VEB Group personnel structure by contract type, employment pattern, employee category and gender is described in Appendix 4. Labour turnover in VEB Group by gender and age is reflected in Appendix 5. Data on the employees who returned in 2017 from maternity and/or childcare leave, and on those who stayed with the Bank after the maternity and/or childcare leave, by gender are given in Appendix 6.

<sup>22</sup> Year 2017 saw no significant changes in the Bank and VEB Group's personnel structure by gender and age as compared to 2016

## Personnel Structure, by Age

### Vnesheconombank

### VEB Group



## Corporate Communications

In 2017, the Bank engaged in building a shared cloud platform for corporate communications to ensure immediate access to the latest news about the team's activities. The year 2017 witnessed the launch of a new corporate website, corporate TV, and online social group for the Bank employees, VEB Constellation, on the Vkontakte social network. Operating under the VEB Life brand name, they have become VEB Group's main information platforms. Still another important aspect of the corporate culture includes regular open meetings between VEB Group employees and Vnesheconombank Chairman and other top managers.

In 2017, Sviaz-Bank and Bank BelVEB conducted an integrated employee satisfaction survey. The results revealed the 67% employee satisfaction level at Sviaz-Bank and the 71.3% employee engagement level (within the performance zone) at Bank BelVEB. Globexbank, Bank BelVEB, VEB-Leasing, VEB Engineering, FCPF, and the Far East and Baikal Region Development Fund held meetings for the employees and the management

### VEB Corporate Events in 2017

#### Corporate Meetings

- > A meeting between VEB Group CEOs and employees in the Skolkovo Innovation Centre
- > A meeting between VEB Group CEOs and employees to discuss the 2017 results

#### Corporate special events

- > The Family Day at VEB Arena Stadium in the run-up to a new school year
- > 130 top managers of the Bank climbed the Tabunnaya mountain (2,351m) as part of a strategic session in Sochi

#### Educational Events

- > Lecture entitled 'The Future Belongs to Non-commodity Economy' by the Russian scientist V.I. Danilov-Daniliyan
- > Lecture entitled 'Nature-Like Technologies: New Opportunities and New Challenges' by M.V. Kovalchuk, President of the Kurchatov Institute
- > Lecture entitled 'Memory Improvement Mechanisms' by Nikita Petrov, Senior Associate at the School of Studies in Liberal Arts (RANEPA)

> What? Where? When? corporate game held at the initiative of VEB's Club of Heroes

> New Year's Day event for the VEB employees' families in Skazka park

**Sport and Wellness**

> VEB Group team competed in the Hero Race at the Alabino military training ground

> VEB Group team ran the Moscow Semi-Marathon

> The Shaolin Monastery Day where representatives from the Master Shi Yanbin's School shared secrets of healthy lifestyle in Chinese medicine and philosophy

> Group classes at the Bank's Yoga Studio

> Lecture entitled 'Me: 2.0' by Andrei Sharonov, Rector of the Moscow School of Management, Skolkovo

> Lecture entitled 'Japanese Thinking and GO Game' by Mikhail Emelyanov, Dean of the Russian School of GO and Strategy

> Lecture entitled 'Art Styles and Genres' by Natalia Ignatova, Art Historian

> Excursion to discover architectural landmarks from the VEB premises to the Kransniye Vorota square

**Family Events**

> Saturday guided visits to Moscow museums for the employees' children as part of the VEB to Children project

> Summers holidays for employees' children at the National Children's Centre, Orlyonok

> Lecture entitled 'How Can We Help a Child to Develop?' by Irina Mlodik, child psychologist

## Remuneration Scheme

In 2017, Vnesheconombank's Supervisory Board approved a new remuneration and incentive scheme complying with the best international and Russian practices. The new system is designed to motivate employees to achieve and go beyond their goals, and to promote corporate values. Employee appraisal takes into account to key indicators: performance and competence. It allows assessing employees' personal contribution to the implementation of VEB Strategy, and enables each employee to influence his or her earnings.

To switch to its new system, in 2017, the Bank approved the regulations on the procedure for evaluating employees, and on the remuneration scheme. The Bank also issued new job descriptions and conducted job grading based on the STRATA international methodology. A switch to the new system was accompanied by an information campaign allowing the employees to find out more about its terms and conditions and obtain to any questions they could have.

Vnesheconombank's incentive scheme provides for non-financial incentives for the most distinguished employees awarded with corporate badges. In 2017, 234 VEB employees received Vnesheconombank Chairman's Letter of Gratitude for their contribution to the development of VEB Group; 33 employees were awarded Vnesheconombank's lapel badge "For Excellence"; 15 employees were named Best Employee of the Year. Furthermore, two employees of VEB Group companies received a special award, Challenge of the Year.

### Principles of the Bank's New Personnel Evaluation and Payroll System

Focus on VEB's strategic goals and objectives	Impartiality
Employee evaluation based on VEB 2.0 Strategy goals, objectives and priorities	The evaluation procedure is based on objective criteria of professional and personal competencies, and the employees' potential, merits, achievements and ability to professionally and efficiently accomplish the goals set
Compliance with laws, and moral and ethical principles	Confidentiality
Employee evaluation in strict compliance with the Russian laws, and moral and ethical principles	Employee evaluation is conducted subject to confidentiality and non-disclosure provisions of the Russian laws on personal data protection

### Feedback

The employee evaluation procedure provides for each employee of the Bank to be informed of the evaluation results and the immediate superior's opinion on the employee's performance, achievements, and compliance with the competence model

### Transparency

Each employee may obtain information about the evaluation goals, methods and criteria, and application of the results

### VEB Group Employees Evaluated in 2017

VEB Group Employees Evaluated in 2017		
<b>Vnesheconombank</b> Managers - 69.3% Male - 65.8% Female - 74.7% Specialists - 74.8% Male - 70.2% Female - 77.3% Technical staff - 77.1% Male - 93.1% Female - 67.7%	<b>VEB Group companies</b> Managers - 6.7% Male - 7.2% Female - 6.2% Specialists - 20.2% Male - 20.3% Female - 20.2% Technical staff - 1.2% Male - 1.7% Female - 0%	<b>VEB Group</b> Managers - 18.7% Male - 21.0% Female - 16.3% Specialists - 26.3% Male - 26.9% Female - 26.0% Technical staff - 26.0% Male - 20.1% Female - 34.9%
<b>Sviaz-Bank</b> Managers - 8.8% Specialists - 0.2%	<b>Bank BelVEB</b> Managers - 2.9% Specialists - 82.7%	<b>Prominvestbank</b> Managers - 0.6%
<b>REC Group</b> Managers - 73.9% Specialists - 64.0%	<b>FEDERAL CENTRE FOR PROJECT FINANCE</b> Managers - 60.0% Specialists - 83.6%	<b>Far East and Baikal Region Development Fund</b> Managers - 91.7% Specialists - 51.1% Technical staff - 100%

## Personnel Training

Training programmes run by the Bank and the Group companies include both legally obligatory courses on core business lines of financial institutions, and additional training, in particular, in individual development, computer literacy and foreign language knowledge. A special focus is placed on the efficiency of training programmes and their focus on the employees' personal skills and professional competencies required to achieve the strategic goals facing VEB Group.

In 2017, the Bank ran performance management training course for the managers, and launched a comprehensive programme on investment analysis. The Bank's employees took part in such training programmes and seminars as 'Project Finance Factory and Syndicated Lending Specifics', 'Transition to IFRS 9 (Financial Instruments)', 'Financing Vnesheconombank's Projects from the National Welfare Fund', etc., as well as trainings in design thinking, energy efficiency project finance, and procurement.

To assess the efficiency of training, the Bank conducted regular surveys among the participants. VEB Group companies with a large headcount, including Sviaz-Bank, Globexbank, Bank BelVEB, Prominvestbank, VEB-Leasing, REC Group, and the Far East and Baikal Region Development Fund, also have the respective assessment mechanisms in place to evaluate the efficiency of their educational programmes. In particular, these include questionnaire surveys and employee testing based on the training results, as well as individual interviews to assess the employees' training needs and obtain feedback.

<b>Specialists - 15.96</b> Male - 21.32 Female - 12.89 (2016: 22.61)	<b>Specialists - 14.58</b> Male - 13.31 Female - 15.08 (2016: 11.77)	<b>Male - 14.44 Female - 14.85</b> (2016: 12.59)
<b>Technical staff - 5.76</b> Male - 4.39 Female - 6.56 (2016: 18.89)	<b>Technical staff - 1.83</b> Male - 2.54 Female - 0.05 (2016: 5.09)	<b>Technical staff - 3.11</b> Male - 2.91 Female - 3.41 (2016: 8.89)

<b>Sviaz-Bank</b> Managers - 30.44 Specialists - 19.32	<b>Bank BelVEB</b> Managers - 34.79 Specialists - 23.63 Technical staff - 3.11	<b>REC Group</b> Managers - 6.52 Specialists - 2.24
<b>GLOBEXBANK</b> Managers - 7.89 Specialists - 6.95 Technical staff - 2.48	<b>Prominvestbank</b> Managers - 5.37 Specialists - 2.61 Technical staff - 2.59	<b>VEB Engineering</b> Managers - 6.00 Specialists - 3.79
<b>FCPF</b> Managers - 45.08 Specialists - 15.84	<b>VEB-Leasing</b> Managers - 23.00 Specialists - 17.02	<b>VEB Capital</b> Managers - 13.67 Specialists - 4.60
<b>Monotowns Development Fund</b> Specialists - 0.62	<b>Far East and Baikal Region Development Fund</b> Managers - 35.25 Specialists - 22.02	

### Training for VEB Group Employees in 2017

<b>Vnesheconombank</b> Training costs - RUB 13.9 million Number of employees trained - about 1,500	<b>VEB Group subsidiaries</b> Training costs - RUB 37.4 million Number of employees trained - about 9,000	
<b>Training to Increase Marketability</b>		
<b>Vnesheconombank</b> > Improving personal competencies - 1,200 employees > Foreign languages - 7 employees > Computer literacy - 309 employees > Higher education - 6 employees	<b>VEB Group subsidiaries</b> > Improving personal competencies - over 1,000 employees > Foreign languages - 12 employees > Computer literacy - 36 employees	
<b>Average Training Hours per Employee in 2017</b>		
<b>Vnesheconombank</b> Managers - 29.74 Male - 24.20 Female - 38.67 (2016: 33.00)	<b>VEB Group companies</b> Managers - 22.59 Male - 21.31 Female - 23.74 (2016: 16.70)	<b>VEB Group Managers - 23.96</b> Male - 21.99 Female - 25.94 (2016: 22.18) <b>Specialists - 14.74</b>

### Social Programmes for VEB Employees in 2017

#### Voluntary Health Insurance schemes

Vnesheconombank's expenses - RUB 207.8 million  
Annual limit of costs per employee - RUB 41,800  
3,123 employees ensured under VHI scheme, including 706 employees' children, 265 employees' family members (in particular, with payments out of personal funds), 457 retired members of Vnesheconombank's Labour Veteran Council

#### Insurance

1,532 employees obtained insurance for travelling abroad  
101 employees got motor vehicle insurance

#### Motherhood and childhood

Vnesheconombank's expenses - RUB 41.5 million  
101 employees benefited from VHI schemes 'Prenatal Care' and Obstetrics  
230 employees received childbirth and maternity leave benefits, and benefits for parents with multiple children

#### Recreation and health resorts

Vnesheconombank's costs - RUB 4.8 million  
Two employees received medical rehabilitation treatment

64 retired members of Vnesheconombank's Labour Veteran Council received health resort treatment  
The Bank reimbursed for 52 employees' expenses related to children's summer holidays

#### Financial aid

Total financial aid worth RUB 58.9 million was provided to 585 employees and members of Vnesheconombank's Labour Veteran Council

#### Sports

202 employees obtained special rate membership cards of X-Fit and World Class fitness clubs

### Vnesheconombank's Pension Plans in 2017

#### Personified pension plan

VEB pays monthly contributions to Vnesheconombank's occupational pension fund to individual retirement accounts of employees who have been working with the Bank for over one year. To qualify for the pension, employees must have reached retirement age and worked with the Bank for at least 5 years

- > At year-end 2017, 2,061 employees had the occupational pension plan
- > Occupational pension averaged RUB 19,495
- > Vnesheconombank's expenses - RUB 346.3 million

#### Pay-as-you-go pension plan

A plan for retired members of Vnesheconombank's Labour Veteran Council operates in compliance with an occupational pension plan agreement with Vnesheconombank

- > At the end of 2017, 481 employees were beneficiaries of the plan
- > Occupational pension averaged RUB 15,392

### Bank BelVEB's Pension Plan in 2017

#### Supplementary pension corporate insurance scheme

The bank makes monthly insurance payments for the employees over the age of 46 (men) and 41 (women). To qualify for the insurance benefit, employees must have reached retirement age and worked with the bank for at least 3 years.

- > Bank BelVEB's expenses - RUB 45.6 million
- > At the end of 2017, 715 employees were beneficiaries of the scheme

### Social Programmes for VEB Group Subsidiaries Employees in 2017

#### Voluntary health insurance schemes

Expenses - RUB 129.6 million

Annual limit of costs per employee - RUB 24,700 to 191,300

4,484 ensured under VHI scheme, including 96 employees' children and 195 employees' family members (in particular, with payments out of personal funds)

#### Insurance

Expenses - RUB 289.6 million

388 employees got travel insurance, personal property insurance, and motor vehicle insurance

#### Financial aid

2,874 employees of the Group companies and 397 retirees of Bank BelVEB received RUB 250.7 million in financial aid

#### Motherhood and childhood

Expenses - RUB 53.5 million

1,904 employees with children received financial support

#### Recreation and health resorts

At Bank BelVEB, some 100 employees and their children received medical rehabilitation treatment out of the State Social Insurance and Trade Union Committee funds

Sviaz-Bank reimbursed 115 employees for their vacations in Crimea for the total of RUB 3.7 million

#### Sports

Expenses - RUB 12.4 million  
More than 2,300 employees took part in sports events

GLOBEXBANK  
Prominvestbank  
FCPF  
Monotowns Development Fund

Sviaz-Bank  
Bank BelVEB  
VEB-Leasing  
VEB Service

REC Group  
VEB Engineering  
VEB Capital  
Far East and Baikal Region Development Fund

## Labour Safety

VEB Group operates in strict compliance with the Russian occupational health and safety laws. In 2017, all companies of VEB Group held induction and regular briefings, and gave HSE tests to employees. Over 10,800 employees of VEB Group took part in various HSE trainings. Furthermore, Globexbank and the FCPF held emergency response training.

In 2017, VEB Group, in particular, Sviaz-Bank, Globexbank, VEB-Leasing, REC Group, FCPF, and Monotowns Development Fund checked 2,335 job places for labour conditions. No cases of occupational diseases<sup>23</sup> were registered across VEB Group in 2017. Globexbank had one case of an on-the-job injury followed by an internal investigation and an extra briefing for occupational health and safety officers.

## 7.5 Anti-Corruption

Vnesheconombank and VEB Group observe the Russian federal anti-corruption laws, Presidential decrees, government Resolutions, and other statutory anti-corruption regulations. Furthermore, Vnesheconombank and VEB Group employees perform their professional duties in compliance with the Code of Ethics and Professional Conduct.

For higher efficiency of its anti-corruption policy, the Bank regularly updates the internal regulatory framework to capture any changes in federal laws, and seeks to ensure a uniform approach to anti-corruption measures across the VEB Group companies. In 2017, the Bank also took part in anti-corruption events held by the Russian Presidential Executive Office, the Russian Government, the Prosecutor General's Office of the Russian Federation, and the Russian Ministry of Labour.

In accordance with the Russian laws, Vnesheconombank collected and reviewed the statements of earnings, expenses, property and liabilities of Vnesheconombank employees and persons seeking employment with the Bank (in compliance with an approved list of job positions). The Bank discloses financial information about certain senior managers on its website<sup>24</sup> for transparency and public oversight purposes.

The Bank's anti-corruption measures in 2017 comprised data validation and completeness checks of the information provided by the employees and their compliance with the code of professional conduct. To the extent permitted by the Russian laws, the Bank also exercised control over the employees' expenses. The Bank analysed any information that may be indicative of the employees' conflict of interest and monitored the Whistleblowing (Contacts for Reporting)<sup>25</sup> website section on a daily basis.

Vnesheconombank Professional Conduct and Conflict of Interest Commission is the pivot of the Bank's anti-corruption policy<sup>26</sup>. In reporting year, the Commission held three meetings, one of which looked into creating corruption risk assessment mechanisms at Vnesheconombank. Such assessment procedure is to be agreed upon with the Bank's respective subdivisions.

In 2017, VEB Group registered two cases containing elements of corruption. Both happened at Globexbank. The internal investigation resulted in the dismissal of a head of one of the bank's branches, rotation of the heads of Moscow branches, and a report to law enforcement authorities on possible corruption offence of the bank's employees.

<sup>23</sup> For total on-the-job injuries, accident frequency rate, occupational diseases, work days lost, and workplace absence across VEB Group, by gender see Appendix 7.

<sup>24</sup> Information on VEB website: <https://new.veb.ru/about/protivodeystviye-korrupsii/svedeniya-o-dokhodakh-raskhodakh-ob-imushchestve-i-obyazatelstvakh-imushchestvennogo-kharaktera>.

<sup>25</sup> Feedback channels for corruption reporting on VEB website: <https://new.veb.ru/about/protivodeystviye-korrupsii/obratnaya-svyaz-dlya-soobshcheniy-o-faktakh-korrupsii>.

<sup>26</sup> Information on the Commission on VEB website: <https://new.veb.ru/about/protivodeystviye-korrupsii/komissiya-po-soblyudeniyu-trebovaniy-k-sluzhebnomu-povedeniyu-i-uregulirovaniyu-konflikta-interesov>.

## Anti-Corruption and Counter-Fraud Measures at VEB

In 2017, VEB conducted 20 inquiries into non-compliance with anti-corruption policies and measures

Vnesheconombank's Professional Conduct and Conflict of Interest Commission reviewed the results of inquiries on 13 employees

In 2017, Vnesheconombank's Professional Conduct and Conflict of Interest Commission held 3 meetings to discuss 19 issues:

- > 3 issued related to a personal interest in discharge of duties that results or may result in a conflict of interest
- > 2 issues related to inability to submit data spouse income data for objective reasons
- > 1 issue related to preventive anti-corruption measures
- > 13 issues related to inquiries into non-compliance with anti-corruptions policies and measures

The Commission meetings resulted in:

- > 4 employees were subjected to disciplinary measures in the form of a warning and a reprimand
- > 7 employees were strongly warned against the violation of anti-corruption legal requirements

In 2017, there were no confirmed cases of corruption at Vnesheconombank. No corruption-related actions were taken against the Bank or its employees.

## Anti-corruption Training and Awareness Raising Activities for the Bank Employees in 2017

> All office seekers were briefed on the Russian laws and the Bank's internal regulations on anti-corruption, and completed the Bank's questionnaire on compliance with the restrictions and prohibitions associated with work for the State Corporation

> The Bank conducted briefings and awareness raising activities for the Bank's employees appointed to the positions associated with strict compliance with anti-corruption restrictions and responsibilities, and also for the applicants for such positions

> 892 employees took the e-course 'Reporting on Personal Income, Expenses, Assets and Liabilities'

> 20 senior managers attended the seminar Compliance with Anti-corruption Restrictions, Prohibitions and Responsibilities at the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"

> Anti-corruption information, including the content designed to build the employees' negative attitude towards corrupt behaviour and accepting gifts is posted on the Bank's intranet and official internet websites

> 10 employees of the Bank's Anti-Corruption Department attended the refresher course 'Anti-Corruption Measures at the State Corporation'

Anti-Corruption Activities at VEB Group in 2017		
<b>Structural subdivisions reviewed for corruption risks</b>		
REC Group - 100%	Vnesheconombank - 31.5%	FCPF - 100%
MDF - 100%	VEB Capital - 100%	VEB Engineering - 76.2%
Sviaz-Bank - 73.9%	Globexbank - 80.6%	Bank BelVEB - 33.3%
<b>Employees trained in anti-corruption policies and procedures, by job category</b>		
<b>GLOBEXBANK</b>	<b>Vnesheconombank</b>	<b>Bank BelVEB</b>
Managers - 0.4%	Members of Vnesheconombank	Managers - 1.1%
Specialists - 0.1%	Management Board - 13.3%	Specialists - 0.1%
<b>Sviaz-Bank</b>	<b>Managers - 15%</b>	<b>VEB Capital</b>
Managers - 0.4%	Specialists - 0.7%	Managers - 2.3%

## 7.6 Procurement

Vnesheconombank and the VEB Group companies<sup>27</sup> conduct procurement in strict compliance with Federal Law No. 223-FZ dated 18 July 2011 "On Procurement of Goods, Work and Services by Certain Types of Legal Entities". VEB Group's procurement policy is underpinned by principles of transparency, non-discrimination and free competition, as well as fair and appropriate application of internal rules with regard to procurement participants and enlarged participation circle. In conducting procurement, VEB Group focuses on cost-effective spending and cost saving.

Centralization of VEB Group's procurement policy was one of the procurement priorities in 2017. The Regulation on Procurement by State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" revised in 2017<sup>28</sup> provides for that VEB's subsidiaries may become subject to the Provision and that the VEB Group companies may conduct consolidated (joint) procurement, thus allowing to introduce a uniform procurement procedure, increase the number of procurement participants and reduce contract prices.

**Vnesheconombank's revised Procurement Regulation envisages improved efficiency of the Bank's procurement procedures, fair and appropriate application of rules, and includes:**

updated provisions for procurement from SMEs as provided by Decree of the Russian Government No. 1352 dated 11 December 2014 "On Specifics of Participation of Small and Medium Businesses in Procurement of Goods, Work and Services by Certain Types of Legal Entities";

an inserted paragraph reflecting the procurement procedure that prioritizes domestic products over foreign ones, as provided by Decree of the Russian Government No. 925 dated 16 September 2016 "On Priority of Domestic Goods, Work and Services over Foreign Ones";

an adjusted list of reasons for procurement from a single supplier.

<sup>27</sup> Except for the Monotown Development Fund, which is not subject to Federal Law No. 223-FZ dated 18 July 2011, and Bank BelVEB, Prominvestbank and VEB Asia engaged in procurement activities in accordance with the requirements of

<sup>28</sup> See the Bank's Procurement Regulations at: [http://veb.ru/common/upload/files/veb/custom/Polozhenie\\_o\\_zakupke\\_](http://veb.ru/common/upload/files/veb/custom/Polozhenie_o_zakupke_)

## VEB Group Procurement Performance in 2017

### Vnesheconombank

> By the end of 2017, the Bank ranked second in the Guaranteed Transparency category of the National Transparency Rating of Russia's Largest Corporate Customers, as compared to its fifth ranking position in 2016.

> As a result of a competitive procurement procedure, the Bank's cost savings amounted to RUB 276.9 million

> The share of competitive procedures in the total procurement volume was 51.9%

> The share of procurement from SMEs in the total procurement volume was 19.7%

> The share of procurements from domestic (Russian) suppliers in the total procurement volume was 12.7%

### VEB Group

> Seven VEB Group companies became subject to Vnesheconombank Procurement Regulation as part of the procurement centralization initiative

> VEB Group conducted nine consolidated (joint) procurements involving the VEB Group companies subject to Vnesheconombank Procurement Regulation

> The share of competitive procedures in the total procurement volume was 44.4%

> The share of procurement from SMEs in the total procurement volume was 22.2%

> The share of procurement from domestic (Russian) suppliers in the total procurement volume was 50.8%\*

> The share of procurement from domestic (Ukrainian) suppliers of Prominvestbank in the total procurement volume was 93.7%\*\*

\* Excluding VEB Group companies operating outside Russia

\*\* There are no data on Bank BelVEB since the bank's current automated accounting system allows generating data only on procurements from Belarusian suppliers

## 7.7 Administrative and Maintenance Performance

### RESOURCE CONSUMPTION AND DISPOSAL BY VEB GROUP IN 2017

#### Paper

Paper consumption reduced due to e-document flow, setting the standards for paper use, and informing employees about the need to use the resources efficiently. Paper waste, including stale documents, are delivered for recycling to professional contractors.

**Amount of paper purchased**  
**349 tons**

**Amount of paper waste**  
**146 tons**



### Cartridges

Use of cartridges reduced due to e-document flow. Cartridges are delivered for recycling as Hazard Grade III waste to professional contractors or to the lessor to determine the way of treatment.

<b>Number of cartridges purchased</b> 17,411 pcs	<b>Number of cartridges recycled</b> 11,283 pcs
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### Computer Equipment

In order to reduce negative environmental impact, the Bank purchases equipment with a higher energy efficiency class and uses energy efficient operation modes, including shared use of copying equipment. Computers are delivered for recycling as Hazard Grade III waste to professional contractors or to the lessor to determine the way of treatment.

<b>Number of units purchased</b> 3,807 pcs	<b>Number of units recycled</b> 2,653 pcs
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### Solid Domestic Waste

Reduced amounts of solid domestic waste delivered to landfills for disposal are due to the transfer of Hazard Grade III waste for reuse and recycling.

**Amount of solid domestic waste generated**  
1,784 tons

### Fluorescent Lamps

When purchasing lighting equipment, the Bank chooses most energy efficient and environmentally sound devices (predominantly LED). Fluorescent lamps are delivered for recycling as Hazard Grade I waste to professional contractors or to the lessor to determine the way of treatment.

<b>Number of fluorescent lamps purchased</b> 7,276	<b>Number of fluorescent lamps recycled</b> 9,059
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### ENERGY CONSUMPTION BY VEB GROUP IN 2017

Energy consumption reduced due to the use of equipment with a high energy efficiency class and most efficient power saving mode, energy saving measures and awareness of employees.

<b>Electricity consumption</b> 85,838 GJ	<b>Emissions of CO2 from energy consumption</b> 16,619 tons
<b>Heat energy consumption</b> 71,401 GJ	

### WATER CONSUMPTION BY VEB GROUP IN 2017

Water consumption reduced due to regular preventive overhaul and maintenance of sanitary installations and plumbing systems, and making employees aware of responsible water consumption.

<b>Water consumption</b> 82,266 cubic metres	<b>Bottled drinking water purchased</b> 875,893 litres
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### USE OF CORPORATE VEHICLES AT VEB GROUP IN 2017

Business trips reduced due to online communication and limits set on the use of corporate vehicles.

<b>Petrol consumption</b> 1,286,000 litres	<b>Emissions of CO2 from corporate vehicles</b> 3,921 tons
<b>Diesel fuel consumption</b> 329,000 litres	

## ENVIRONMENTAL COSTS AND INVESTMENTS

### Structure of environmental costs and investments



In 2017, VEB Group's environmental costs and investments totaled RUB 10.4 million, with RUB 2.6 million accounting for negative environmental impact payments.

- Removal of solid domestic waste – 37.0%
- Negative environmental impact payments - 24.8%
- Environmental documentation (waste generation standards, etc.) – 18.8%
- Paper and paper waste recycling – 8.8%
- Payments for impact on the centralized water disposal system – 4.8%
- Disposal of cartridges – 2.9%
- Disposal of computer equipment – 2.2%
- Disposal of mercury containing lamps – 0.7%

## Appendices

### Appendix 1. About the Report

This Vnesheconombank Group Non-Financial Report 2017 has been prepared in line with the Global Reporting Initiative (GRI) Standards (Core option) and the Sector Disclosures for the Financial Services Sector. The Report also discusses VEB Group's performance in terms of adhering with the UN Global Compact's principles on human rights, labour, environment, and anti-corruption. The Report was prepared in accordance with the elements of the International Integrated Reporting Standard.

The Bank prepared the report in accordance with the revised Regulations for VEB Group Non-Financial Report as approved by Vnesheconombank Order No. 90 of 7 February 2018. In compliance with the Regulations, the Report has been prepared by an autonomous non-profit organisation Research and Expertise Institute (the 'Institute') established by Vnesheconombank in 2017. Responsible for the Report is Vnesheconombank Deputy Chairman supervising the Institute's operations. The Regulations also provide for the Report to be subject to mandatory external verification by independent auditors, which verification is arranged by Vnesheconombank Internal Control Service. In accordance with the Regulations, the Report requires an approval by Vnesheconombank Management Committee.

Vnesheconombank Non-Financial Report 2017 has obtained independent verification by the FBK auditors (Appendix 10) and public assurance by the Board for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (Appendix 11). The Report received Vnesheconombank Management Committee's approval (Minutes No. 17 dated 05 July 2018).

### Report Scope

Report Boundaries	
State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"	
REC Group: Russian Export Centre, Export Insurance Agency of Russia (EXIAR), Russian Export Import Bank (Eximbank)	Sviaz-Bank
	GLOBEXBANK
	Bank BelVEB
	Prominvestbank
VEB Engineering	VEB Leasing
Federal Center for Project Finance (FCPF)	Far East and Baikal Region Development Fund
Investment Company of Vnesheconombank VEB Capital	Monotown Development Fund
VEB Innovations <sup>29</sup>	VEB Service
VEB Innovations Fund <sup>30</sup>	VEB Asia Limited <sup>30</sup>

For the purposes of this Report, VEB Group includes Vnesheconombank and Vnesheconombank companies specified in Vnesheconombank Corporate Governance Policy approved by Vnesheconombank Order No. 522 dated 23 August 2017.

As compared to the previous reporting period, the Report has undergone the following significant changes:

- The Report contains no information on the North Caucasus Development Corporation's operations due to Vnesheconombank Supervisory Board's decision on a compensation-free transfer of 100% shares in the Corporation to the federal government in May 2017;
- The Report provides comprehensive information on REC Group's activities and, unlike the previous reporting period, discloses information on the operations of both the Russian Export Centre and its subsidiaries EXIAR and Eximbank);
- The Report provides comprehensive information on the operations of Vnesheconombank's subsidiary VEB Service established in 2017;
- As compared to the previous reporting period, the Report contains additional information on the comprehensive operating results of the Monotown Development Fund;
- The Report only discloses resource consumption information for those Vnesheconombank's branches, departments and representative offices that have the headcount of at least 50 employees as at the end of 2017.

<sup>29</sup> For these organisations, the Report provides only information on the total headcount as at the end of the reporting period, authorized capital or capital contribution by the Bank as the sole founder, headquarters address and core business lines in the reporting period, the jurisdiction of residence.

<sup>30</sup> The definition of VEB Group neither coincides with that of a bank group or a financial and industrial group as provided in the Russian laws, nor with that of VEB Group as provided in the relevant financial statements prepared in compliance with the Russian Accounting Standards and the International Financial Reporting Standards VEB.pdf

**VEB Group Key Stakeholder Map<sup>31</sup>**

EXTERNAL STAKEHOLDERS		
High priority	<ul style="list-style-type: none"> <li>✓ VEB Supervisory Board</li> <li>✓ Government of the Russian Federation</li> <li>✓ Governmental authorities</li> </ul>	VEB Group is responsible for promoting the government policy on social and economic development
	<ul style="list-style-type: none"> <li>✓ Investors and partners</li> <li>✓ Customers and borrowers</li> </ul>	VEB Group is responsible for enabling mutually beneficial cooperation with its counterparties
Medium priority	<ul style="list-style-type: none"> <li>✓ Russian and international financial institutions</li> <li>✓ Professional and expert communities</li> </ul>	VEB Group is responsible for improving professional environment and investment climate
	<ul style="list-style-type: none"> <li>✓ Suppliers and contractors</li> </ul>	VEB Group is responsible for ethics and integrity
	<ul style="list-style-type: none"> <li>✓ Local communities at project locations</li> </ul>	VEB Group is responsible for better quality of life in the result of the projects financed
INTERNAL STAKEHOLDERS		
High priority	<ul style="list-style-type: none"> <li>✓ VEB Management Board</li> <li>✓ VEB Group entity management</li> <li>✓ VEB Group entity employees</li> </ul>	VEB Group is responsible for efficient operation of the corporate governance system in decision-making
		VEB Group is responsible for providing its employees with decent working conditions and equal opportunities for professional development

<sup>31</sup> The Bank's management identified the key stakeholders based on the analysis of mutual impact between stakeholders and VEB Group. The stakeholders were prioritised by their impact on VEB Group's current operations and strategic development.

**Map of essential topics and relevant GRI aspects disclosed in the Report<sup>32</sup>**

Impact of VEB Group's operations by GRI aspect	High	<ul style="list-style-type: none"> <li>Development of internal communication system [16]</li> <li>Professional development and training of employees [18]</li> <li>Corporate volunteering [2] [4]</li> <li>Transition to a new organizational structure; personnel turnover [15]</li> <li>Customer satisfaction level assessment [1]</li> </ul>	<ul style="list-style-type: none"> <li>Support for innovation projects [4] [24]</li> <li>Support for export projects [4] [24]</li> <li>Support for infrastructure projects [1] [24]</li> <li>Evaluation of project energy efficiency [4]</li> <li>Support for environmental projects [3] [30]</li> <li>Investment in single-industry towns ("monotowns") [1] [24]</li> <li>Financial performance [2]</li> <li>Development of regional cooperation [22]</li> <li>State financial aid [4]</li> <li>Anti-corruption policy [5]</li> </ul>	
	Moderate	<ul style="list-style-type: none"> <li>Financial literacy initiatives [1] [4]</li> <li>Procurement practices [10] [20]</li> <li>Employee wages [3] [19]</li> <li>Employee social welfare [1b]</li> <li>Grievance mechanisms [8] [14]</li> </ul>		
	Low	<ul style="list-style-type: none"> <li>Charity [3] [4]</li> <li>Office operational waste [11]</li> <li>Corporate vehicle emissions [10]</li> <li>Labor and occupational safety [17]</li> <li>Prevention of discrimination of women, disabled persons, etc. [21]</li> </ul>	<ul style="list-style-type: none"> <li>Legal and regulatory fines [0] [26]</li> <li>Resource consumption through office operations [7] [9] [9]</li> <li>Environmental protection costs and investment as part of office operation [6]</li> </ul>	
		Low	Moderate	High
		Degree of impact of VEB Group's operation aspects on stakeholders		

<sup>32</sup> To determine the report scope, the Bank used its stakeholder interaction procedures followed in the previous reporting period.

GRI Guidelines Aspects		
<b>General disclosures</b> [1] Stakeholder Engagement	<b>Environmental</b> [6] Management Approach GRI 103 [7] Materials [8] Energy [9] Water [10] Emissions [11] Effluents and Waste [12] Environmental Compliance [13] Supplier Environmental Assessment	
<b>Economic</b> [2] Economic Performance [3] Market Presence [4] Indirect Economic Impacts [5] Anti corruption		
<b>Social</b> [14] Management Approach GRI 103 [15] Employment [16] Labour/Management Relations [17] Occupational Health and Safety [18] Training and Education [19] Equal Remuneration for Women and Men	[20] Supplier Social Assessment [21] Non-discrimination [22] Local Communities [25] Socioeconomic Compliance	<b>Aspects of Sector Disclosures for Financial Services Sector</b> [30] Product portfolio
<p><b>Material GRI Guidelines aspects disclosed in the Report</b> Aspects of high significance to key stakeholders and/or of VEB Group's impacts should be considered material for VEB Group's operations.</p>		

**Appendix 2. Index of GRI Disclosures in the Report Prepared in Line with GRI Standards, GRI Sector Disclosures for the Financial Services Sector and Principles of the UN Global Compact**<sup>33</sup>

Disclosure	Principles of the UN Global Compact	Section of the Report/comments	Page
<b>GRI 102: GENERAL DISCLOSURES 2016</b>			
<b>1. ORGANIZATIONAL PROFILE</b>			
GRI 102-1 Name of the organization		Appendix 1 Appendix 12	
GRI 102-2 Activities, brands, products, and services		1.4 Vnesheconombank Companies 2.1 Vnesheconombank Sectoral Priorities 2.2 Vnesheconombank Project Portfolio 5.5 Services to the Government	
GRI 102-3 Location of headquarters		Appendix 12	
GRI 102-4 Location of operations		1.4 Vnesheconombank Companies The Bank's foreign representative offices: <a href="https://new.veb.ru/contacts/">https://new.veb.ru/contacts/</a>	
GRI 102-5 Ownership and legal form		Appendix 1 Appendix 12	

GRI 102-6 Markets served		1.4 Vnesheconombank Companies 2.1 Vnesheconombank Sectoral Priorities 2.2 Vnesheconombank Project Portfolio 4. Investing in Development 5.4 International Cooperation	
GRI 102-7 Scale of the organization		1.3 Vnesheconombank Strategy Implementation 1.4 Vnesheconombank Companies 2.1 Vnesheconombank - Sectoral Priorities 2.2 Vnesheconombank Project Portfolio 4. Investing in Development 5.5 Services to the Government 7.4 HR Policy Appendix 8	
GRI 102-8 Information on employees and other workers	Principle 6	HR policy Appendix 4	
GRI 102-9 Supply chain		7.6 Procurement	
GRI 102-10 Significant changes to the organization and its supply chain		Appendix 1	
GRI 102-11 Precautionary Principle or	Principle 7	VEB does not directly apply the Precautionary principle. However, in making its investment decisions the Bank conducts a comprehensive expert review of projects.	

<sup>33</sup> The ten principles of the UN Global Compact are given in Appendix No. 3.

approach		including assessment of their potential environmental impact	
GRI 102-12 External initiatives		6.2 Sustainability Financing 6.3 Participation in the UN Global Compact	
GRI 102-13 Membership of associations		5.4 International Cooperation 6.3 Participation in the UN Global Compact For information on the Bank's participation in banking groups, banking holdings, holding companies and associations, see Issuer's Quarterly Report (pages 23-26) <a href="https://new.vcb.ru/files/?file=1afb38a91d5817353b663fd7bd6f83/e.pdf">https://new.vcb.ru/files/?file=1afb38a91d5817353b663fd7bd6f83/e.pdf</a>	
<b>2. STRATEGY</b>			
GRI 102-14 Statement from senior decision-maker		Address to the Reader	
GRI 102-15 Key impacts, risks, and opportunities	Principle 1-10	1.3 Vnesheconombank Strategy Implementation 1.4 Vnesheconombank Companies 7.3 Risk Management	
<b>3. ETHICS AND INTEGRITY</b>			
GRI 102-16 Values, principles, standards, and norms of behavior	Principles 1, 2, 6, 10	7.4 HR Policy 7.5 Anti-Corruption	
GRI 102-17 Mechanisms for advice and concerns about ethics	Principles 1, 2, 6, 10	7.5 Anti-Corruption	
<b>4. GOVERNANCE</b>			
GRI 102-18 Governance structure		7.1 Corporate Governance	
GRI 102-19 Delegating authority		7.1 Corporate Governance	
GRI 102-20 Executive-level responsibility for economic, environmental, and social topics		7.1 Corporate Governance	
GRI 102-26 Role of highest governance body in setting purpose, values, and strategy		Vnesheconombank Strategy, including the Bank's corporate values, is approved by resolution of Vnesheconombank's Supervisory Board	
GRI 102-29 Identifying and managing economic, environmental, and social impacts		Powers of Vnesheconombank's Supervisory Board to manage economic, environmental and social impacts are defined by Federal Law No. 82-FZ dated 17 May 2017 "On Bank for Development" (pages 40-45) <a href="https://new.vcb.ru/files/?file=3858e0d69dccb2ade82dfd913032692.pdf">https://new.vcb.ru/files/?file=3858e0d69dccb2ade82dfd913032692.pdf</a>	
GRI 102-30 Effectiveness of risk management processes		In accordance with the Federal Law No. 82-FZ dated 17 May 2017 "On Bank for Development", Vnesheconombank Supervisory Board approves Vnesheconombank's and VEB Group entities' risk management policy, as well as sets out the respective criteria, restrictions and limits, as stipulated by	

		the specified policy and the Federal Law	
GRI 102-31 Review of economic, environmental, and social topics		In accordance with the Federal Law No. 82-FZ dated 17 May 2017 "On Bank for Development", Vnesheconombank Supervisory Board holds meetings at least quarterly	
GRI 102-32 Highest governance body's role in sustainability reporting		Appendix 1	
<b>5. STAKEHOLDER ENGAGEMENT</b>			
GRI 102-40 List of stakeholder groups		Appendix 1	
GRI 102-41 Collective bargaining agreements	Principles 1, 3	As at 31/12/2017, collective bargaining agreements were signed with all employees of Vnesheconombank, BelVEB and Prominvestbank. The percentage of VEB Group's employees covered by collective bargaining agreements is 41%	
GRI 102-42 Identifying and selecting stakeholders		Appendix 1	
GRI 102-43 Approach to stakeholder engagement	Principles 1, 2	3.2 New Business Model for Regional Operations 5.1 Customer Focused Practices 5.2 Maximizing Intellectual Potential 5.4 International Cooperation 6.2 Sustainability Financing 7.4 HR Policy	
GRI 102-44 Key topics and concerns raised		5.1 Customer-Focused Practices	
<b>6. REPORTING PRACTICE</b>			
GRI 102-45 Entities included in the consolidated financial statements		Appendix 1 Consolidated financial statements (pages 20-21) <a href="https://new.vcb.ru/files/?file=6c30c09e4bcf1956c2c7dd3ec2b2f8bd.pdf">https://new.vcb.ru/files/?file=6c30c09e4bcf1956c2c7dd3ec2b2f8bd.pdf</a>	
GRI 102-46 Defining report content and topic boundaries		Appendix 1	
GRI 102-47 List of material topics		Appendix 1	
GRI 102-48 Restatements of information		There are no restatements of information provided in Vnesheconombank Group Non-Financial Report 2016	
GRI 102-49 Changes in reporting		Appendix 1	
GRI 102-50 Reporting period		01 January 2017 - 31 December 2017	
GRI 102-51 Date of most recent report		Vnesheconombank Group Non-Financial Report 2016 was published in November 2017	
GRI 102-52		VEB Group publishes its non-financial reports on an annual	

Reporting cycle		basis	
GRI 102-53 Contact point for questions regarding the report		Appendix 12	
GRI 102-54 Claims of reporting in accordance with the GRI Standards		Appendix 1	
GRI 102-55 GRI content index		Appendix 2	
GRI 102-56 External assurance		Appendix 1 Appendix 10 Appendix 11	
<b>MATERIAL TOPICS</b>			
<b>GRI 200: Economic Disclosures 2016</b>			
<b>GRI 201: ECONOMIC PERFORMANCE 2016</b>			
GRI 103 Management approach	Principle 10	7.4 HR Policy	
GRI 201-1 Direct economic value generated and distributed		Appendix 8	
GRI 201-3 Defined benefit plan obligations and other retirement plans	Principle 6	7.4 HR Policy Consolidated financial statements (page 42) <a href="https://ncw.vcb.ru/files/?file=6c30c09c4bcf1956c2c7dd3cc2b2f9hd.pdf">https://ncw.vcb.ru/files/?file=6c30c09c4bcf1956c2c7dd3cc2b2f9hd.pdf</a>	
GRI 201-4 Financial assistance received from government	Principle 10	Appendix 9	
<b>GRI 202: MARKET PRESENCE 2016</b>			
GRI 103 Management approach	Principles 1, 6	7.4 HR Policy	
GRI 202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Principles 1, 6	Wages at VCD Group are not conditional upon the employee's gender. In the Report, the breakdown by country is used as a breakdown by significant location of operation of VCB Group Ratios of entry level wage compared to local minimum wage in Russia, Belarus and Ukraine are 1.1, 1.9 and 1.1, respectively	
<b>GRI 203: INDIRECT ECONOMIC IMPACTS 2016</b>			
GRI 103 Management approach		3.1 New Investment Process 3.2 New Business Model for Regional Operations	
GRI 203-1 Infrastructure investments and services supported	Principle 10	4. Investing in Development 6.1 Corporate Volunteering and Charity 5.3 Development Award	
GRI 203-2 Significant indirect	Principle 10	2.5 Socio-Economic Effects of Projects 4. Investing in Development	

economic impacts		5.1 Customer-Focused Practices 5.2 Maximizing Intellectual Potential 5.5 Services to the Government	
<b>GRI 204: PROCUREMENT PRACTICES 2016</b>			
GRI 103 Management approach	Principle 10	7.6 Procurement	
GRI 204-1 Proportion of spending on local suppliers	Principle 10	7.6 Procurement	
<b>GRI 205: ANTI-CORRUPTION 2016</b>			
GRI 103 Management approach	Principle 10	7.5 Anti-Corruption	
GRI 205-1 Operations assessed for risks related to corruption	Principle 10	7.5 Anti-Corruption	
GRI 205-2 Communication and training about anti-corruption policies and procedures	Principle 10	7.5 Anti-Corruption	
GRI 205-3 Confirmed incidents of corruption and actions taken	Principle 10	7.5 Anti-Corruption	
<b>GRI 300: ENVIRONMENTAL DISCLOSURES 2016</b>			
<b>GRI 301: MATERIALS 2016</b>			
GRI 103 Management approach	Principles 7, 8, 9	7.7 Administrative and Maintenance Performance Management	
GRI 301-1 Materials used by weight or volume	Principles 7, 8, 9	7.7 Administrative and Maintenance Performance Management	
<b>GRI 302: ENERGY 2016</b>			
GRI 103 Management approach	Principles 7, 8, 9	7.7 Administrative and Maintenance Performance Management	
GRI 302-1 Energy consumption within the organization	Principles 7, 8, 9	7.7 Administrative and Maintenance Performance Management	
<b>GRI 303: WATER 2016</b>			
GRI 103 Management approach	Principles 7, 8, 9	7.7 Administrative and Maintenance Performance Management	
GRI 303-1 Water withdrawal by source	Principle 8	7.7 Administrative and Maintenance Performance Management	
<b>GRI 306: EFFLUENTS AND WASTE 2016</b>			
GRI 103 Management	Principles 7,	7.7 Administrative and Maintenance Performance	

approach	8, 9	Management	
GRI 306-2 Waste by type and disposal method	Principles 7, 8, 9	7.7 Administrative and Maintenance Performance Management	
<b>GRI 307: ENVIRONMENTAL COMPLIANCE 2016</b>			
GRI 103 Management approach	Principles 7, 8, 9	7.7 Administrative and Maintenance Performance Management	
GRI 307-1 Non-compliance with environmental laws and regulations	Principle 8	In 2017, fines were imposed on Vnesheconombank (RUB 700 thou.) and Globexbank (RUB 180 thou.). The fines were paid, and the entities took all necessary steps to address the breaches. No non-financial sanctions such as the suspension of VEB Group entities' operations were identified in 2017.	
<b>GRI 400: SOCIAL DISCLOSURES 2016</b>			
<b>GRI 401: EMPLOYMENT 2016</b>			
GRI 103 Management approach	Principles 1-6	7.4 HR Policy	
GRI 401-1 New employee hires and employee turnover	Principle 6	7.4 HR Policy Appendix 5	
GRI 401-2 Benefits provided to full time employees that are not provided to temporary or part-time employees	Principle 6	7.4 HR Policy Vnesheconombank's part-time and fixed-term employees do not receive social benefits	
GRI 401-3 Parental leave	Principle 6	Appendix 6	
<b>GRI 402: LABOR/MANAGEMENT RELATIONS 2016</b>			
GRI 103 Management approach	Principles 1, 2, 6	7.4 HR Policy	
GRI 402-1 Minimum notice periods regarding operational changes	Principles 1, 2, 6	For Vnesheconombank and VEB Group entities operating in the Russian Federation, the minimum notice period is no less than two months in compliance with the Labor Code. At Dank DeVID and Prominvestbank, the minimum notice period provision is included into collective bargaining agreements, and the minimum notice period is no less than three months and two months, respectively.	
<b>GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016</b>			
GRI 103 Management approach	Principle 1	7.4 HR Policy	
GRI 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Principle 1	7.4 HR Policy Appendix 7 The Bank does not keep record of occupational incidents by external contractors	

<b>GRI 404: TRAINING AND EDUCATION 2016</b>			
GRI 103 Management approach	Principle 6	7.4 HR Policy	
GRI 404-1 Average hours of training per year per employee	Principle 6	7.4 HR Policy	
GRI 404-2 Programs for upgrading employee skills and transition assistance programs	Principle 6	7.4 HR Policy	
GRI 404-3 Percentage of employees receiving regular performance and career development reviews	Principles 2, 6	7.4 HR Policy	
<b>GRI 406: NON-DISCRIMINATION 2016</b>			
GRI 406-1 Incidents of discrimination and corrective actions taken		All employees of VEB Group are guaranteed equal rights and opportunities regardless of their gender, religious and political beliefs, ethnic origin and age. No cases of discrimination were identified at VEB Group in 2017.	
<b>GRI 413: LOCAL COMMUNITIES 2016</b>			
GRI 103 Management approach	Principles 1, 2	3.2 New Business Model for Regional Operations	
GRI 413-1 Operations with local community engagement, impact assessments, and development programs	Principles 1, 2	3.2 New Business Model for Regional Operations 4.3 Vnesheconombank Group in Single-Industry Towns 4.4 Far East Development	
<b>GRI 419: SOCIOECONOMIC COMPLIANCE 2016</b>			
GRI 419-1 Non-compliance with laws and regulations in the social and economic area	Principles 1, 2, 10	In 2017, fines were imposed on Vnesheconombank (RUB 9 mn), Globexbank (RUB 4.4 mn), Prominvestbank (RUB 27 thou.), Sviaz-Bank (RUB 961.7 thou.) and VEB Engineering (RUB 4.4 thou.). The fines were paid, and the entities took all necessary steps to address the breaches. No non-financial sanctions such as the suspension of VEB Group entities' operations were identified in 2017.	
<b>GRI SECTOR DISCLOSURES FOR THE FINANCIAL SERVICES SECTOR</b>			
FS7 / FS8 Monetary value of products and services designed to deliver a specific social and/or environmental	Principle 8	2.2 Vnesheconombank Project Portfolio 4 Investing in Development 5.1 Customer-Focused Practices	

benefit for each business line broken down by purpose			
FS14 Initiatives to improve access to financial services for disadvantaged people		5.1 Customer-Focused Practices	

### Appendix 3. Principles of the UN Global Compact

<b>Human Rights</b>
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
Principle 2: Businesses should make sure that they are not complicit in human rights abuses
<b>Labour</b>
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour
Principle 5: Businesses should uphold the effective abolition of child labour
Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation
<b>Environment</b>
Principle 7: Businesses should support a precautionary approach to environmental challenges
Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility
Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies
<b>Anti-Corruption</b>
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

**Appendix 4. Breakdown of VEB Group's Personnel by Employment Contract, Employment Type, Employee Category and Gender**

Item	RUSSIA						THE REPUBLIC OF BELARUS		UKRAINE		TOTAL FOR VEB GROUP	
	VEB		VEB Group's entities in Russia		Total for VEB Group in Russia		male	female	male	female	male	female
	male	female	male	female	male	female						
<b>Breakdown of actual headcount by employee category and gender</b>												
<b>Total headcount of the entity, including:</b>	769	1,045	2,682	5,190	3,451	6,235	685	1,585	465	1,014	4,601	8,834
Executives	319	198	677	746	996	944	219	230	141	173	1,356	1,347
Specialists	392	748	1,897	4,402	2,289	5,150	401	1,354	266	791	2,956	7,295
Other categories	58	99	108	42	166	141	65	1	58	50	269	192
<b>Breakdown of actual headcount by employment type and gender</b>												
Full-time employees	737	981	2,631	5,131	3,368	6,112	685	1,583	463	1,003	4,516	8,688
Part-time employees	32	64	51	59	83	123	0	2	2	11	85	136
<b>Breakdown of actual headcount by employment contract and gender</b>												
Permanent employees	762	1,029	2,590	4,720	3,352	5,749	0	0	455	907	3,007	6,716
Fixed-term employees	7	16	92	470	99	486	605	1,505	10	47	794	2,110
Non-staff workforce	2	2	199	646	201	647	0	0	87	84	288	631



**Appendix 5. Total Headcount and Turnover at VEB Group in 2017  
Broken Down by Gender and Age**

Item	RUSSIA			THE REPUBLIC OF BELARUS	UKRAINE	TOTAL FOR VEB GROUP
	VEB	VEB Group's entities in Russia	Total for VEB Group in Russia			
<b>Total number of new hires in 2017</b>						
Total, including:	525	2,805	3,330	128	148	3,606
<b>Men</b>	261	1,205	1,466	61	74	1,601
up to 30	72	434	506	23	26	555
from 31 to 50	161	637	798	36	34	868
above 51	28	134	162	2	14	178
<b>Women</b>	264	1,600	1,864	67	74	2,005
up to 30	77	718	795	33	33	861
from 31 to 50	163	810	973	34	33	1,040
above 51	24	72	96	0	8	104
<b>Percentage of new hires in 2017</b>						
Total, including:	28.94	35.63	34.38	5.64	10.01	26.84
<b>Men</b>	33.94	44.93	42.48	8.91	15.91	34.80
up to 30	52.94	68.67	65.89	18.11	55.32	58.92
from 31 to 50	32.53	39.61	37.95	8.39	12.01	30.83
above 51	20.29	30.32	27.93	1.55	10.37	21.09
<b>Women</b>	25.26	30.83	29.90	4.23	7.30	22.70
up to 30	40.31	42.36	42.15	9.57	20.63	36.01
from 31 to 50	23.94	26.64	26.14	3.20	5.08	19.14
above 51	13.87	15.86	15.31	0	3.92	10.31
<b>Total number of dismissals in 2017</b>						
Total, including:	613	2,759	3,372	174	448	3,994
<b>Men</b>	338	1,031	1,369	74	187	1,630
up to 30	58	310	368	27	34	429
from 31 to 50	171	567	738	28	100	866
above 51	109	154	263	19	53	335
<b>Women</b>	275	1,728	2,003	100	261	2,364
up to 30	34	572	606	35	77	718
from 31 to 50	177	970	1,147	44	147	1,338
above 51	64	186	250	21	37	308
<b>Personnel turnover ratio in 2017</b>						
Total, including:	33.79	35.05	34.81	7.67	30.29	29.73
<b>Men</b>	43.95	38.44	39.67	10.80	40.22	35.43
up to 30	42.65	49.05	47.92	21.26	72.34	45.54
from 31 to 50	34.55	35.26	35.09	6.53	35.34	30.76
above 51	78.99	34.84	45.34	14.73	39.26	39.69
<b>Women</b>	26.32	33.29	32.13	6.31	25.74	26.76
up to 30	17.80	33.75	32.13	10.14	48.13	30.03
from 31 to 50	25.99	31.90	30.82	4.14	22.62	24.62
above 51	36.99	40.97	39.87	11.80	18.14	30.53

**Appendix 6. Breakdown of Employees Returned from a Maternity and/or Parental Leave in 2017, and Employees Who Stayed with the Employer after their Return from a Maternity and/or Parental Leave, by Gender**

Item	VEB		VEB Group's entities		VEB Group	
	male	female	male	female	male	female
Total number of employees who took a maternity / parental leave in 2017	2	61	3	597	5	658
Total number of employees who stayed with the employer after their return from a maternity / parental leave in 2017	5	46	2	226	7	272
Total number of employees who were to return to the employer in 2017 after a maternity / parental leave	2	47	2	409	4	456
Ratio of return by employees after a maternity / parental leave in 2017 (%)	250	97.9	100	55.3	175	59.6
Total number of employees who returned to the employer after a maternity / parental leave in 2016 and stayed with the employer as at 31/12/2017, (i. e. who worked for more than one year after their return from a maternity / parental leave)	3	19	0	122	3	141
Total number of employees who stayed with the employer after their return from a maternity / parental leave in 2016	4	26	0	224	4	250
Retention ratio of employees who stayed with the employer over 12 months after a maternity / parental leave in 2017 (%)	75	73	0	54.5	75	56.4

**Appendix 7. Occupational injury rate, occupational injury ratio, occupational disease ratio, lost day ratio and absenteeism ratio<sup>34</sup> at VEB Group, by Gender**

Entity	Gender	Total number of incidents involving injuries	Injury ratio	Occupational disease ratio	Lost day ratio	Absenteeism ratio
VEB	m	0	0	0	0	0.01
	f	0	0	0	0	0.01
GI ORFXBANK	m	1	1.14	0	130.01	0.02
	f	0	0	0	0	0.03
Sviaz-Bank	m	0	0	0	0	0.02
	f	0	0	0	0	0.04
BelVEB	m	0	0	0	0	0.02
	f	0	0	0	0	0.04
Prominvestbank	m	0	0	0	0	0.01
	f	0	0	0	0	0.03
VED Leasing	m	0	0	0	0	0.02
	f	0	0	0	0	0.03
REC Group	m	0	0	0	0	0.02
	f	0	0	0	0	0.02
VEB Engineering	m	0	0	0	0	0.01
	f	0	0	0	0	0.05
VEB Capital	m	0	0	0	0	0.01
	f	0	0	0	0	0.01
FCPF	m	0	0	0	0	0.02
	f	0	0	0	0	0.04
Monotown Development Fund	m	0	0	0	0	0.01
	f	0	0	0	0	0.01
Far East and Baikal Region Development Fund	m	0	0	0	0	0
	f	0	0	0	0	0
VEB Service	m	0	0	0	0	0.01
	f	0	0	0	0	0.02

<sup>34</sup> The occupational injury ratio, occupational disease ratio, lost day ratio and absenteeism ratio are calculated in line with GRI Guidelines. The lost day ratio due to occupational injuries was calculated in calendar days from Day 1 of the employee's absence. The VEB Group does not keep records of minor injuries that only require first medical aid. The lost day ratio and occupational injury ratio are calculated applying the ratio of 1,000,000. Absenteeism ratio and lost day ratio are calculated by dividing the total number of working days missed, and the total number of working days lost due to occupational injuries, by the actual amount of time worked, respectively.

**Appendix 8. Direct Economic Value Generated and Distributed at VEB Group**

Item	Values, RUB bn (under consolidated IFRS statements)
<b>Direct economic value generated</b>	317.9
Interest income	264.4
Net commission fees	9.1
Non-interest income	44.4
<b>Economic value distributed</b>	(542.3)
Provision for impairment of interest-earning assets	(249.9)
Occupancy and equipment	(9.0)
Depreciation of property and equipment	(7.7)
Other operating expenses (less charitable contributions)	(62.2)
Charity	(0.3)
Payroll and other staff costs	(29.8)
Interest expenditures	(180.7)
Taxes other than profit tax	(2.8)
Income tax benefit (expense)	0.1
<b>Economic value retained</b>	(224.4)

**Appendix 9. Financial Support to VEB Group in 2017**

Entity	Financial support provided by VEB to the Group's entities	Financial support provided by Russian government authorities
VEB		RUB 119.4 billion (subsidies)
BelVEB	RUB 18.67 billion	
Prominvestbank	USD 395 million (conversion of the debt owed to Vnesheconombank) USD 14.7 million (extension of the loan facility term till the end of 2018)	
VEB Leasing	RUB 79 billion (capital increase)	RUB 2.5 billion (subsidies)
REC	RUB 13.6 billion (Vnesheconombank's funds for capital increase, with RUB 11.8 billion worth of federal subsidies)	RUB 0.22 billion (subsidies)
VEB Capital	RUB 6.05 billion (capital increase)	
Monotown Development Fund		RUB 6.5 billion (subsidies)

## Appendix 10. Independent assurance report on VEB Group Non-Financial Report 2017

### Introduction

This independent assurance report is intended for the management of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (Vnesheconombank).

The subject of the assurance is Vnesheconombank Group Non-Financial Report 2017 (the "Report") including information on Vnesheconombank and 15 Vnesheconombank's companies within the report boundaries as determined in Appendix 1 to the Report (VEB Group).

### Responsibility

Vnesheconombank bears full responsibility for the preparation of the Report.

We are responsible for the conclusions based on the results of independent assurance of the Report within our engagement to Vnesheconombank only and accept no responsibility or liability to any third party. Scope, criteria and level of assurance

The report was assessed for compliance with the core option requirements of Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards"), including the requirements of the Sector Disclosures for the financial services sector.

We planned and conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (limited level of assurance).

The limited level of assurance as a result of the selective verification of information in the Report is lower than the level of assurance from a reasonable assurance engagement. The work was based on the supporting materials provided by Vnesheconombank's management and employees, publicly available information and analytical methods of confirmation. In relation to the quantitative information contained in the Report, the performed work shall not be deemed sufficient to identify all possible deficiencies and misrepresentations. However, the collected evidence is sufficient for expressing our conclusion in accordance with the above levels of assurance.

### Methodology

As part of our engagement, we have performed the following:

- interviewed Vnesheconombank Group's management and employees and obtained the relevant documentary evidence;
- studied information available on Vnesheconombank's and Vnesheconombank Group's websites about activities in the context of sustainability;
- studied the third party public statements regarding Vnesheconombank Group's impact on the economy, environment and society to verify whether the statements made in the Report are justified;
- analysed non-financial reports of companies operating in a similar market segment;
- analysed the current system of internal audit of non-financial reporting in Vnesheconombank;
- studied the existing processes of collection, processing, documenting, verification, analysis and selection of data to be included in the Report;
- reviewed selective documents to verify whether the information on the efficiency of Vnesheconombank Group's existing sustainability management of its economic; environmental and social impacts is true;

- analysed the Report for compliance with the core option requirements of GRI Guidelines, including the requirements of the Sector Disclosures for the financial services sector.

### Limitations

The extent of assurance is limited to 2017 data.

The reliability of the performance information contained in the Report was assessed for compliance against the criteria to be applied to prepare the Report 'in accordance' with GRI Standards (core option) and the information referred to in the GRI Content Index. Quantitative indicators were assessed for compliance against the external and internal reporting documents provided to us.

No assurance is given in relation to forward-looking statements or statements expressing opinions, beliefs or intentions of Vnesheconombank and Vnesheconombank Group's entities to take any actions and in relation to statements which are based on expert opinions.

The assurance is provided in relation to the Russian version of the Report in MS Word format.

We were also unable to provide assurance on whether the entity had obtained a statement of public assurance by RUIE Non-Financial Reporting Council, since this assurance had been signed prior to the planned date of completion of the above procedure.

This Independent assurance report is the translation of the Russian original. The Russian version prevails.

### Conclusions

The following conclusions are based on the assurance work performed within the limitations of the engagement specified above.

#### Compliance with the requirements of GRI Sustainability Reporting Standards (the core option)

Analysis of compliance with GRI Standards requirements

In order to form a position on this issue, we have analysed the Report for compliance with the principles and standard disclosures required under the selected 'in accordance' option by GRI Guidelines:

- General disclosures required for the core option of the 'in accordance' requirements are reported in accordance with the requirements contained in GRI 102 (2016).
- The Report generally complies with GRI 103 (2016) requirements for reporting management approach for material topics: it discloses impacts making the topics material, the management approaches and assessment mechanisms for management approaches for some material topics.
- Topic-specific disclosures required for the core option of the 'in accordance' requirements are reported in accordance with GRI Standards. When full disclosures cannot be made, the Report indicates what information was omitted.

Overall conclusion

As a result and within the scope of our work, nothing has come to our attention that causes us to believe that the Report has not complied, in all material aspects, with requirements to the report prepared 'in accordance' with the Core option of the GRI Standards., including the requirements of the Sector Disclosures for the financial services sector. This conclusion has been made in view of the above analysis of compliance with GRI Standards requirements.

## Recommendations

1. It is advisable to disclose performance trends for GRI indicators and to report planned values for the reporting period and for the future.
2. To improve comparability of disclosures in the event of significant modification of consolidation boundaries, it is recommended that a retrospective restatement be made for the prior period.
3. It is recommended that in addition to socio-economic impact of projects financed by Vnesheconombank and VEB Group companies the Report disclose information about their environmental impact.
4. The practice of disclosing the efficiency assessment of management approaches for all material topics should be expanded.

## Statement of competence and impartiality

FBK LLC, an independent audit firm rendering professional assurance services and a member of Self-Regulatory Organization of Auditors Association Sodruzhestvo, acts in accordance with the Auditor Independence Rules and Code of Ethics for Professional Auditors aligned with the Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants and complies with all other relevant professional ethics requirements. FBK employs International Standard on Quality Control No. 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements” and therefore maintains a comprehensive quality control system, including documented policies and procedures for compliance with the code of ethics, professional standards, statutory requirements and regulations. FBK maintains a quality control system, including ethics compliance.

FBK, LLC hereby represents that this Independent assurance report reflects the independent auditor’s position in relation to the Report. Neither FBK, LLC, nor its employees have any relationships with Vnesheconombank that could result in a conflict of interest with our assurance engagement.

FBK, Limited Liability Company

Partner

acting by virtue of Power of Attorney № 101/17 dated 2 October 2017

Russian Federation, Moscow, 28 June 2018

V.Y.Skobarev

## Appendix 11. Certificate of Public Endorsement by RUIE of VEB Group Non-Financial Report 2017



## Public Endorsement Report of the RSPP Council on Non-Financial Reporting on the Review of the VEB Group Non-Financial Report 2017

The Council on Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (the “Council”), established by the resolution of the Bureau of the RSPP Management Board (the Resolution of 28 June 2007), has reviewed at the request of Vnesheconombank (“VEB”, “Vnesheconombank”, “Bank” or “VEB Group”) the VEB Group Non-Financial Report 2017 (the “Report”).

The Bank requested that RSPP instruct the Council on Non-Financial Reporting to provide public endorsement for the Report. The Council provides an opinion regarding the materiality and completeness of the information disclosed in the Report about the Bank’s activities in accordance with the principles of responsible business conduct contained in the Social Charter of the Russian Business and compliant with the UN Global Compact and Russian and international social responsibility standards.

In the period from 8 August to 7 September 2018, the members of the Council reviewed the Bank’s Report and prepared this report in accordance with the Rules for Public Endorsement of Non-Financial Reports approved by the Council. The Council’s members possess all requisite competencies in corporate responsibility, sustainable development and non-financial reporting, act in compliance with the ethical principles requiring independent and objective evaluation and express their personal expert opinions rather than opinions of any organisations that they represent.

The information disclosed in the Report was assessed against the criteria of completeness and materiality.

Information is deemed material if it reflects VEB Group’s activities in implementing the principles of responsible business conduct contained in the Social Charter of the Russian Business (<http://pcnn.pф>).

Information is deemed complete if the Bank provides a comprehensive picture of its activities such as its fundamental values and strategic objectives, governance systems and structures, achievements, key results and the stakeholder engagement system.

The use of international reporting principles is taken into account for public endorsement. However, assurance regarding whether the Report complies with international reporting principles is beyond the scope of this report.

Responsibility for the information and statements provided in the Report lies with Vnesheconombank. The accuracy of any facts disclosed in the Report is beyond the scope of public endorsement.

This report is prepared for Vnesheconombank, which may publish and use it without any change in internal corporate communications and in stakeholder engagement.

### FINDINGS

Having analysed the Report and the publicly available information published on the Bank’s official website and having held a group discussion on the results of the independent assessment performed by the members of RSPP Council on Non-Financial Reporting, the Council confirms the following:

**The VEB Group Non-Financial Report 2017 contains material information on the key aspects of responsible business conduct in compliance with the principles of the Social Charter of the Russian Business. The Report contains performance indicators for the Bank’s core activities and discloses**

**complete information on the Bank’s current development strategy, organisational changes and crisis-fighting measures.**

**The Council’s recommendations provided in the public endorsement report on the Bank’s 2016 Report were implemented in the 2017 Report. Specifically, the Report gives a more detailed overview of the Bank’s risk management system, provides information on how the Bank’s portfolio is built, contains the selection criteria for investment projects and discloses the effect of completed projects financed by the Bank.**

The Bank’s 2017 Report contains material information on the following aspects of responsible business conduct:

**Economic freedom and responsibility:** The Report contains information that Vnesheconombank acts as a key development institution in accordance with its Development Strategy 2021. It sets out the principles, objectives and results of the management of VEB Group’s entities, including measures to increase efficiency through the improvement of processes and technologies and the introduction of up-to-date IT solutions under Vnesheconombank’s Strategy 2021. As stated in the Report, Vnesheconombank focuses on the areas that are of particular importance for the transformation of Russia’s economy, including support for high value-added sectors, high-technology projects and infrastructure development. It is stated that VEB Group has developed common approaches to risk management. The Report reveals information about the structure of 22 projects implemented by Vnesheconombank in the reporting year, the details of completed projects and the projects approved for the next period. According to the Report, Vnesheconombank estimates the socio-economic effects of completed projects on a regular basis, including their contribution to Russia’s GDP, regional development and fixed capital investment. The Report describes the Bank’s new model of cooperating with regions and discloses that the Bank launched a project financing factory based on the principles of syndicated lending. The Bank takes new approaches to managing distressed assets and reforming VEB Group’s innovation practice, including by establishing a new company, VEB Innovations. The Report also discloses information on how the Bank performed in pension investment as the government’s pension manager and carried out anti-corruption measures. The Report also outlines VEB’s role in the UN Global Compact Network Russia.

**Business partnerships:** The Report contains information on how the Bank engages various stakeholders and outlines the Bank’s approach to corporate governance, including the creation of new collegial working bodies and the expansion of the powers of its existing bodies. It shows how Vnesheconombank’s Expert Council has performed. The Report also covers relationships with leading development institutions, Russian and foreign financial institutions and the results of Vnesheconombank’s fundraising activities. The Report contains information on government relations in respect of strategic issues, including debt service for Russia’s external debt and external financial assets, and cooperation with trade associations and expert organisations in green financing instruments. The Report discloses relationships between the Bank and its customers at all stages of implementing joint projects and introducing a new model of customer service. The Bank provides information about the launch of the Regional Model online platform, the base of a mechanism for electronically applying for project financing, and about the introduction and use of the Electronic Customer Office, a service designed to create common information space for the Bank and its customers. The Report discloses measures to receive feedback, including the customer evaluation of VEB’s activities and the complaint handling procedure. The Report contains the VEB HR policy in the reporting period, including in relation to the objectives of the Bank’s restructuring. The Bank discloses its communication system and social programmes for employees. The Report contains information on VEB’s role in carrying out the Integrated Single-Industry Town Development priority government programme. The Bank reports how its Russian Export Center acted to improve the conditions for export from Russia. The Report contains information on relations with the

business, expert and academic communities, including information about five large forums held in the reporting year.

**Human rights:** It is declared that all of VEB Group's employees have equal opportunities, irrespective of their sex, religion, political views, nationality and age. The principles and approaches relating to respect for human rights are specified in several corporate documents, such as the Code of Ethics and Business Conduct. According to the Report, VEB's organisational rightsizing was in accordance with Russian legislation in the reporting period. No cases of discrimination were identified within VEB Group in 2017.

**Environmental protection:** The Report contains information that VEB facilitates best practices in green financing at national level and participates in the activities of major international platforms in this area on the global agenda. As shown in the Report, Vnesheconombank's investment portfolio includes projects to promote environmental protection and improve energy efficiency. The Bank reports the main indicators of resource consumption and recycling, CO2 emissions and the Group's environmental protection expenses and investments in the reporting year. The Report discloses the approval of the Regulations for the Assessment of Social and Environmental Impacts in relation to providing financial support for export, along with the Bank's results in this area. The Report contains statistics on VEB Group's resource consumption and recycling in the reporting year.

**Contribution to development of local communities:** The Report discloses Vnesheconombank's activities in providing sustainable development in the regions as a priority. The Report describes projects to promote the economic development of Russia's regions, diversify the economy of single-industry towns, enhance business activity in the regions and create new centres for economic development based on their competitive advantages. The Report describes impacts on the regional economy, including information on increased fiscal revenues and created jobs. The Report discloses projects of the Far East and Baikal Region Development Fund and the Single-Industry Town Development Programme. The Bank reports measures implemented by VEB Group's entities in the reporting year to enhance financial awareness among people. The Report contains information about volunteering from Vnesheconombank's employees. The Bank's projects include charity and sponsorship projects, including VEB's donations to the development of science, education, art, culture, healthcare, social support for households, child assistance, environmental protection and high-level sports.

### Final Provisions

In general, the 2017 Non-Financial Report presents an overview of the key milestones of the Bank's strategy at a new stage of VEB Group's development, the priorities connected with the objectives of modernising the Russian economy, investment management approaches and the measures to improve their effectiveness. The Report discloses VEB Group's main results in the reporting period, including in conjunction with the UN Sustainable Development Goals.

The 2017 Report is the ninth non-financial report of the Bank. The Report is prepared in accordance with documents applied in international accounting practices (GRI Standards, GRI Financial Services Sector Disclosures, AA 1000, UN GC), which ensures its consistency with information for the previous reporting periods and comparability with reports of other companies.

Vnesheconombank uses various forms of independent assessment and assurance for the Report (professional audit and public assurance), thus confirming its responsible attitude towards the quality of disclosed information. The Report is in a full and short versions, which makes it possible to disclose VEB's strategy and key operating results to a wide range of stakeholders.

### RECOMMENDATIONS

Recognising the strengths of the 2017 Report, the Council suggests paying attention to certain aspects relating to the materiality and completeness of disclosed information, material for stakeholders and

necessary to be taken into account in future reporting cycles. It would be also advisable for VEB Group to continue applying the recommendations issued for the previous non-financial reports to its future practice.

In order to ensure that more information is disclosed, it is recommended that reports should show changes in quantitative indicators for at least three years. It is advisable to show plan vs actual results and include targets for the future period in reports.

The Report provides a general overview of how the VEB 3.0 Strategy was launched in response to new challenges faced by the Russian economy in the volatile global situation. It is recommended that the next report should show how new strategic goals and targets, along with the results of projects financed by the Bank, correlate with the challenges associated with the goals of improving the competitiveness of the Russian economy and achieving Russia's Sustainable Development Goals before 2030.

With due regard to the important role of development institutions in attaining the UN Sustainable Development Goals at global and national level, it is recommended that more detailed information should be disclosed about Vnesheconombank's impact and influence on progress in this area in the Russian Federation. It would be useful to disclose such information in future reports, including in conjunction with international and national development institutions. This is of special significance because the Bank has an important role and participates in implementing national priority projects such as Environmental Protection.

The Report contains information about the transition to a new system of employee compensation and motivation. It would be useful to provide more detailed information about employee motivation and the KPIs used for the evaluation of employees in their achievement of the Bank's strategy in the future.

It is recommended that the Bank should disclose more detailed information in the future about the procedure for identifying the material topics of its reports and holding public hearings in respect of VEB's non-financial reporting, including stakeholder proposals and the relevant response measures, in the course of preparing such reports. With crucial transformations of the Bank's management processes, information on the practices and procedures for stakeholder engagement, including in the course of report preparation, is deemed to be material for stakeholders.

It is recommended that the Bank should ensure that the information in its non-financial reports is balanced out, giving more attention to problem aspects. The Bank should pay more attention to the importance of disclosing information in more detail about the regulations, procedures and management effectiveness assessment results relating to the topics identified as material in the reports.

Whereas the RSPP Council on Non-Financial Reporting gives a positive opinion on the Report, supports the Bank's commitment to the principles of responsible business conduct and notes the consistent development of its reporting process, the Council hereby certifies that the VEB Group Non-Financial Report 2017 is granted public endorsement.

RSPP Council on Non-Financial Reporting

## Appendix 12. Contact Details

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