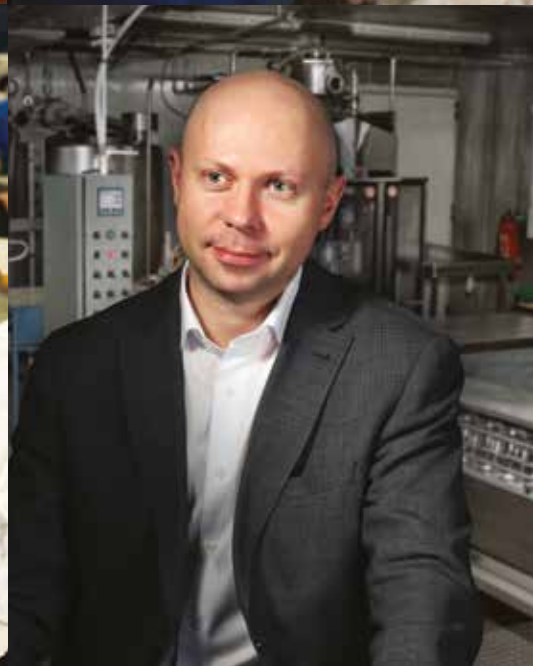




**SME Bank**  
Annual Report 2014

## INVESTING IN BUSINESS



## GENERAL INFORMATION

### SCOPE OF THE REPORT

The Report is prepared by the Joint-Stock Company Russian Bank for Small and Medium-Sized Enterprises Support (JSC SME Bank), hereinafter referred to as SME Bank or the Bank. The data has been consolidated for the period from 1 January to 31 December 2014 for the Bank Group, which, in addition to SME Bank (the parent company), includes OJSC SME Leasing (hereinafter SME Leasing), a 100% subsidiary of SME Bank.

### KEY TOPICS

The Report presents the performance indicators included in SME Bank's Strategy for 2013–2015 and Key Development Targets until 2020.

### SIGNIFICANT CHANGES TO SME BANK'S OPERATIONS

In 2014, the Bank was not exposed to any significant changes or events that could have a negative impact on the Group's financial stability and its policy (strategy).

### STANDARDS

The Report is based on SME Bank's management accounting with reference to the 2014 RSA consolidated financial statements, the Central Bank (CBR)'s recommendations and the Sustainability Reporting Guidelines GRI G4 (Core).

### AUDITOR

CJSC Ernst and Young Vneshaudit conducted an audit of SME Bank's 2014 consolidated financial statements. Nexia Pacioli LLC acted as auditors of the 2014 consolidated financial statements for OJSC SME Leasing.

### SME BANK'S RATINGS

International scale long-term credit rating for foreign currency liabilities:

Ba2, Negative outlook – Moody's Investors Service

BB+, Negative outlook – Standard & Poor's

International scale long-term credit rating for Russian Ruble liabilities:

Ba1, Negative outlook – Moody's Investors Service

BBB–, Negative outlook – Standard & Poor's

Short-term rating:

Prime-3 – Moody's Investors Service

Financial stability rating:

E+, Stable outlook – Moody's Investors Service

Domestic deposits rating:

Aa1.ru – Moody's Interfax Rating Agency

### SME LEASING'S RATING

Lending capacity:

A+ (very high) – Expert RA

### LICENSES

The CBR permanent license No. 3340 of 11.02.2015 for banking operations (CBR letter No. 28-6-03/22076 of 18.02.2015 issued by the CBR Chief Directorate in the Central Federal District (Moscow).

SME Bank is not a member of the mandatory deposit insurance system since it does not hold a license for banking transactions with individuals.

The Bank does not have free float shares in the stock market.

License of the Professional Member of the Securities Market

No. 077-11355-010000 of 24.06.2008 for broker-dealer

operations.

### CONTACTS

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Telex: 114915 RBD RU



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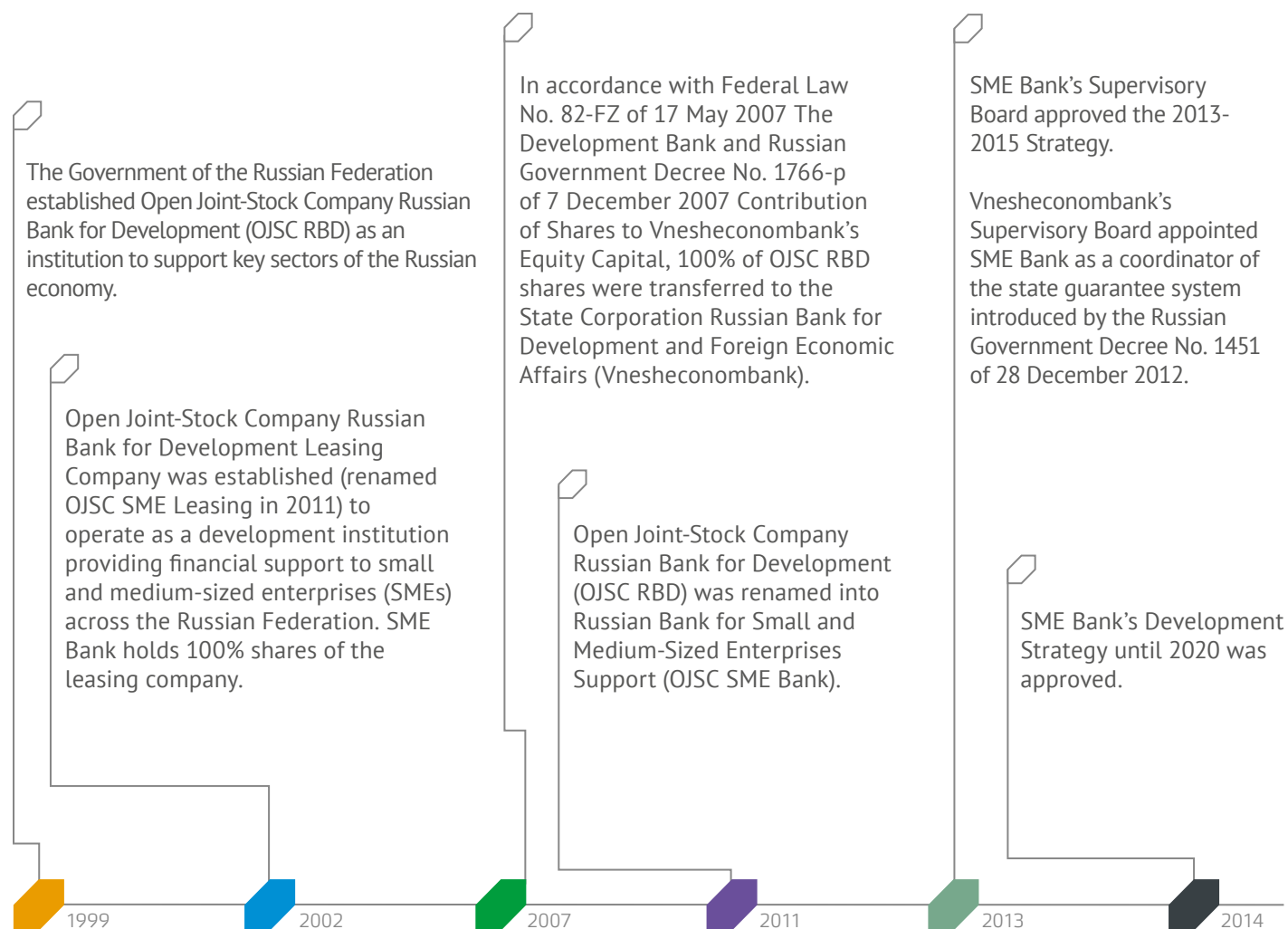
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## HISTORY OF SME BANK: 1999–2014



## REBRANDING



In 2014, the update of Vnesheconombank's long-term development strategy was followed by the Group rebranding. The new corporate identity delivers the idea of "perspective". The trademark, which now forms the basis of all corporate logos in the Group, is designed as an axonometric projection. The underlying element of the new logo is a mirror image of the parallelepiped's oblique isometric view.

This figure represents the key component of the new corporate style, i.e. shape. The side faces setting the motion vector from left to right and upwards highlight the idea of growth and development. The direction of lines, which have a vanishing point on their extension, illustrate headway and reflect Vnesheconombank's basic values – continuous development and tenacity.

## KEY DEVELOPMENTS IN 2014

SME Bank's Supervisory Board **approved the Bank's Development Strategy until 2020, individual KPIs for the Board members and Information Policy provisions.**

SME Bank **started implementing the SME Assets Securitization Program**, acting as an anchor investor in the initial deals.

SME Bank **started introducing the refinancing option in the existing product mix.** This change facilitates an increase in SME financing volumes at moderate interest rates.

SME Bank **jointly with Vozrozhdenie Bank completed a pilot transaction for providing the RUB 60.1 million syndicated loan** to finance the modernisation project of Victoria LLC (Rostov-on-Don) (50-50 split between the banks). This deal put into practice one of the strategic initiatives in the Bank's 2013-2015 Strategy, i.e. sharing credit risk exposure by participation in syndicates.

SME Bank launches **a new electronic platform Project Exchange** to boost entrepreneurs' initiatives. Through the Project Exchange entrepreneurs can publish project synopses and present them to potential investors. The main precondition is that the project should involve the roll-out of innovations and new technologies, modernisation of production facilities or energy efficiency improvement. The financial support for such projects can vary from RUB 60 million to 150 million.

SME Bank jointly with Financial University under the Russian Government **organised the conference "Promotion of Small and Medium-Sized Enterprises: Foreign Experience and Russian Practice"**. The conference featured the exchange of students' research, presentation of the SME Support Program in the Russian Federation and discussion of other countries' experience in supporting SMEs, including EU, Canada, Brazil and Belarus.

The St. Petersburg International Economic Forum featured **the award ceremony "Development Prize"** established by Vnesheconombank to mark the contribution of entrepreneurs to Russia's social and economic development. The prize winner for the best SME investment project was the SME Bank financed project of development, production and distribution of immunochromatographic test strips OFK-Cardio to detect cardiac infarction by means of cardiac protein binding aliphatic acids.

In December 2014, **the museum of SME Bank was opened.** This event was timed to the Bank's 15th anniversary. The museum's stand reproduces a sailing ship as a symbol of movement towards the target, development and success. The exhibit includes the Bank's history milestones, honorary diplomas and gifts from the partners and participants in the Bank's Program.

Equity capital increased by  
**2,059**  
mln RUB.

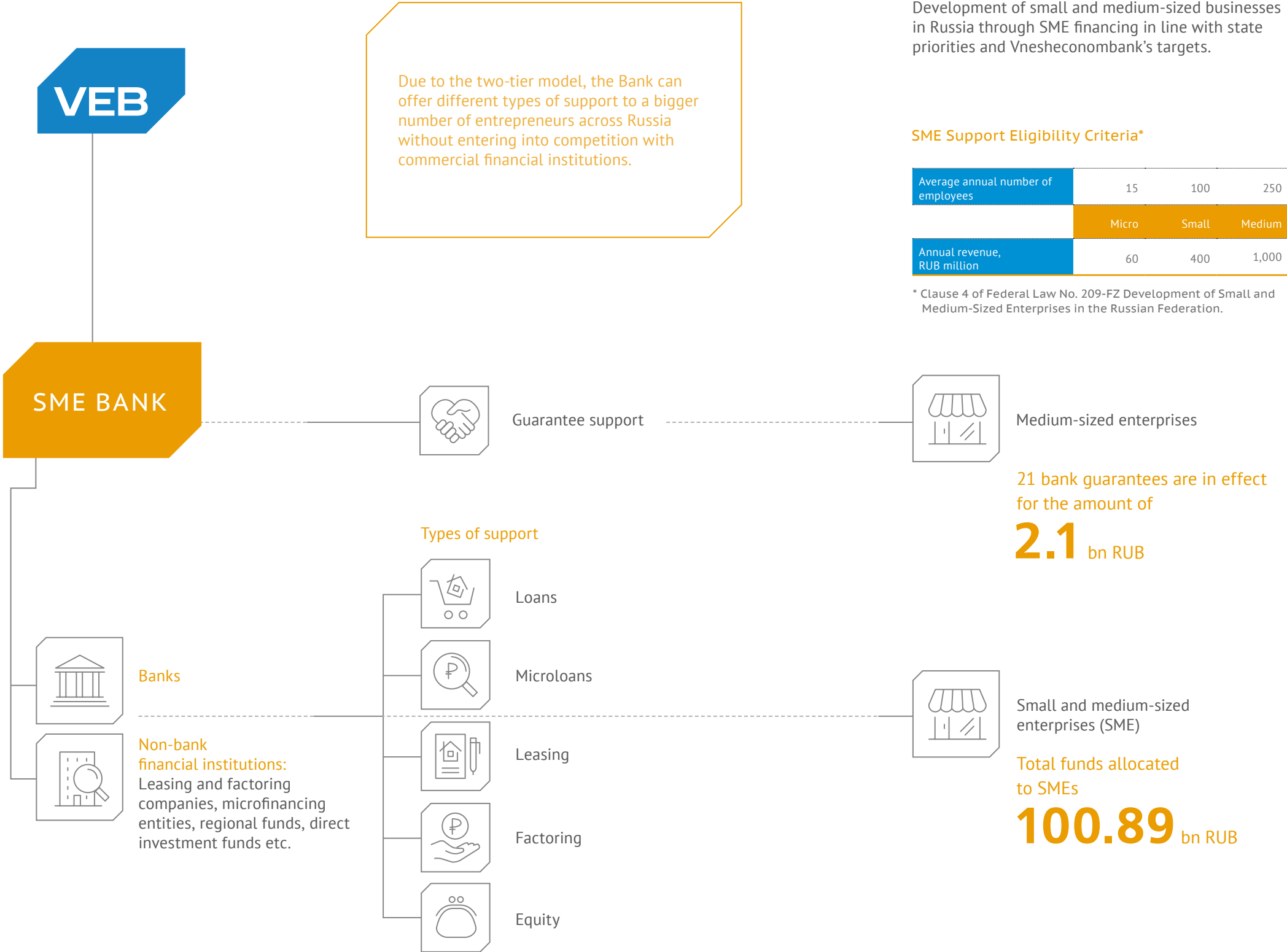


Further details of the project at: <http://birza.mspsbank.ru/>



# BUSINESS MODEL

## SME SUPPORT PROGRAM



As at the end of 2014, the Program included **246** partner organisations

Since Program launch it included **426** partner organisations

As at the end of 2014, 18,000 SMEs in 81 regions of Russia received financial support, including 171 mono profile cities (since the Program launch 50,000 SMEs in 83 regions).

Weighted average interest rate for the loans granted by partner banks to SMEs is 12.80% per annum.

## AWARDS IN 2014

### SME BANK WON THE "BANKING INDUSTRY" AWARD IN THE "SECTORAL MEDIA RELATIONS" CATEGORY.

On 26 March 2015, SME Bank received the "Banking Industry" prize in the "Sectoral Media Relations" category. The award was the recognition of the Bank's rigorous efforts to build up trust-based professional relations with journalists.

The "Banking Review" magazine instituted the award three years ago. In 2014, the Expert Committee consisting of representatives of the banking community and market experts selected the winners in 15 categories.

The "Sectoral Media Relations" category brought together the journalists from major federal media focusing on finance and economy. The key criteria were the quality of information materials and press offices' efficiency in providing media comments.



The number of SME Bank's mentions in leading media has significantly increased:  
Media Index grew by

**44%**

The number of publications went up by

**14.5%**

## MESSAGE FROM THE CHAIRMAN OF THE MANAGEMENT BOARD SERGEY KRJUKOV



That said, we should keep in mind that the crisis unlocks new opportunities for proactive, efficient and courageous entrepreneurs. We adjust our Program in line with the current situation and new business needs. Thus, at the end of 2014 we revised the Bank's Development Strategy until 2020. We should focus on socially and economically troubled regions and mono profile cities where small business is often the only possibility to provide for the family. Another critical aspect of our Strategy is the support of industrial parks and technological clusters, i.e. production growth points.

We continue providing information and advisory support to businesses. The Bank's experts jointly with regional authorities and nonprofit organisations hold master classes and training seminars, present existing financial support instruments and credit products, perform feasibility studies for SMEs. Last year, we specifically focused on raising entrepreneurship awareness among young people: we organised a series of business games "I Am an Entrepreneur" for pupils and students in different Russian cities.

The Bank launched the online platform Project Exchange on its website to boost entrepreneurs' initiatives. Using the platform, entrepreneurs can present their projects to a wide range of investors and partners.

In 2014, SME Bank celebrated its 15th anniversary. For us, this has been the period of hard work, challenging tasks and concerted efforts of the Bank's employees and our partners. Our achievements would hardly be possible without support of our shareholder, Vnesheconombank.

Generally, the year 2014 has re-confirmed that we are a dynamic team prepared to absorb the changes and quickly adjust credit products for businesses to new realities.

I would like to thank all employees of the Bank for their professionalism and dedication. I am confident that our partners who successfully went through many hardships and proved useful for the SME sector are prepared to face new tasks and challenges.

### Dear Colleagues, Partners and Friends,

Running small and medium businesses has never been a walkover in Russia. In 2014, the entrepreneurs' hardships were topped up by further challenges: aggravation of foreign economic relations, ruble exchange rate fluctuations, limited access to international financial resources and shrinking markets. According to recent surveys, over 50% of entrepreneurs referred to significant deterioration of the business climate in the country.

In this situation, the support provided by SME Bank is getting even more meaningful. Last year we did a lot to increase the resources allocated to businesses. In 2014, these funds grew by 4.9% to exceed RUB 100 billion. Over 18,000 SMEs are currently receiving the financial support. Nearly RUB 63 billion out of this amount were earmarked for projects involving modernisation of production facilities, energy efficiency improvement and roll-out of innovations.

Despite the current economic difficulties, the Bank met all of its targets. We succeeded in maintaining the interest rates for businesses at a minimum level (about 13%), while market rates soared to 20-21% by the end of the year. Long-term support is still a priority for the Bank: the loans with over 3-year maturity account for 77% of our portfolio, whereas the share of such loans in the market has reduced from 19% (2011) to 11%.



# OVERVIEW OF SME SECTOR

## MACROECONOMY

Capital investments

**-2.4%**

In 2014, Russia's economy faced serious challenges. The growth rate slowdown observed since mid-2012 was mainly caused by negative implications of the EU debt crisis. At the same time, the decline in economic activity increasingly brought structural problems to the front. Lack of investments was escalating.

spending and boosted capital outflows and inflation expectations. The CBR significantly increased the Key Rate on the back of dramatic ruble devaluation and the need to contain inflation expectations. In December 2014, the Key Rate was increased in a few days by 7.5 percentage points to reach 17%. Over the year the Key Rate grew by 11.5 percentage points. The interbank interest rate went well above the Key Rate but later started decreasing.

GDP growth in 2014 stood at 0.6%. Capital investments declined by 2.4% in annual terms. Consumer inflation in 2014 went up to 11.4% vs 6.5% in 2013. The main reason for growing prices was ruble devaluation and higher inflation expectations.

Consumer inflation

**+11.4%**

In 2014, the external factors strongly impacted the overall situation. The conflict in Ukraine, anti-Russian sanctions imposed by the US and EU countries and Russia's subsequent reciprocal sanctions, declining oil prices – all these factors had an adverse effect on the national economy, business climate and investment prospects. Western capital markets were closed for Russian issuers, which undermined investment demand and consumer

## DEVELOPMENT OF SMALL AND MEDIUM BUSINESSES

The number of small and medium-sized enterprises continues to grow. According to Rosstat data, in 2014 the number of small and micro-businesses (legal entities) was up by over 35,000 to reach about 2.1 million. Micro-enterprises primarily accounted for this gain, whereas the number of small businesses has been relatively stable over the last four years.

The year 2014 recorded an increase in the SME sector employment, though the growth proved to be insignificant, i.e. slightly over 15,000 people, or 0.14% in relative terms. Again, micro-enterprises contributed to the gain with employment growing by over 2.5%, while it fell by 1.5% in the small business segment.

The 2014 SME sales showed the highest growth rate in three years, having increased by 6.4%. Still, they failed to outpace inflation, which reached 11.4% in 2014.

Thus, the annual SME sales in real terms prices decreased by 6.6%.

The 2014 SME investments demonstrated higher-than-anticipated growth. The aggregate gain in the small and micro-business segments stood at 15.6% in face value (+3.7% adjusted to CPI).

As at the end of 2014, the number of individual entrepreneurs slightly increased after the 2011-2013 decline and reached 3.42 million people (Federal Tax Service data). The annual gain was 1.1% or 38,500 individual entrepreneurs.

## FINANCIAL SERVICES FOR SMEs

### Lending

The year 2014 recorded a significant slowdown in market growth: in January-December 2014 the volume of provided loans decreased by 5.6% (a year earlier the growth rate was 16.2%) to RUB 7.6 trillion.

By the 2014 year-end, the debt portfolio slightly contracted: by RUB 44 billion (-0.9%) in absolute terms and amounted to RUB 5.12 trillion. In 2013, the absolute gain totaled RUB 667 billion (+14.8%). The share of overdue debt in the market portfolio slightly increased – by 0.6 percentage points over the year – and stood at 7.7%.

In 2014, the market share of Top 30 banks declined by 4.1 percentage points reaching in total 56.3% of the debt portfolio. At the same time, overdue debt in their portfolios grew by 0.7% over the year to 9.8% of the portfolio on 1 January 2015, contributing to a high level of bad debts in the market.

Small and medium banks (with strong growth of SME loan portfolio) succeeded in maintaining a relatively high quality of their portfolios throughout the year. The share of SME overdue debt in the banks outside the Top 30 group was only 5%. However, it should be noted that negative trends are also observed in this market segment. Thus, over the year the arrears added up 1 percentage point.

The average tenor of loans continued to reduce. In 2011-2013, the share of loans with 3+ years tenors decreased from 19 to 15%. According to CBR data, only 11.1% of ruble loans provided to SMEs in 2014 had the maturity over three years.

The borrowing cost continued to grow on the back of banks' funding problems. Following the December increase of the Key Rate to 17%, the cost of loans offered by banks to small and medium businesses rocketed.

According to a survey conducted by SME Bank at the end of December 2014, 77% of lenders reported a dramatic increase in interest rates for SMEs – on average up to 21% per annum.

CBR's quarterly monitoring data indicates that banks increasingly tend to tighten their lending terms, i.e. they more rigorously review the financial performance of SME borrowers and set more stringent requirements for loan collaterals.

One can hardly expect recovery of the lending market in 2015. The volume of provided loans will considerably decrease, which will result in significant shrinking of SME loan portfolio on the back of shorter average loan terms. By the year-end the market is expected to decline by 13.5–16.5%; the depth of the dip will depend on the international economic environment and the government's anti-crisis measures.

### Micro-Financing

SME Bank's Analytical Center estimated the size of the micro-financing market in 2014 at RUB 92 billion. Microloans to SMEs accounted for 40% of the portfolio (RUB 36.8 billion).

### Leasing

According to various estimates, the size of the SME leasing market in 2014 totaled about RUB 800 billion\*. A significant portion of the leasing market (nearly 37%) accrues to the lease of railway transport and motor vehicles. i.e. areas beyond SME Bank's operations. Therefore, the volume of SME Bank's target niche amounts to ca RUB 504 billion.

### Factoring

In 2014, the SME portfolio of factoring providers stood at RUB 84 billion\*\*, RUB 47 billion thereof referred to non-trade SMEs.

Overdue loans in market portfolio

**7.7%**

\* The 2014 data of the Expert RA Rating Agency and the estimate of SME Bank's Analytical Center.

\*\* Research data by the Association of Factoring Companies.

# STRATEGIC PRIORITIES

## IMPLEMENTATION OF THE 2013–2015 STRATEGY

The Bank’s strategic goals are set as follows:

- Step up the financing for non-trade SMEs, including innovative SMEs
- Promote the development of new markets of SME financing

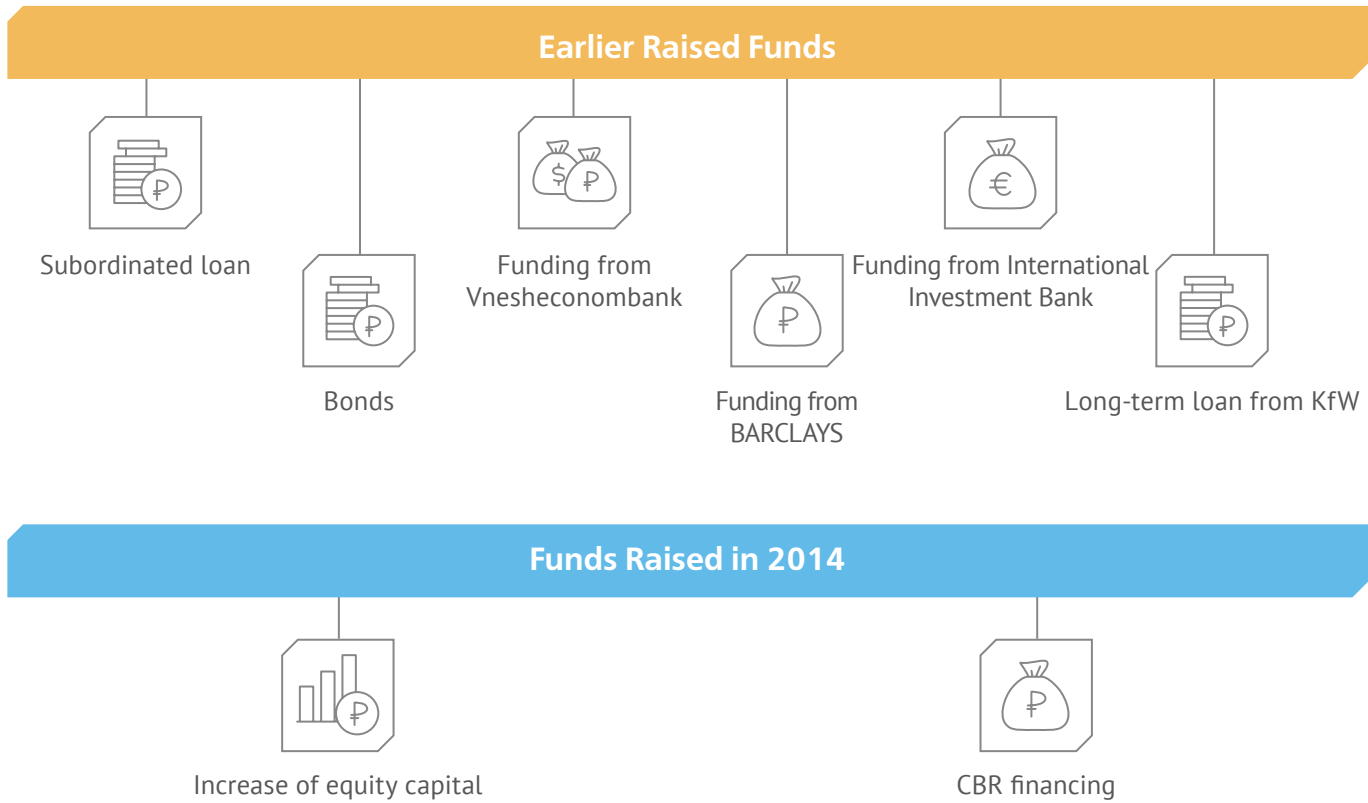
In conformity with its strategic goals, the Bank focused on the financial needs of the following SME target client segments:

- Innovation sector SMEs
- Non-trade SMEs that do not belong to innovation sector
- Non-trade SMEs with low access to bank lending
- Startups

Below listed financial instruments were employed to meet the requirements of the target client segments:

- Bank loans
- Leasing
- Factoring
- Micro-financing
- Equity participation (through financing of partner organisations)

To ensure loan portfolio growth in 2014 within the SME Support Program and secure financing of investment programs and projects the Bank used the following financial sources, including new ones (funds raised in 2014):



## Strategic Initiatives

The Bank defined a number of key initiatives, which are essential for implementation of its 2013–2015 Strategy:

**Introduction of the interest rate differentiation for partner organisations depending on the priority of the ultimate borrower**

The principle of the priority-driven interest rate dependence (margin differentiation) is stipulated in the Interest Rate Policy approved by SME Bank’s Supervisory Board. The lowest interest rates are offered to partner banks for products intended for financing of innovation sector SMEs. The Bank also restricts the margin of partner banks for such products.

**Introduction of the refinancing tool for partner banks**

SME Bank’s Supervisory Board adopted the refinancing concept followed by two pilot transactions.

**Transformation of the Bank’s product line with the focus on providing straight-through products to ultimate borrowers**

SME Bank’s Management Board approved the Product Line Transformation Program with the Focus on Providing Straight-Through Products to Ultimate Borrowers.

**Participation in direct investment funds (in particular, in cooperation with the Agency for Strategic Initiatives)**

SME Bank’s Supervisory Board approved CEIF “MIR” key investment policies. In November 2014, the CEIF equity capital was increased by RUB 500 million in accordance with the Bank’s Strategy and business plan. Current net asset value exceeds RUB 1 billion. Governance bodies and Investment Committee exercise control over the fund operations.

**Risk exposure on ultimate borrower in selected niches through guarantee facilities, purchase of partner banks’ loan portfolios and participation in syndicates**

On 21 December 2013, the Federal Law No. 379-FZ Introduction of Changes in Certain Regulatory Acts of the Russian Federation was adopted, which provided the financial market with new tools for asset-backed securitisation transactions. The Federal Law came into effect on 01.01.2014 but its actual application required the development of a number of bylaws (action completed by 01.01.2015). In 3Q 2015 SME Bank is going to introduce the product concept for loan portfolios purchase.

**Intensification of the Bank’s PR activities and its recognition as research and information center for Russia’s SME segment**

As of the 2014 year-end, SME Bank significantly increased its exposure to leading media:

- Media Index was up by 44%
- The number of publications increased by 14.5%.

In 2014, the Bank’s Analytical Center completed 25 research studies. They were published in the Research section on the Bank’s website and were also forwarded to the Bank’s partners.

In 2014, SME Bank continued to implement the SME Data Portal project, which accumulates up-to-date information on the Bank’s Program performance and statistics from external official sources.

## Progress of SME Support Program as of 01.01.2015

Total funds allocated to SMEs reached RUB 100.89 billion. As of 01.01.2015, the Bank's partners signed nearly 24,000 agreements with SMEs (total number of partners 246).

### Consolidated SME support in strategic niches:

- Loans to innovation sector SMEs – RUB 62.6 billion (target – RUB 59.4 billion)
- Other strategic niches – RUB 27.4 billion
- Stakes in direct investment funds – RUB 1.0 billion (target – RUB 1.5 billion)

### Loan portfolio quality

In 2014, the Bank's loan portfolio was rather sustainable. As of 01.01.2015, the average provision rate for assets exposed to credit risk was 4.1%.

SMEs in 81 out of 85 regions of the Russian Federation receive support under the Program. Among the recipients are 1,850 SMEs in 171 (out of 313) mono profile cities which got RUB 6.7 billion of loans as of the end of 2014.

## Guarantee Support

Since launch of the guarantee support program for medium-sized enterprises (12.08.2013), 40 framework agreements with partners have been signed for the total amount of RUB 44.6 billion.

The biggest share in SME loan portfolio, i.e. 81%, belongs to non-trade SMEs (according to Rosstat 2013 data, the non-trade SMEs accounted only for 44% in the total sales of the sector). The Bank strongly focuses on covering SMEs' needs for long-term resources: as of 01.01.2015, the share of contracts with the term of 2+ years is 91%, while loans with 3+ years maturity account for 77%.

SME Bank ensures maximum affordability of financing for small and medium-sized enterprises: as of 01.01.2015, the weighted average interest rate for the loans provided to SMEs by partner banks under the Program is 12.80% per annum, which is a key indicator of the Program efficiency.

The Bank provided 23 bank guarantees to SMEs totaling RUB 2.29 billion. As of 01.01.2015, 21 bank guarantees are in effect for the total amount of RUB 2.1 billion.

## Guarantee Support Eligibility Criteria

The selection of medium-sized enterprises is governed by the Order of the Russian Ministry of Economic Development No. 143 of 21.03.2013 (rev. of 08.10.2014) Establishment of Eligibility Criteria for Medium-Sized Enterprises and their Investment Projects.

Eligibility criteria for medium-sized enterprises:

- At least one of participants holding a minimum 10% stake in the borrower's equity capital or mutual investment fund, and/or one of the borrower's employees, and/or one of contractors engaged by the borrower in the investment project (hereinafter the "Project") has at least a three-year experience in the relevant industry or was involved in at least one investment project with capex and achieved target results.
- The borrower and its participants whose stake in the borrower's equity capital or mutual fund exceeds 25% have no arrears in taxes, fees and other mandatory payments to the budgets of the Russian Federation and state non-budgetary funds.
- The borrower and its participants (legal entities) whose stake in the borrower's equity capital or mutual fund exceeds 25% are not subject to bankruptcy proceedings.
- The borrower has commitments (including conditional and preliminary ones) from third-party investors (co-investors) to finance the part of the project, which is not covered by the borrower's funds.
- As of the loan issue date, the borrower has provisions for loan repayment to other Russian banks in the form of an irrevocable bank guarantee or collateral.
- The borrower's financial standing, as assessed by the Bank, should not be below the medium level specified in the CBR Regulation No. 254-P of 26.03.2004 Establishment of Banking Institutions' Provisions for Possible Bad Debts and Other Lending Receivables.



Further details of SME eligibility criteria at:  
[http://www.mspbank.ru/Programma\\_podderzhki/Kriterii\\_otbora](http://www.mspbank.ru/Programma_podderzhki/Kriterii_otbora)



UPDATE OF THE BANK’S STRATEGY UNTIL 2020

The Bank’s Development Strategy until 2020 was drafted and approved in 2014. It was updated to reflect the new state

policy priorities for SME support and Vnesheconombank’s new long-term development strategy.

The update of the Bank’s Development Strategy helped to redefine the direction of its further progress based on the following principles:

- Focus on the SME financing segments, which are not sufficiently covered by commercial banks and non-bank financial institutions
- Support the state-prioritized Russian regions (Far Eastern Federal District, North Caucasian Federal District, Crimean Federal District) where SMEs need additional promotion due to their underdevelopment
- Utilize the Bank’s key strategic advantage – long-term lending capacity

Key Strategic Areas

- 1) Financing of priority client segments:

  - Support of SME residents of industrial parks
  - Co-financing of industrial parks’ construction and investments in SMEs’ fixed assets (residents of industrial parks) by cooperation with property management companies
  - Financial support of SME subcontractors integrated in supply chains of large industrial enterprises, including companies operating in accordance with the Federal Law No. 223-FZ of 12.03.2014
- Purchases of Goods and Services by Certain Types of Legal Entities

  - SME financial support in “red” and “yellow” zone mono profile cities and state-prioritized regions (Far Eastern Federal District, North Caucasian Federal District, Crimean Federal District)

2) Development of SME long-term financing (3 to 10 years) to ensure investments in fixed assets

3) Development of the securitisation of SME loan portfolios and other market facilities for SME promotion

Key Strategic Initiatives

- Introduce the principle of target-driven SME financing: purchase or upgrade of fixed assets, establishment of manufacturing infrastructure
- Amend the Program’s external regulatory framework to reflect strategic priorities and a wider range of SME support instruments
- Establish the Bank’s Center of Competence to coordinate education and information activities and unlock additional synergies for different types of state SME support
- Introduce uniform lending standards within securitisation activities to offer a new funding option and form a new market niche

THE BANK’S POSITION IN THE SME FINANCING INDUSTRY

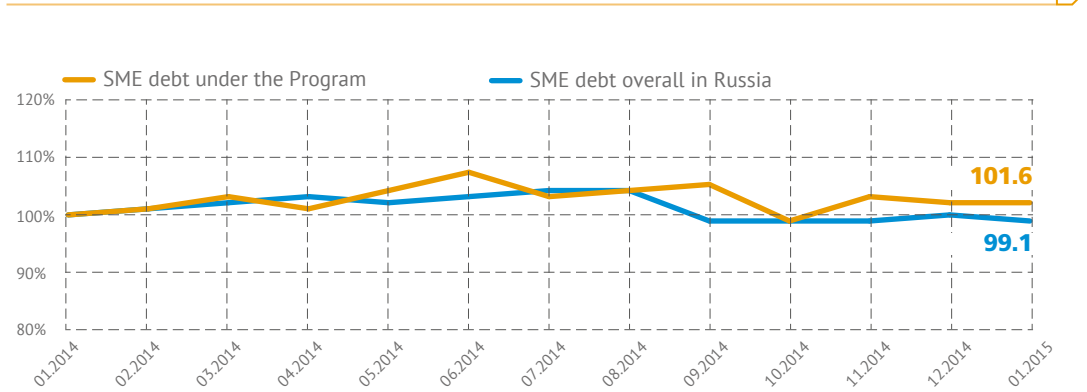
The Bank’s share in the SME lending market stood at 1.5%. It should be noted that such share represents a rather high market position. Thus, if the SME loans provided

by partner banks under the Program were considered as Bank’s loan portfolio, SME Bank could be ranked 6th in 2014 among similar lenders.

Loan portfolios of key players in the SME lending market, RUB billion

	Company	Loan portfolio*
1.	Sberbank of Russia	1,297
2.	Rosselkhozbank**	572
3.	VTB24	169
4.	Promsvyazbank	100
5.	Moscow Industrial Bank	84.1
6.	SME BANK***	79.8
7.	Uralsib	72.9
8.	Saint-Petersburg	66.2
9.	Vozrozhdenie	59.4
10.	Bank of Moscow	59.4

Outstanding SME debt performance, %



The loan portfolio growth under the Program outpaces the average market performance. Thus, in 2014, SME Bank ensured a 1.6% increase in SME lending volume under the Program on the back of the declining market (0.9%).

Slowdown in the Bank’s loan portfolio growth in 2014 was caused by deteriorating lending market conditions.

The Bank’s share in long-term loans (maturity 3+ years) provided in 2014 is

**5%**

\* Excluding volumes refinanced by SME Bank under the SME Support Program.  
\*\* Data as of 01.01.2014.  
\*\*\* SME Bank supports SMEs through the products of partner banks.

# FINANCIAL PERFORMANCE

Key performance indicators and factors affecting the Bank's financial results in the reporting year, RUB million

	01.01.2014	01.01.2015
Total equity (capital)	29,274	33,180
Profit after tax	281	131
Assets book value	127,404	132,042
Net loans	121,382	123,650
Liabilities	104,115	106,928

In the reporting year, the Bank recorded net profit of RUB 131 million. The main reasons for a decline in net profit compared with the prior year were additional provisions

reflecting deteriorating economic conditions and the Bank's commitment to affordable funding for small and medium-sized enterprises.

## Factors Affecting the Bank's Financial Results

In 2014, working assets increased by RUB 3,988 million to RUB 132,957 million (as of 01.01.2014, RUB 128,969 million). This increase resulted from the growth in SME lending by RUB 2,007 million and money market loans by RUB 2,953 million.

Liabilities of the partners within the SME Support Program have increased by 1.9%. As a result, the 2014 income generated under the Program has grown by RUB 310 million (from RUB 7,709 million in 2013 to RUB 8,019 million in 2014).

As at the end of 2014, corporate loans totaled RUB 1,228 million. In 2014, corporate loan revenues declined by RUB 42.8 million compared with 2013 (RUB 186 million).

Even though SME Bank, by virtue of its status of a state support institution, operates at a minimum margin of 1–1.5%, its financial standing is sustainable. The Bank meets all capital adequacy requirements set by the Central Bank of Russia.

## Changes to the Capital Management Policy

In 2014, for the capital adequacy evaluations the Bank referred to the CBR Regulation No. 395-P of 28.12.2012 Methodology for Evaluation of the Financial Institutions' Equity (Capital) (Basel III) and CBR Instruction No. 139-I of 03.12.2012 On Regulatory Requirements for Banks.

The Bank needs to maintain a high capital ratio to ensure availability of funds for long-term financial support of small and medium businesses. The Bank's interest rates under this Program are set at the market lower end.

As of 01.01.2015, capital adequacy (H1.0) of SME Bank

25.2%

As of 1 January 2014, the Bank's equity capital amounted to RUB 17.18 billion. In November 2014, the Bank's capital was increased by the sole shareholder by RUB 2.06 billion to RUB 19.24 billion. In addition, the internal source for capital increase is the undistributed profit. According to the shareholder's decision, the

Bank retains net profit. The Bank's additional capital includes RUB 9 billion subordinated loan due in October 2025.

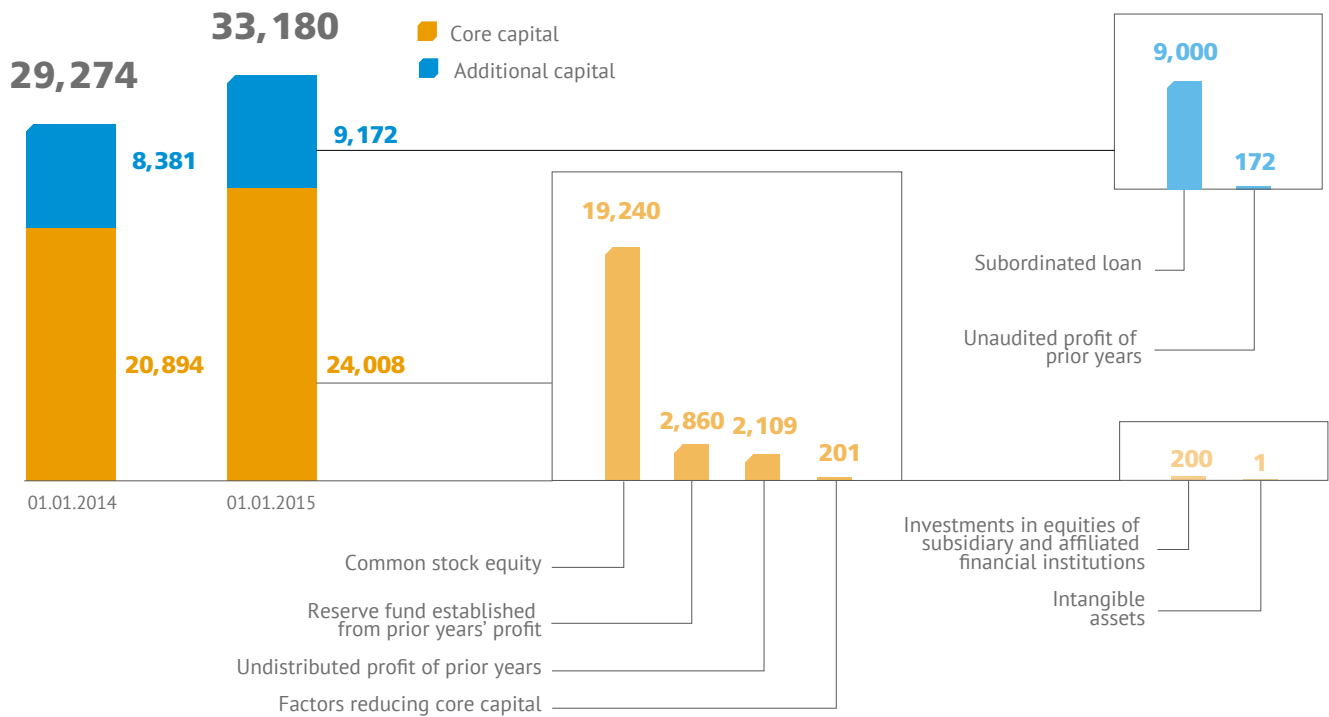
In 2014, the Bank did not place any convertible securities. The Bank does not hold treasury shares.

## Capital ratio, %

	01.01.2014	01.01.2015	CBR requirement
Core capital (H1.1)	15.4	18.2	5.0
Tier 1 capital (H1.2)	15.4	18.2	5.5*
Total equity (H1.0)	21.5	25.2	10.0

\* 6.0% from 01.01.2015.

## Equity (capital) structure, RUB million



# #1 OUR BUSINESS

## SME BANK ACTIVITIES

### PRODUCT LINE

In 2014, the Bank's product line was revamped in accordance with new targets defined in the 2013–2015 Strategy. As a result, the product mix included new offers

and options, while the total number of products reduced from 20 to 15. Some of the products listed below got significant redesign.

#### Financing for Innovation and Modernisation (FIM) – Targeted with Refinancing option

The new version of FIM – Targeted credit product introduced a fundamentally new SME support tool – the refinancing option,

which allows to replace funding from other sources used to finance SME's innovation, modernisation and energy-efficiency projects.

#### Non-Trade Factoring – Company and Non-Trade Factoring – Bank

The Bank revised the approach for providing support through factoring companies to focus on non-trade sector enterprises.

#### Leasing – Targeted

In 2014, the leasing product incorporated specific financing terms for major leasing companies with extensive regional network across Russia.

The updated product helped to step up the financial support for SMEs' business development.

## COOPERATION WITH PARTNERS

### SME Bank's Loan Portfolio under the Program

Data as of 01.01.2015:

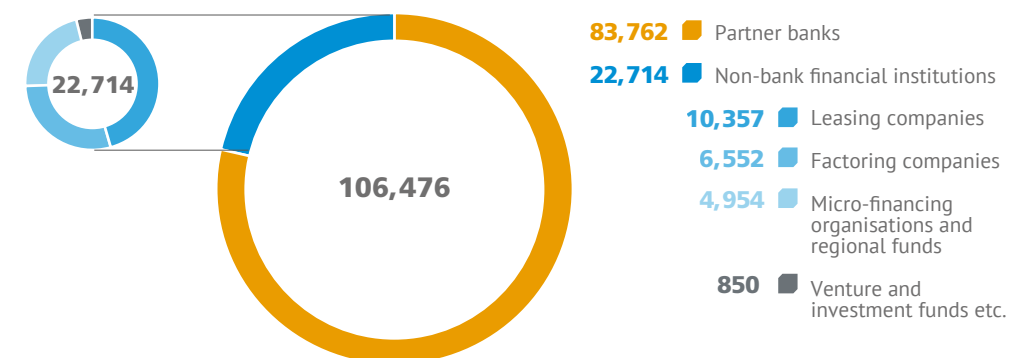
#### Number of SME Bank's partners:

- Partner banks – 129
- Non-bank financial institutions (leasing and factoring companies, micro-financing organisations, SME support regional funds and others) – 152

#### Number of loan agreements – 963 including:

- Ruble-denominated – 956 agreements (total RUB 187 billion)
- US\$-denominated – 7 agreements (total US\$ 87 million)

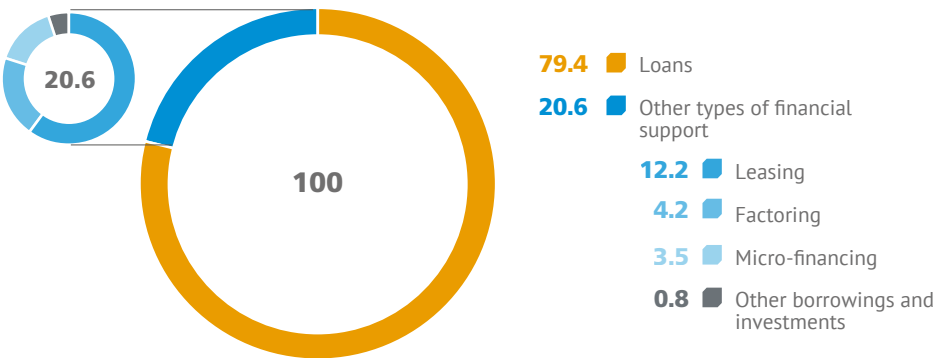
### Partners' liabilities, RUB million





SME SUPPORT

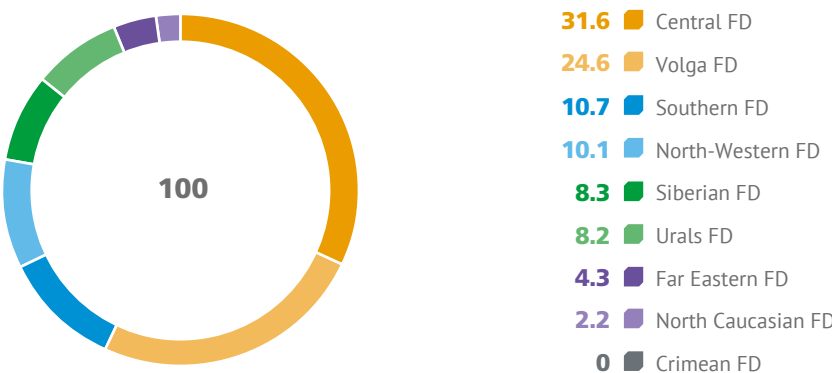
SME support portfolio structure by support type (based on SME outstanding debt), %



As of 01.01.2015, RUB 100.89 billion were allocated to SMEs. SME support through partner banks accounts for a significant share, i.e. 79%.

The most dynamic entities among non-bank financial institutions are leasing companies (12%); factoring and micro-financing organisations account for 4 and 3% of the total portfolio respectively.

SME support portfolio structure by region, %

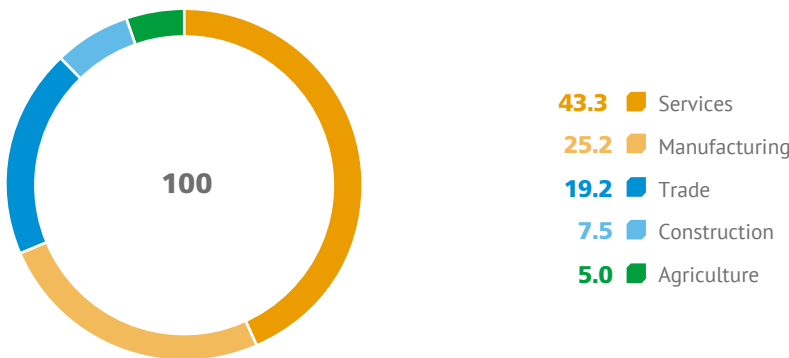


The front-runners in the regional structure of the SME financial support portfolio are traditionally regions with dynamic development of SMEs and financial infrastructure, i.e. Central and Volga Federal Districts (32 and 25% respectively).

At the same time, Southern and North-Western Federal Districts account for relatively high 11 and 10%. It is noteworthy that banks tend to grant loans to SMEs primarily in the Central Federal District (it holds a 42% share in the aggregate bank loans portfolio).

The Bank is working strenuously to engage partners and SMEs in the state-prioritized regions

Loan portfolio structure by industry, %



SME Bank's Program is aimed at supporting non-trade SMEs, therefore, all products include limitations for financing of trade enterprises. Due to such approach, the Bank's portfolio structure materially differs from the market average. Thus, non-trade SMEs account for 81% in the industry structure of

SME support portfolio with the following breakdown: 25% manufacturing, 43% services, 7% construction and 5% agriculture. According to Expert RA data, in 2014 the loans to manufacturing enterprises across the market accounted for about 11%, while the loans to trade enterprises stood at 48%.

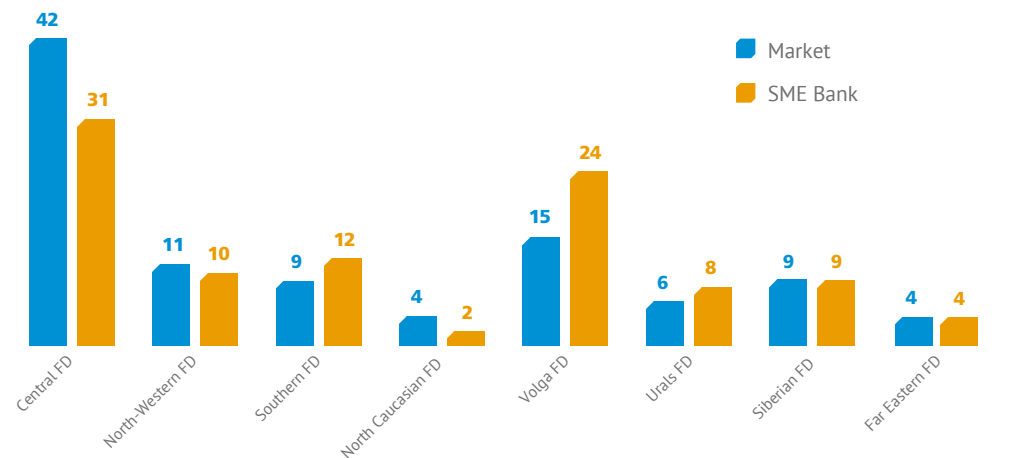
Loan portfolio structure by maturity, %



The whole SME financial support portfolio (including leasing, factoring, micro-financing) is dominated by agreements with 3+ years maturity; their share is 77%. It is noteworthy that over two years (since early 2013) this number has increased by 21 percentage points. The long-term format of the financial support portfolio under the Program is determined by the 2013-2015 Strategy – capex financing. In the market more than half of credit products for small and medium

businesses allow for maximum maturity in excess of three years, but only 11% of such loans were actually disbursed in 2014, while the share of loans with up to 1 year maturity was 71% (CBR data). Long-term (over 3 years) loans account for about 33% in the market portfolio. It is safe to say that in the short-term perspective the structure of SME debt portfolio will not significantly change: most loans are provided for below one year.

Outstanding debt by federal district, %



Portfolio structure by size of financing

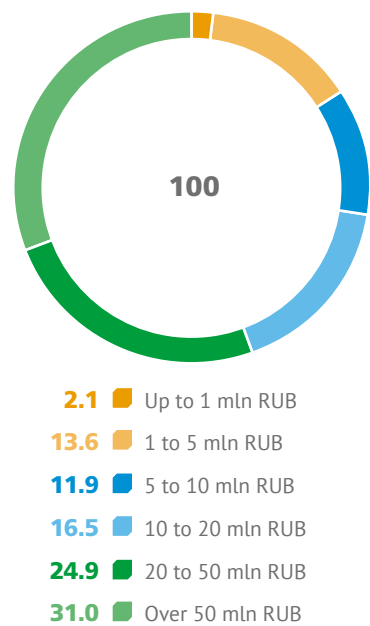
The portfolio structure by size of financing is dominated by medium and large transactions from 20 to 50 million RUB and over 50 million RUB (25 and 31% respectively). At the same time, the portfolio structure by the number of loans shows a different picture: most of the loans (45%) are within the 1 to 5 million RUB range. The share of 5 to 10 million RUB and 10 to 20 million RUB loans is also quite high, i.e. 13% and 9% respectively. So, the average loan provided under the Bank's Program is RUB 10 million, which is 13% above the market average of RUB 8.8 million (according to Expert RA).

The support portfolio includes the loans up to RUB 1 million (2% of outstanding debt and 26% of the number of loans). As a rule, they represent resources allocated to the partners offering micro-financing products.

SME loans interest rates

One of SME Bank's key objectives under the Program is to enhance the affordability of long-term resources for SMEs by offering

Portfolio structure by size of financing, %



low interest rates to the partners and setting the ceiling for the partners' interest rates on SME loans.

The weighted average interest rate on SME loans provided by partner banks under the Program is well below the market average. As of 01.01.2015, the rate was 12.80% per annum. For two consecutive years the Bank has maintained the weighted average interest rate on SME loans under the Program within the 12.6–12.8% range.

Referring to the market in general, the interest rates on SME bank loans in 2014 reached 21% per annum. Following an increase in the Key Rate, most banks (76.5%) raised SME lending rates even before the 2014 year-end. About 24% of market players expect further increase in SME loan rates in 2015.

FINANCIAL MARKET OPERATIONS

In 2014, as part of the SME Support Program, the Bank continued its cooperation with the CBR under the Loan Facility Agreement, secured by guarantees from banking institutions, as well as pledge of receivables for interbank loan agreements. The total volume of CBR refinancing in 2014 was RUB 26.5 billion.

The Bank acted as a joint coordinator of public syndicated loans for Russian financial institutions. The aggregate volume of the Bank's participation in these transactions reached US\$ 25 million.

The volumes in the interbank market were as follows:

- RUB 259 billion in the money market
- US\$ 14,945 million in FX (including swap deals)

In fixed income operations in 2014, the Bank focused on banking sector issuers. The share of financial institutions in its portfolio reached 87%, while the share of corporate debt did not exceed 13%. The average weighted securities portfolio in 2014 stood at RUB 12.4 billion.

BUDGET DEBT COLLECTION

In 2014, SME Bank continued to perform its functions as an agent of the Government of the Russian Federation for budget debt repayment from legal entities and Russian Regions.

2014 results

As a result of the Bank's execution of its agency functions in 2014, debts for RUB 0.9 billion were settled in favor of the Russian Federation (the total debt repaid to the Russian Federation with participation of SME Bank in 2001–2014 is RUB 8.6 billion).

As of 01.01.2015, the Bank keeps records of amounts owed to the federal budget under 1,140 budget loans and 63 agreements between the Russian Finance Ministry and authorized banks for the amount of RUB 11.0 billion.

# SME LEASING

SME Leasing is the leasing arm of SME Bank providing leasing services to small and medium-sized enterprises in non-trade sectors.

The company operates across the Russian Federation, by leasing mainly manufacturing and processing equipment and hardware. SME Leasing provides financing for the purchase of state-of-the-art Russian and foreign equipment.

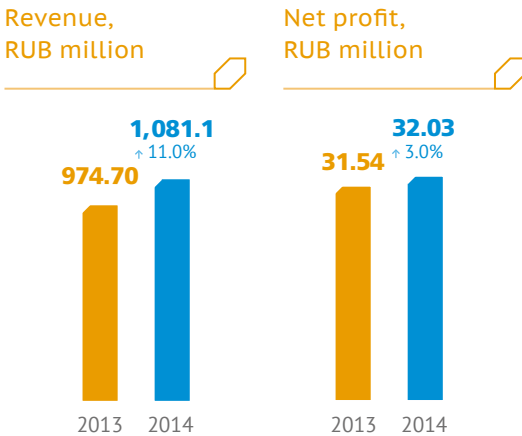
The support is provided to investment projects that, due to technological, industry-specific or regional risks, fail to receive funding from other leasing companies or banks, as well as investment projects in the regions where other state and private leasing companies do not have operations.

SME Leasing and SME Bank have a common risk policy.

SME Leasing participates in the state financial support program for small and medium-sized enterprises implemented by SME Bank and uses loans from SME Bank to finance leasing transactions under standard terms and conditions valid for all leasing companies. The company finances SME investment projects under leasing programs developed on the basis of SME Bank's existing product line. Through cooperation with regional entrepreneurship support institutions, the company tailors its leasing programs to meet specific industry priorities of regional SMEs.

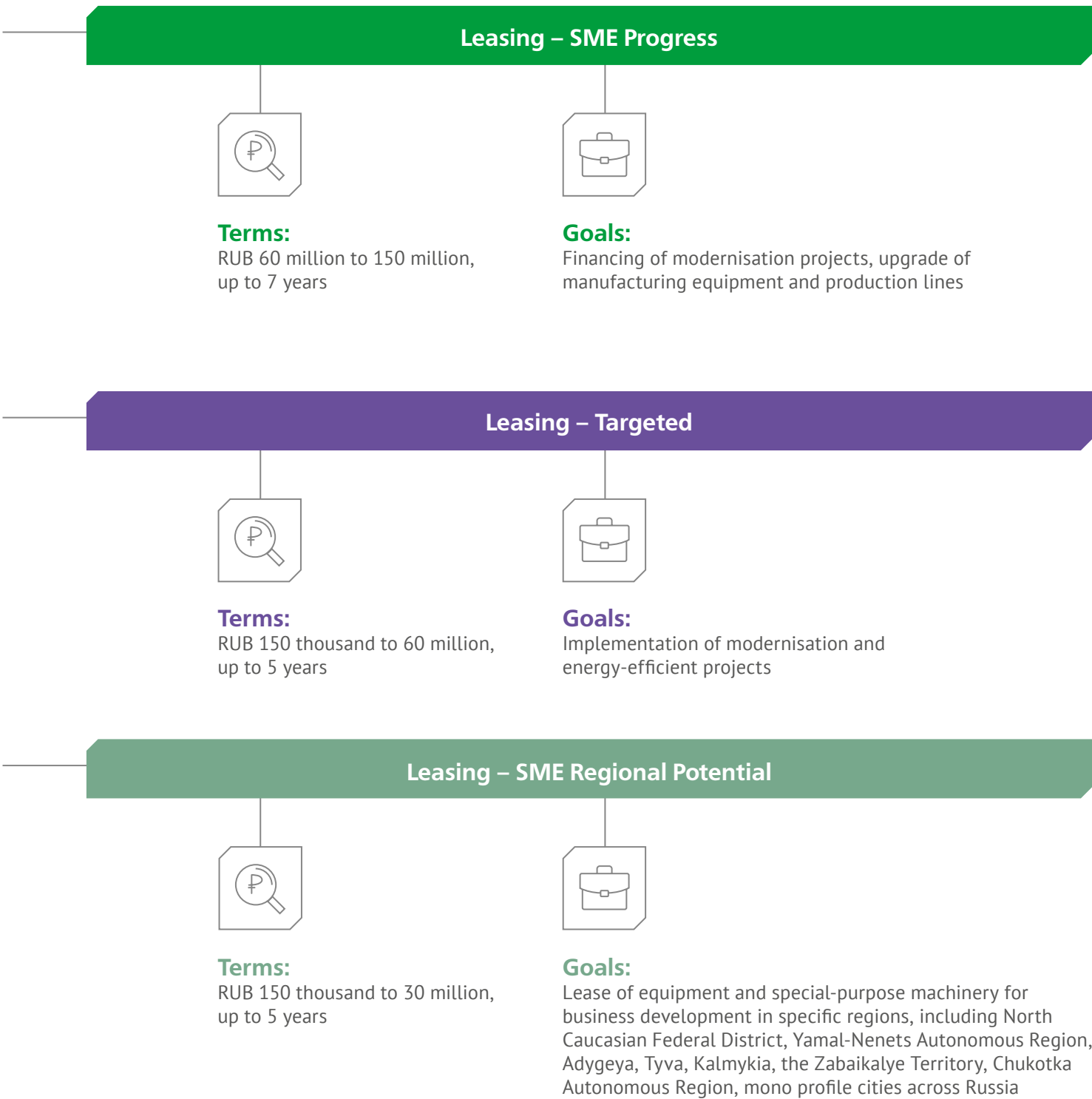
Activities:

- Operating in priority areas according to SME Bank's Strategy (mono profile cities and underdeveloped Russian regions)
- Financing non-trade SME projects to develop and upgrade existing production facilities
- Supporting innovation and energy- and resources-efficient investment projects
- Financing SMEs' export transactions, supporting import substitution projects
- Promoting the establishment and development of SME support infrastructure by close cooperation with regional governments, development funds and corporations
- Development, testing and introduction of SME Bank's new products and special programs in specific regions
- Providing methodological support for the Regional Leasing Companies Project to step up SME support in regions via leasing instruments
- Assistance in sourcing and selecting medium-sized enterprises projects eligible for SME Bank's guarantee mechanism

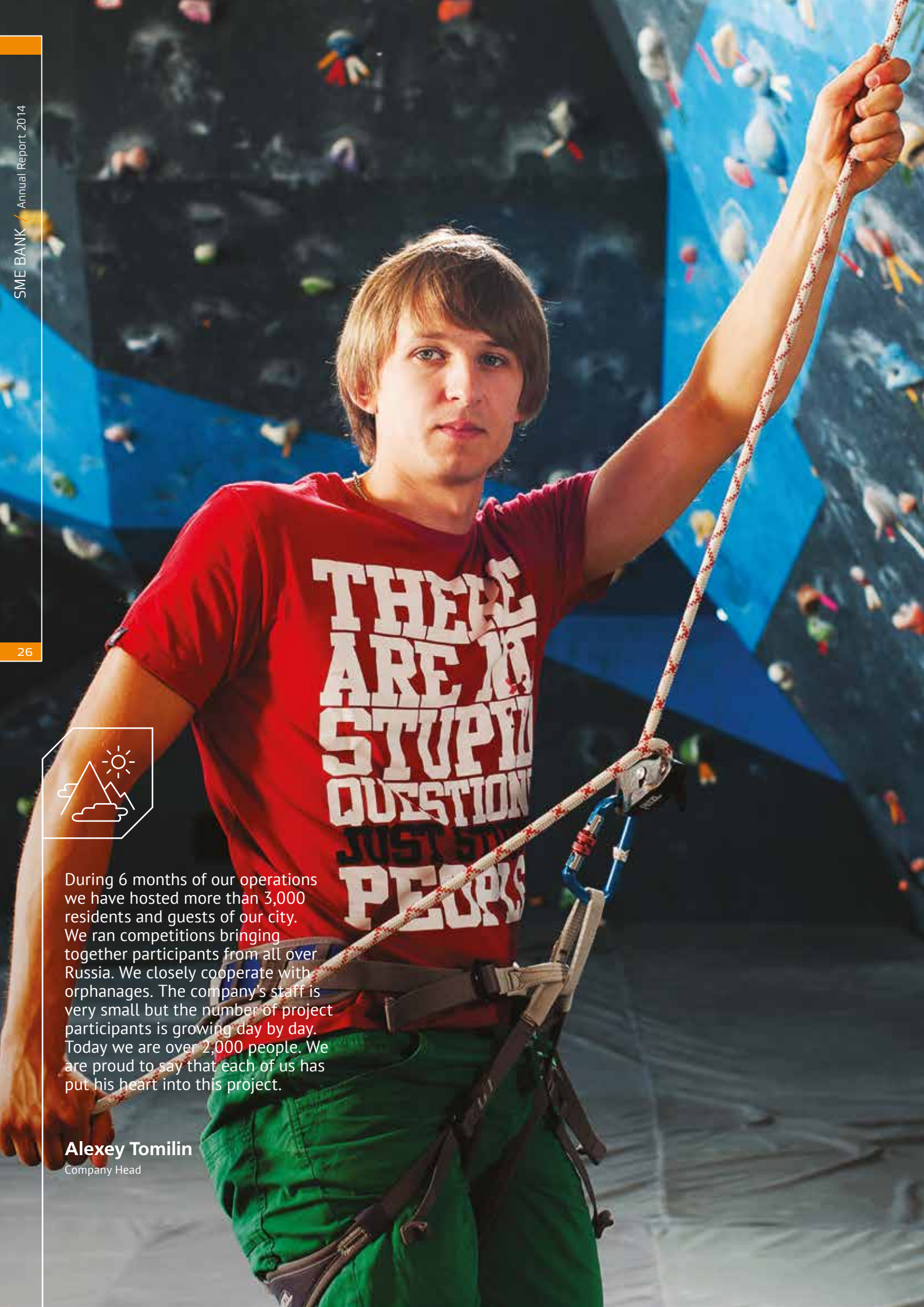


## 2014 PRODUCT LINE

SME Leasing's support to SMEs is based on the following products of SME Bank:







## VOSKHOD CLIMBING GYM

*Tula's first climbing sports center*

### Individual Entrepreneur Tomilin

The Voskhod climbing gym meets the highest aspirations of the fans of outdoor activities. Visitors guided by experienced trainers can test themselves on the routes of different complexity. The climbing gym offers a comprehensive training course prior to mountain hiking.

The sports center offers the following amenities:

- Climbing walls up to 6.5 m high
- Routes of different complexity and bouldering terrains
- Safety accessories to ensure trouble-free activities
- Panoramic view over the park and Arts Square
- Soft sofas in chill-out zones
- Warm-up and lounge zones
- Working hours from 11 am till 10 pm
- Free parking lot
- Low prices, discounts and membership
- Outdoor events

The Voskhod club started inviting the visitors of different age to the climbing amateur groups, therefore it would be interesting both for children and adults.

The club also includes professional sports groups where Tula-based sportsmen can train to get prepared for Russian and international competitions.

### Project goal



Establishment of a climbing sports center in Tula.

### Project tasks



Purchase, maintenance and modernisation of sports equipment facility.

### Expectations



Development of the climbing sports in the Tula Region.

### Project overview

Industry	Services
Region	Tula, Tula Region
Supporting Partner	Tula Regional Fund for Small Business Support
Financing Amount	RUB 600 thousand, Micro-financing
Tenor / Rate	3 years / 14.5% p.a.

During 6 months of our operations we have hosted more than 3,000 residents and guests of our city. We ran competitions bringing together participants from all over Russia. We closely cooperate with orphanages. The company's staff is very small but the number of project participants is growing day by day. Today we are over 2,000 people. We are proud to say that each of us has put his heart into this project.

**Alexey Tomilin**

Company Head





Innovations are like oxygen for our company. Any company is doomed to stagnation and death without headway and new developments, therefore we count on new knowledge, our unique, talented employees and vast scientific contacts. We skim the cream off our partners' expertise and invest in the development of new projects and scientific/production potential. Certainly our business is not a piece of cake: we have failures and missed targets at times but all our activities yield valuable experience in promoting and implementing innovative developments.

**Anna Shkuratova**

Director

## CARD-INFO TEST SYSTEM

*Detection of damage of cardiac muscle cells upon first signs of myocardial infarction*

### OFK-Cardio LLC

In June 2010, the RVK seed fund invested ca RUB 20 million in the innovative development of immunochromatographic testers. This investment allowed OFK-Cardio LLC to complete the existing equipment package and launch the production of cardiac markers. In 2012, OFK-Cardio LLC bought RVK's stake in its equity capital at the market price. Now the company runs all production operations on its site, except the outsourced cassettes.

In 2010, the test strips were certified by the Russian Scientific Research Institute of Medical Equipment, and in February 2011 they successfully passed clinical testing in Moscow. The company's achievements gained recognition at the "2014 Development Prize" award ceremony in the category "The Best SME Investment Project".

Today OFK-Cardio LLC closely cooperates with the Russian Health Ministry to make sure that their test is included in the Standards of Care, and the test strips are available in the medical kits of all emergency teams.

By 2016, the company plans to achieve breakeven and increase the annual sales of cardiac markers to RUB 100 million.

### Project goal



Development of domestic immunochromatographic test system.

### Project tasks



Production of CARD-INFO testers for individual instant diagnosis of ischemic heart disease.

### Expectations



Establishment of the production line for CARD-INFO test strips, which are instrumental in detecting myocardial infarction at early stages. This development will significantly reduce the myocardial

infarction mortality rate primarily among able-bodied population and ensure at least a 3–5% increase in the average life expectancy.

### Project overview

Industry	Healthcare
Region	Obninsk, Kaluga Region
Supporting Partner	Elita Bank LLC under SME Bank's Program under participation of the State Entrepreneurship Support Fund of the Kaluga Region as a guarantor
Financing Amount	RUB 30 million, FIM-Targeted Loan
Tenor / Rate	5 years / 12.5% p.a.





We use new equipment and new technologies. Our innovations are aimed at development of high-quality cheese / cottage cheese production. We work hard to make sure that our children could drink genuine milk and eat fresh soft cheeses. Today we can say that there are no cheeses of comparable quality produced in our region. All mozzarella cheese is imported and has a long shelf life, which means that it contains preservation agents. Thanks to our cooperation with SME Bank, Tomsk residents can buy natural dairy products made in the Tomsk Region.

**Artem Bagreev**  
Director

# DEREVENSKOYE MOLOCHKO DAIRY

Manufacturing of dairy products

## Derevenskoye Molochko LLC

The company's key principle is "from the cow to the table". The company has a self-contained dairy production cycle, i.e. from stockbreeding to manufacturing and sales of dairy products. The dairy factory uses fresh milk supplied by trusted farmers, ensuring high product quality.

The Derevenskoye Molochko brand includes milk, sour cream, cottage cheese, butter, bio-yoghurts, fermented baked milk (ryazhenka) and other tasty and healthy dairy products. As of today, the company's products account for 60% of the Tomsk Region market. In 2015, the dairy factory will launch the region's first cheese/cottage cheese production line and a new product line Muloko.

### Project goal

Upgrading the cottage cheese production facility by installation of a new enclosed production line and other equipment for manufacturing of soft cheeses.

### Project tasks

Replacement of outdated equipment for production of cottage cheese. Purchase of new cheese production equipment.

### Expectations

Implementation of a new production line, phase-in achievement of planned production capacity by 2017.

Increase in the volume of processed raw material, process automation and product quality improvement by purchasing additional manufacturing equipment.

## Project overview

Industry	Food Manufacturing
Region	Seversk, Tomsk Region The dairy is located in the mono profile city exposed to the risk of deteriorating socioeconomic situation (2 <sup>nd</sup> category)
Supporting Partner	Levoberezhny Bank (OJSC)
Financing Amount	RUB 100 million, SME-Manoeuvre Loan, Loan guarantee
Tenor / Rate	7 years / 10.9% p.a.





We keep abreast of the times and build the industrial park using energy-efficient materials. For three years the office building has been using the heating system with ground-coupled heat pumps. We implemented the 100 kW solar electric plant, which supports operation of waste treatment facilities. The business incubator of energy efficiency technologies is in good progress in the industrial park.

**Andrey Minayev**  
Director



# SEVERNIY INDUSTRIAL PARK

Construction of manufacturing premises for SMEs

## OJSC Directorate for Development of Industrial Parks

The company was established by the order of the Belgorod Region government in 2008 to act as an integrated management company in the Severniy Industrial Park project to be set up under the long-term program Development and State Support of Small and Medium-Sized Enterprises of the Belgorod Region in 2011–2013.

On 23.01.2012, the Department of Economic Development of the Belgorod Region and OJSC Directorate for Development of Industrial Parks signed an investment agreement for development and operation of the Severniy Industrial Park until 30.11.2024.

As of today, the Severniy Industrial Park is the only infrastructure hub of this kind in the Belgorod Region with the function to set up favorable conditions for the development of local SMEs.

### Project goal

Construction of manufacturing premises to accommodate SMEs in the Severniy Industrial Park (total area is minimum 20,000 sq. m).

### Project tasks

Construction of workshops for production of biodegradable polymer packing material, veterinary items, printed products, furniture and processing of agricultural products. In total 22,700 sq. m of commercial facilities have been built.

### Expectations

The residents of the Severniy Industrial Park will be manufacturing companies registered in the Belgorod Region. The project is notable for its focus on creating new jobs at small and medium-sized enterprises located in big residential areas.

## Project overview

Industry	Manufacturing
Region	Belgorod, Belgorod Region
Financing Amount	The project cost was RUB 320 million. RUB 262 million (or 82%) of this amount were SME Bank's funds, the rest was contributed by SMEs – residents of the Severniy Industrial Park
Tenor / Rate	7 years / 10% p.a.





Business is developing slowly but surely! Our products are popular with local residents, construction workers and large timber processing companies. We supply firewood and industrial wood for building maintenance to schools and libraries in neighboring villages. We are not using new technologies as yet but we are looking into the possibilities of wood-based biofuel. In 2015–2016, we plan to launch a production line for processing of saw dust into fuel briquettes or pellets.

**Dmitry Bondarenko**  
Company Head



# TIMBER TRUCK

Timber processing expansion

## Individual Entrepreneur S.G. Bondarenko

The individual entrepreneur signed a forest area lease agreement with the Timber Industry Department of the Tver Region (forest clearing with further regeneration). The forest clearing area is 10,621.5 hectare.

The work is carried out by two 3-man teams. Round timber is processed at the saw mill by two teams (10 people). The key products are edged board, beams and chip.

### Project goal

Ensuring transportation of processed timber and wood products.

### Project tasks

Purchase of truck tractor DAF FT XF105 (model year 2010) and tractor-trailer truck DAF XF 105 (model 2010) with trailer Kegel (model year 2008).

### Expectations

Increase in processing volumes and profit on sales of timber products.

## Project overview

Industry	Forestry
Region	Yakimovskaya village, Kalyazinsky District, Tver Region
Supporting Partner	OJSC Uralsib
Financing Amount	RUB 3 million, FIM-Targeted Loan
Tenor / Rate	5 years / 12.25% p.a.





For us environmental safety is not an academical issue but real technologies. We collect all meat scrap and deliver it to our strategic partners for further processing into meat and bone meal. Thus we keep our facilities clean and contribute to production of a quality food supplement for live stock breeding.

**Marat Chibishev**  
Director

# WHITE RABBIT

Development of rabbit breeding

## JSC PZK

After EU sanctions introduction, Russia faced the shortage of quality rabbit fillet. Hence, PZK's profile was switched to production and sales of rabbit fillet and minced meat. The company obtained accreditation as a supplier of rabbit fillet for baby food. In 2015, PZK launched the production of ready-to-cook products: pelmeni, rabbit meat balls.

As of today, PZK is the only company in Russia, which has the honorable status of a rearing farm for Californian and New Zealand white rabbits with the right to grow and sell the breeding stock. PZK helped to set up production processes at rabbit farms in Volgograd, Smolensk, Ulyanovsk, Tver, Tomsk, Orenburg etc.

The company is closely cooperating with the Government of the Russian Federation under the federal program Sustainable Development of Rural Areas in 2014–2017 and for the Period until 2020.

### Project goal

Expansion of rabbit complex facilities in the Republic of Tatarstan (financing of the second phase of the project).

### Project tasks

Phase-in construction and commissioning of the breeding complex. Purchase of special-purpose vehicles.

### Expectations

The final (third) phase of the project involves commissioning of ten duplex sheds and multiplying facility. This will double the production capacity and revenue. The annual rabbit meat production will reach 1,300 tons. The nucleus stock will include 1,050 doe rabbits and 125 buck rabbits.

101 new jobs have been created from August 2013 to June 2015. Upon completion of the project's third phase another 58 new jobs will be available mostly to rural residents.

## Project overview

Industry	Agriculture
Region	Ullya village, Vysokogorsky District, Republic of Tatarstan
Supporting Partner	Bank Otktytie Financial Corporation
Financing Amount	SME-Manoeuvre Loan. The project total cost is RUB 195 million with the following breakdown: RUB 10 million – SME own funds, RUB 150 million – SME Bank's loan, RUB 35 million – other financing sources.
Tenor / Rate	7 years / 12.25% p.a.





The history of the Sivera brand is already two decades long. Over this period we have gained the confidence of professional sportsmen, and we are now prepared to use our expertise in new areas. Today the most promising segment for us would be high-quality, easy-to-manufacture winter townwear. We plan to develop a separate clothing line with unique properties for security services.

**Valery Fisenko**  
Director



# SIVERA

Manufacturing of hiking apparel

## Five Stars LLC

The company designs and produces high-tech garment, outfit and equipment for mountain climbing, trekking and outdoor activities under Sivera trademark. Today the company is one of the industry leaders in Russia. Its top position is due to a high quality of the products: excellent performance, comfort and fancy design.

To fully meet the clients' needs, the company regularly has its products tested in the most severe conditions. All clothing lines are constantly improved based on real-life experience.

### Project goal

Expansion of outfit and equipment production for extreme sports.

### Project tasks

Purchase of automated cloth laying-up/ cutting machine F.K. Group series Topcut 8.

### Expectations

Roll-out of advanced automated technologies resulting in a significant efficiency gain. Introduction of Italian equipment yielded higher cutting quality and faster product launch.

## Project overview

Industry	Textile and Apparel
Region	Ryazan, Ryazan Region
Supporting Partner	Commercial Bank Transcapitalbank
Financing Amount	RUB 5.75 million, FIM-Targeted Loan
Tenor / Rate	3 years / 12.5% p.a.





We want to set up the poultry dressing facility to increase revenues as the price for dressed turkey is higher. The Luzhsky feed factory helps us to resolve the problem with feeds, which account for up to 70% of production cost. We are thinking of growing grain but first we need to get on our own feet. We are not looking for a pie in the sky but rather focus on real opportunities.

**Alexander Ruschak**  
General Director



# ZALUSTEZHISKY GIANT

Full-cycle production of poultry meat

## Trud LLC

The poultry farm operates as a full-cycle producer of turkey meat – from preparation of poultry feed to advanced meat processing. The farm started as a greenfield project. Today the company owns 19.9 hectare of land accommodating the poultry production facility.

In 2014, the first construction phase was completed including new access roads, site engineering, geotechnical survey, earthwork, three poultry houses and sanitary inspection center. The farm accommodated 16,500 young turkeys BUT BIG-6. Production output is 1,500 tons of turkey meat per annum. The product trade name has not been defined as yet.

It was proposed to call it just “Zalustezhskaya Turkey” or “Zalustezhsky Giant”. First products will be available at the end of March 2015.

### Project goal

Development of small poultry farms in the Leningrad Region.

### Project tasks

Leasing purchase of a bird killing line, tractor RT-M-160U and loading shovel Volvo MC95C.

### Expectations

Commissioning of three poultry houses by the 2014 year-end and another two by autumn 2015. The estimated full launch – February-March 2015. Young turkeys will be

imported from Germany and Poland. Further deliveries will take place three times a year upon growth of birds.

## Project overview

Industry	Agriculture
Region	Osmino village, Luzhsky District, Leningrad Region
Supporting Partner	Lenoblleasing LLC
Financing Amount	Property, RUB 1.72 million
Tenor / Rate	5 years / 10% p.a.



## AMAPOLA

*Manufacturing of multi-layered chocolates*

### RusCo LLC

The company was incorporated in 2007. Prior to September 2012, RusCo produced Vorontsovskye bread croutons, and Wrigley was responsible for market promotion and sales of this product. This cooperation came to an end after Mars acquired the Wrigley business. Since 2012, RusCo has been developing as an independent business. In 2014, the company launched production of chocolates in the town of Pushkin. For this purpose RusCo purchased the factory building and state-of-the-art equipment produced by Italian OPM. Borrowed funds made it possible to set up the business with good upside potential, hire experienced professionals and increase the headcount by over 50 people.

### Project goal

Production launch of one of the market's most sophisticated chocolates – a multi-layered filled chocolate with wafer layer enclosing a whole nut and with chocolate and nut coating.

### Project tasks

Purchase of the factory building and equipment.

### Expectations

In 2015, the company plans to increase sales by 2.5 times.

### Project overview

Industry	Food Manufacturing
Region	St. Petersburg
Supporting Partner	ANCOR BANK (OJSC)
Financing Amount	RUB 150 million, SME-Manoeuvre Loan, Loan guarantee
Tenor / Rate	7 years / 10.9% p.a.



We operate in a very challenging environment of an established and highly competitive market. Moreover, a number of market players are powerful global corporations with long-term strategy and massive financial resources. Financial support of such companies as ours is essential if we want to grow strong domestic producers.

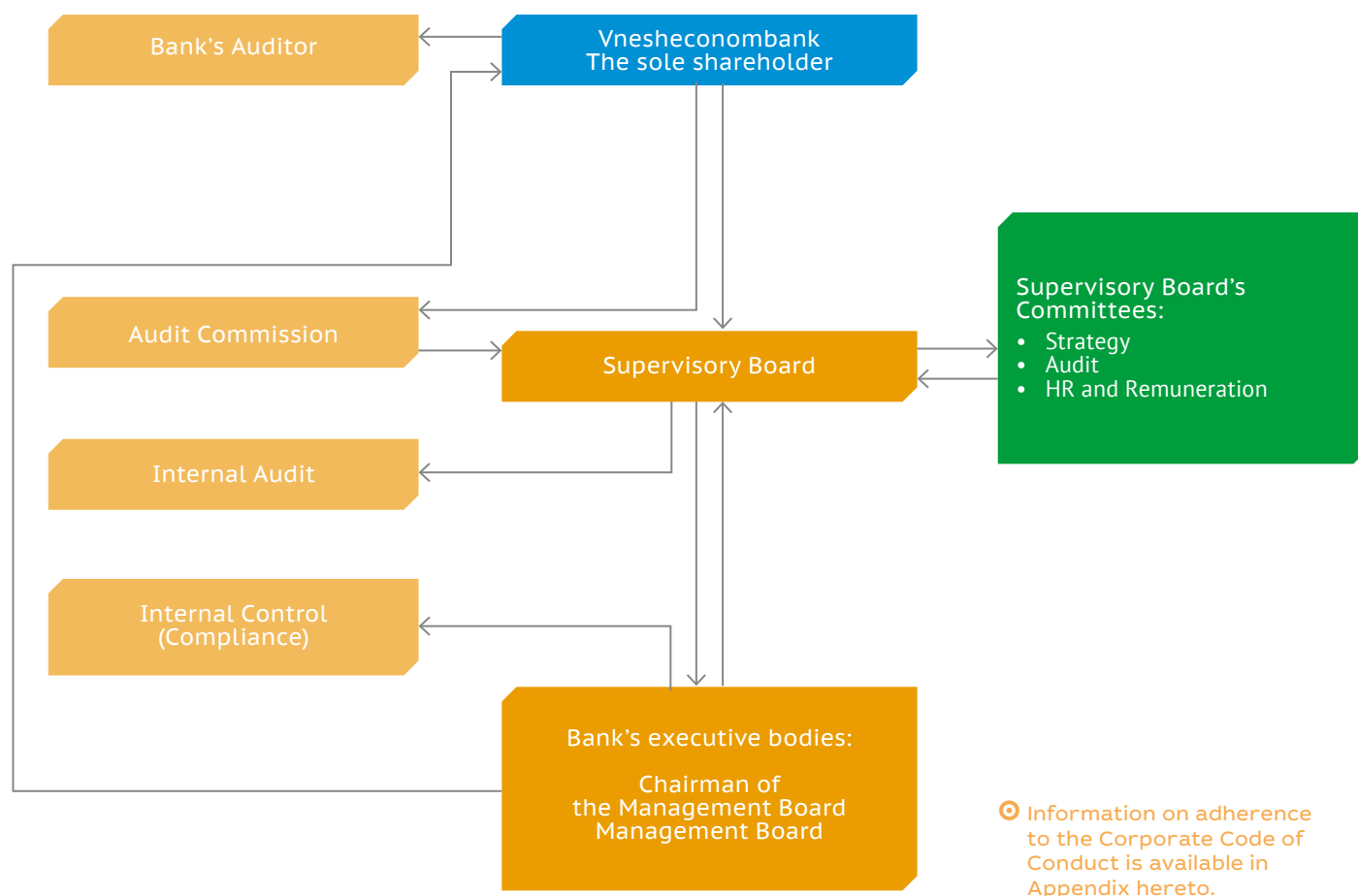
**Vadim Fomichev**

General Director

# #2 OUR MANAGEMENT

## CORPORATE GOVERNANCE

### SME Bank Corporate Governance Structure



### Corporate Social Responsibility and Sustainable Development Policy

SME Bank adheres to the Corporate Social Responsibility and Sustainable Development Policy approved by the Bank's Supervisory Board on 31.12.2013. The Policy provides for the Bank's participation in socially important and environmental projects.

The social dimension of SME Bank's Program includes the Procedure for Identification of Regions in Need of Special Support Actions, approved by the Bank's Management Board on 28.08.2013. The Procedure helps to

determine the target regions for the Bank's products, i.e. SME – Regional Growth and Leasing - Regional Potential. The list of regions within the Procedure is updated at least once a year.

The above products are also distributed in mono profile cities, which list is approved by the Russian Government Decree No. 1398-R of 29.06.2014 Approval of the List of Mono Profile Cities in the Russian Federation.

### Objectives of the Corporate Social Responsibility Policy

Objectives of the Corporate Social Responsibility Policy				
Improvement of the Bank's environmental performance (including mitigation of its own environmental impact)		Enhancing the level of corporate social responsibility amongst the Bank's partners		Increasing labor efficiency and creating favorable career opportunities for the Bank's employees
Increasing the efficiency of the Bank's socially oriented activities		Building up stakeholders' confidence in the Bank's activities		





### SME Bank's Management Board

**Olesya  
Teploukhova**

Deputy Chairman,  
member of the Management Board

**Sergey  
Krjukov**

Chairman  
of the Management Board

**Denis  
Ursulyak**

First Deputy Chairman,  
member of the Management Board

**Anna  
Zvereva**

Deputy Chairman,  
member of the Management Board

### Supervisory Board as of 01.01.2015

- Artem Avetisyan
- Sergey Borisov
- Aleksey Eskindarov
- Oleg Fomichev
- Sergey Katyrin
- Sergey Krjukov
- Irina Makieva
- Vladimir Minin
- Gleb Nikitin
- Sergey Skvortsov
- Oleg Teplov

The Bank's sole shareholder Vnesheconombank elects the members of the Supervisory Board.

### IRINA MAKIEVA Chairperson of the Supervisory Board

Born in 1965. Graduate of the Gorky State University named after N.I. Lobachevsky and Nizhni Novgorod Law Academy. Since 2009 to date – Deputy Chairman, State Corporation “Bank for Development and Foreign Economic Affairs” (Vnesheconombank). Since 2012 to date – Chairperson, Business Council for Cooperation with Slovakia (under the Chamber of Commerce and Industry of the Russian Federation). Since 2013 to date – BoD member, OJSC “Corporation for Development of the Samara Region”. Since 2014 to date – Supervisory Board member, Nonprofit Organisation “Fund for Development of Mono Profile Cities”. No stake in the Bank's equity capital / common stock. No deals with the Bank's shares in 2014.

### ARTEM AVETISYAN Member of the Supervisory Board

Born in 1976. Graduate of the Finance Academy under the Government of the Russian Federation. Since 2010 to date – BoD Chairman, OJSC Commercial Bank “Regional Credit”. Since 2011 to date – Director, New Business Division, Agency for Strategic Initiatives. Since 2012 to date – Chairman, Nonprofit Partnership Leaders' Club for Business Initiatives Promotion; Supervisory Board member, OJSC “Russian Agricultural Bank”. Since 2013 to date – BoD member, OJSC “Rosagroleasing”. No stake in the Bank's equity capital / common stock. No deals with the Bank's shares in 2014.

### SERGEY BORISOV Member of the Supervisory Board

Born in 1953. Graduate of the Bauman State Technical University, Harvard Business School course at the Plekhanov Russian University of Economics, Russian Academy of Foreign Trade. 2002–2012 – President, Opora Rossii - Russian Public Organisation of Small and Medium-Sized Enterprises. Since 2011 to date – Supervisory Board Chairman, Independent Nonprofit Organisation “Agency for Education, Quality Control and Career Development” (AEQCCD). Since 2012 to date – Supervisory Board Chairman, Opora Rossii – Russian Public Organisation of Small and Medium-Sized Enterprises. Since 2013 to date – BoD Chairman, CJSC “Business Environment”. No stake in the Bank's equity capital / common stock. No deals with the Bank's shares in 2014.

**ALEKSEY ESKINDAROV**  
**Member of the Supervisory Board**

Born in 1981. Graduate of the Finance Academy under the Government of the Russian Federation.  
Since 2008 to date – Director, SME Support Department, Vnesheconombank  
Since 2013 to date – BoD member, OJSC “VEB-Leasing”; BoD member, Interregional Commercial Bank for Communications and IT Development (OJSC)  
No stake in the Bank’s equity capital / common stock.  
No deals with the Bank’s shares in 2014.

**OLEG FOMICHEV**  
**Member of the Supervisory Board**

Born in 1977. Graduate of the Nizhni Novgorod State Technical University, State University-Higher School of Economics, Erasmus University Rotterdam.  
Since 2011 to date – Supervisory Board member, Infrastructure and Educational Programs Fund; Supervisory Board member, Federal State Independent Organisation “Russian Technology Development Fund”; Supervisory Board member, Federal State Budget Organisation “Fund for Promotion of Small Businesses in Science and Technology”; Supervisory Board member, Public Actions Center “Business against Corruption”  
Since 2012 to date – State Secretary-Deputy Minister of Economic Development of the Russian Federation; BoD member, OJSC “Russian Venture Company”  
Since 2013 to date – BoD member, Nonprofit Organisation “Development Fund of the Center for Elaboration and Commercialisation of New Technologies”; Board member, Fund for Development of Internet Initiatives  
Since 2014 to date – BoD member, ROSNANO Management Company LLC  
No stake in the Bank’s equity capital / common stock.  
No deals with the Bank’s shares in 2014.

**SERGEY KATYRIN**  
**Member of the Supervisory Board**

Born in 1954. Graduate of the Moscow Road Traffic Institute and International Business School at MGIMO of the Russian Foreign Ministry.  
Since 2002 to date – BoD Chairman, CJSC “Expocenter”  
Since 2011 to date – President, Chamber of Commerce and Industry of the Russian Federation  
Since 2012 to date – BoD Chairman, OJSC “International Trade Center”  
No stake in the Bank’s equity capital / common stock.  
No deals with the Bank’s shares in 2014.

**SERGEY KRJUKOV**  
**Member of the Supervisory Board**

Born in 1961. Graduate of the Moscow Finance Institute.  
Since 2006 to date – Chairman of the Management Board, JSC “Russian Bank for Small and Medium-Sized Enterprises Support”  
No stake in the Bank’s equity capital / common stock.  
No deals with the Bank’s shares in 2014.

**VLADIMIR MININ**  
**Member of the Supervisory Board**

Born in 1969. Graduate of the Lomonossov Moscow State University.  
2005-2009 – Director, Risk Management Department, Vnesheconombank  
Since 2009 to date – Director, Department of Affiliated Banks, Vnesheconombank; BoD member, CJSC “Commercial Bank GLOBEX”; BoD member, Interregional Commercial Bank for Communications and IT Development (OJSC); Supervisory Board member, OJSC “Prominvestbank” (Ukraine)  
Since 2010 to date – BoD member, State Specialised Russian Export-Import Bank (CJSC)  
No stake in the Bank’s equity capital / common stock.  
No deals with the Bank’s shares in 2014.

**GLEB NIKITIN**  
**Member of the Supervisory Board**

Born in 1977. Graduate of the St. Petersburg State University of Economics and Finance, postgraduate course of the Finance Academy under the Government of the Russian Federation, PhD in economics.  
Since 2013 to date – First Deputy Minister of Industry and Trade of the Russian Federation; BoD member, OJSC “Export Insurance Agency of Russia” (OJSC “EXIAR”)  
No stake in the Bank’s equity capital / common stock.  
No deals with the Bank’s shares in 2014.

**SERGEY SKVORTSOV**  
**Member of the Supervisory Board**

Born in 1964. Graduate of the Moscow State Institute of International Relations of the Russian Foreign Ministry, PhD in economics.  
Since 2008 to date – BoD member, OJSC “AVTOVAZ”  
Since 2009 to date – Supervisory Board member, OJSC “KAMAZ”  
Since 2013 to date – BoD member, OJSC “United Industrial Corporation “Oboronprom”  
Since 2014 to date – Deputy CEO, Rostec State Corporation; BoD member, OJSC “Russian Helicopters”  
No stake in the Bank’s equity capital / common stock.  
No deals with the Bank’s shares in 2014.

**OLEG TEPOV**  
**Member of the Supervisory Board**

Born in 1978. Graduate of the Plekhanov Russian Academy of Economics.  
2012–2013 – Director, Department of Strategic Management, State Programs and Investment Projects, Ministry of Economic Development of the Russian Federation  
Since 2013 to date – Head, Department for Development of Economy Sectors, Expert Board at the Presidential Executive Office  
Since 2014 to date – BoD member, State Specialised Russian Export-Import Bank (CJSC)  
No stake in the Bank’s equity capital / common stock.  
No deals with the Bank’s shares in 2014.

Prevention of Conflict of Interest

SME Bank’s Policy on Prevention, Management and Resolution of Conflicts of Interest (hereinafter the Policy) was developed in line with CBR recommendations. The following major types of conflicts of interest may occur in the course of the Bank’s activities:

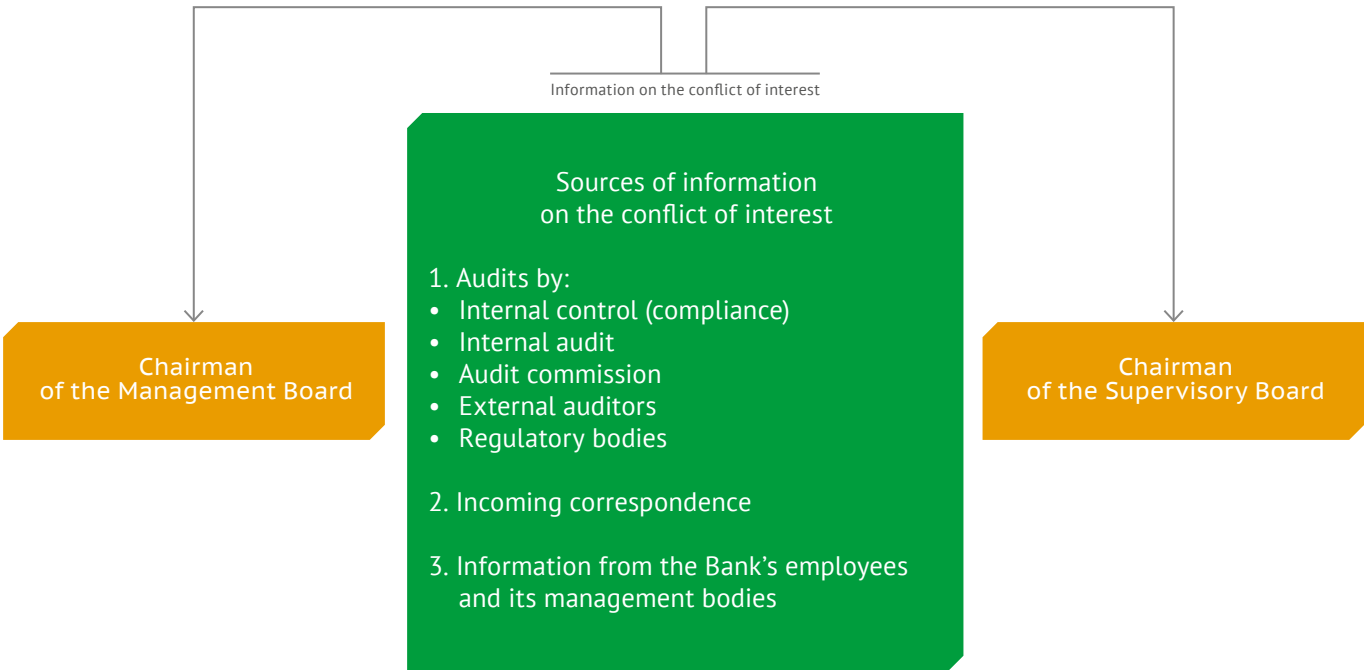
- a conflict of interest between the shareholder and the Bank’s executive bodies
- a conflict of interest between the Bank’s executive bodies, employees and clients

The Bank’s management and employees shall undertake all available lawful measures for pre-trial settlement of the conflict of interest, protecting the legitimate interests of the Bank, its clients and shareholders. Information about actions taken to resolve a conflict of interest shall be communicated by the Bank to all conflict parties.

In order to prevent a conflict of interest, the Bank’s executive bodies and employees shall:

- comply with applicable laws of the Russian Federation, regulations issued by executive bodies of the Russian Federation, the Bank’s constituent documents and bylaws
- abide by business and professional ethics
- comply with the existing restrictions on deals with related persons and bargains
- involve an independent appraisal of assets’ market value
- refrain from any decisions that may adversely affect the value of the Bank’s assets and/or incur loss to the Bank
- ensure the protection of business, trade and banking secrets as well as the confidentiality of personal data
- take other actions stipulated in the Policy

Conflict of Interest Notification Procedure



RISK MANAGEMENT

Risk management is an integral part of the Bank’s strategic and operational planning and decision-making. The risks SME Bank is exposed to match the nature and scale of the Bank’s business, standing at relatively “low” levels. Risk level targets (risk appetite indicators) are set for the Bank by its Supervisory Board in the Development Strategy and business plans. Pursuant to specified quantitative and qualitative business targets (including the loan portfolio quality), the Bank’s Management Board adopts KPIs for each risk type, ensuring compliance with the prudential risk standards, i.e. the CBR’s mandatory requirements for financial institutions (capital adequacy adjusted to asset quality – H1; liquidity requirements – H2, H3, H4; credit risk requirements – H6 and H7, H9.1 H10.1; net FX position limit).

In 2014, the Bank took further risk management-related actions to harmonize risk management practices within the Vnesheconombank Group and bring them in line with the CBR and BCBS recommendations. To that end, the Bank updated its Risk Management Policy.

For identifying and evaluating risks the Bank uses a set of methods and procedures. Risk identification and evaluation results are documented in a unified format for each group of risks to be further submitted to the Bank’s management and regulatory bodies. The efficiency of the Bank’s risk management system is ensured by:

- independence of the risk management department from business divisions and risk management representation in all of the Bank’s relevant committees – decision makers on risk-related operations, which ensures unbiased risk evaluations and balanced decisions
- systemic approach to risk management in any operations bearing risk for the Bank
- adequate risk management methods, i.e. different risks are analysed, evaluated and managed using methods that match the nature and scale of the Bank’s operations



BASIC RISKS

Credit Risk

Given the Bank's profile, credit exposure represents the most significant risk inherent for the Bank's operations.

The Bank continuously evaluates credit risk – from the client's loan application, execution of a transaction in the money

or fixed income market, to full completion of the deal (the client's fulfilment of its obligations to the Bank).

CREDIT RISK MANAGEMENT PHASES:

1

Qualitative and quantitative assessment of credit risk:

- Quantitative assessment of the credit risk involves evaluation of counterparty's solvency by determining the size of required loan loss provisions and quantification of the Bank's aggregate risk exposure per CBR requirements and the Bank's internal methodology
- Qualitative (expert) assessment of the credit risk represents evaluation of the borrower's/counterparty's qualitative parameters including the company's goodwill (and business reputation of its owners), industry practices, quality of the company management, company's sustainability, its credit history and other market and non-market factors governing the counterparty's ability to fulfil its obligations to the Bank

2

Credit risk monitoring includes control of borrowers/counterparties/transactions and the aggregate loan portfolio quality with due regard to the borrowers' affiliation and risk concentrations.

3

Credit risk level is ensured by diversification, limitation, provisioning and other credit risk management tools.

Internal procedures and rules for credit risk management set out the following:

- Identification of the credit risk
- Counterparty's solvency analysis
- Examination of transactional risks
- Setting and control of credit limits
- Distribution of authority in taking credit decisions
- Loan portfolio management including its monitoring and administration
- Credit risk mitigation such as diversification of credit products, borrowers' categories and collateral types, collateral insurance
- Continuous monitoring of loan transactions and their compliance with credit terms and conditions (including on-site audits)

Committed to continuous improvement of its credit risk management methods, the Bank aims to harmonize risk assessment approaches within the Vnesheconombank Group, enhance its system of internal credit ratings and transfer to a unified scale of internal credit ratings for all

of the Bank's counterparties in line with Vnesheconombank, CBR and BCBS recommendations.

In 2014, the Bank's Supervisory Board approved new versions of SME Bank's Risk Policy and Credit Policy.

Liquidity Risk

As part of the Group's strategy to maintain sufficient liquidity, the Bank's Supervisory Board approved in 2014 a new version of its Liquidity Management Policy developed in conformity with CBR and Vnesheconombank's recommendations. Its objectives are to enhance the process of the Bank's liquidity management, ensure the Bank's solvency at any time, set an optimal balance between liquidity and loan yield and minimize liquidity loss risks. In managing liquidity, the Bank seeks to rule out underliquidity and also minimise excessive liquidity. The Bank performs daily forecasts of its payment position and liquidity ratios (H2, H3, H4) set by the CBR and evaluates the liquidity status by means of gap analysis.

Based on gap analysis results, the Bank sets liquidity surplus/shortage thresholds calculated as progressive total, which are used to determine the limits for transactions. The Bank regularly monitors the thresholds.

The Bank constantly updates its internal regulatory system for assessment of its liquidity position and updates of the action plan to maintain the Bank's financial stability in emergency situations. The Bank regularly runs stress testing of liquidity loss risk, adjusting their scenarios to the Bank's business situations and changes in the macroeconomic and banking environment.



Market Risk

As of 01.01.2015, the Bank has no financial assets held for trading. However, the Bank had securities classified as trading ones, which on 31.12.2014 were reclassified into the available-for-sale category, per CBR Instruction No. 3498-U of 18.12.2014.

The market risk is a combination of interest rate, FX and capital market risks. The Bank evaluates anticipated losses for each risk category. The sum of anticipated losses represents an estimated market risk accepted by the Bank.

- The Bank uses the following tools for analysis and assessment of market risks:
- The interest rate risk is assessed on the basis of gap analysis and duration of interest rate-sensitive instruments. Gap analysis shows the Bank's interest income performance. The duration method evaluates the market value change of financial instruments. Both methods yield the assessment of potential losses as percentage of the Bank's capital.
  - The FX and capital market risks are measured by means of statistical VaR analysis. The historical data is used to determine the Bank's potential losses in the FX and capital market risk scenario. These values are assessed as percentage of the Bank's capital.

Debt Investment Risk

The debt market risk is measured by means of statistical VaR analysis. The losses are assessed as percentage of the Bank's capital.

The Bank also evaluates the volatility of bond prices to interest rates (PVBP- Price Value of a Basis Point).

Interest Rate Risk

Interest rate sensitive instruments are assessed by means of gap analysis (maturity structure of interest rate sensitive instruments). The Bank's interest income is measured as a function of interest rate fluctuations in the market.

The parallel shift represents equal rate changes both for assets and liabilities.

The change in the market value is measured by calculation of instruments duration assuming repayment of obligations at the earliest contract term (e.g. bond put options).

Risk assessment is performed on a monthly basis.

The Bank assesses the interest rate risk both in terms of changing interest rates and the instruments' market value. The losses incurred by interest rate fluctuations are determined by a parallel shift by specified number of basis points.

Operational Risk

In order to mitigate operational risks, the Bank performs regular monitoring of operational risk factors. The Bank collects and analyses information on identified risk factors. This information forms the basis for the operational risks mitigation plan, which

is agreed with all affected departments and approved by the Bank's Management Board.

Compliance Risk

Prevention of money laundering and terrorist financing.

To prevent money laundering and terrorist financing in accordance with the Federal Law No. 115-FZ of 07.08.2001 Preventing Legalization (Money Laundering) of Illegally Gained Income and Terrorist Financing and CBR regulations, the Bank developed AML internal control policies. The policies include processes mandatory for all employees of the Bank, KYC procedures for clients, clients' representatives, beneficiaries and beneficial owners. The Bank also implements a comprehensive set of measures to identify at an early stage any clients' transactions or any unusual deals, and arranges AML training for its employees.

Control of Insider Information Disclosure

To prevent illegal use of insider information and market manipulation, the Bank took the following actions in 2014:

- Recommendations were prepared to enhance the information disclosure prevention processes, including the establishment of a protected electronic system for confidential and/or insider information interchange and ensuring confidentiality of paper-based correspondence containing such information
- A deputy of the insider information controller was appointed to ensure continuous control processes
  - The existing internal policies were updated
  - Regular checks were performed

Information Security

SME Bank considers information security, protection of commercial and bank secrets, personal data privacy as one of its essential tasks.

In 2014, SME Bank continued to further develop and improve the information security system in line with CBR guidelines and regulations.

Thus, the Bank introduced the information access management and mobile communications security systems and took actions to minimise information security risks related to the breach of confidentiality, integrity and accessibility of the Bank's information resources.

Today the Bank's information security system is a well-balanced combination of organisational and technological protective measures including:

- Set of internal regulations
- Information access management system
- System for confidential information leakage control and prevention
- Hardware and software for information security events monitoring and management
- Vulnerability detector in the local IT system, databases and applications
- Mobile communications and computer protection system
- Cryptographic data protection devices
- Information security training of the Bank's employees

Observation of Precautionary Principle

SME Bank does not directly apply the precautionary principle but in the process of developing credit products and taking

investment decisions the Bank conducts their due diligence including assessment of their potential environmental and social impact.

PROCUREMENT SYSTEM

Since 01.01.2013, the Bank has been running its procurement activities in accordance with the Federal Law No. 223-FZ of 18.07.2011, which promotes common economic area, sets the conditions for full and timely satisfaction of customers' demand for goods and services at adequate prices, quality and

reliability, efficient use of funds, expansion and encouragement of legal entities' and individuals' participation in the purchase of goods and services for customers, promotion of fair competition, transparency of purchases, prevention of corruption and other abuse.

Cost advantage, RUB thousand

Aggregate initial (maximum) price of contracts (lots) put up for tender, other procurement procedures and amount of contracts signed with sole supplier (contractor)	Total value of concluded contracts	Saving	
		RUB thous.	%
175,105	156,238	18,867	10.77

Scope of procurement activities, items

	Total	Tenders  Open	Auctions  Open online	Purchases from sole supplier (contractor)	Other procurement procedures	
					Closed	Open online
Total number of tenders, other procurement procedures (lots) and purchases from sole supplier (contractor)	172	9	3	114	19	27
Tenders and other procurement procedures (lots), which were declared invalid	29	3	3		10	13
Tenders and other procurement procedures (lots), which were declared invalid and did not result in signed contracts	9	1	2		3	3
Number of concluded contracts	163	8	1	114	16	24
Contracts terminated by agreement of the parties	1	1				

Purchases from Small and Medium-Sized Businesses

From 01.07.2015, the aggregate annual value of contracts with SMEs is set at minimum 18% of the total annual value of the Bank's procurement contracts. The total value of

concluded procurement contracts where only SMEs can be parties thereto should be at least 10% of aggregate annual purchases.



# CORPORATE CULTURE AND HR POLICY

In 2014, the Bank focused on increasing motivation for the employees' professional growth. The Bank seeks to make competence, achievement of sustainably high results and corporate loyalty the key drivers for all employees.

The Bank endeavors to offer decent working conditions and adequate material incentives to its employees including career development opportunities. One of HR policy priorities is regular personnel training and development, which ensures maintaining the required professional skills and enhancing the employees' competencies essential for implementation of new projects pursuant to the Bank's Development Strategy.

The Bank's corporate culture sets out the social responsibility policy with regard to its employees. The Banks covers voluntary health insurance policies for the personnel and absorbs part of the cost of recreative sports activities.

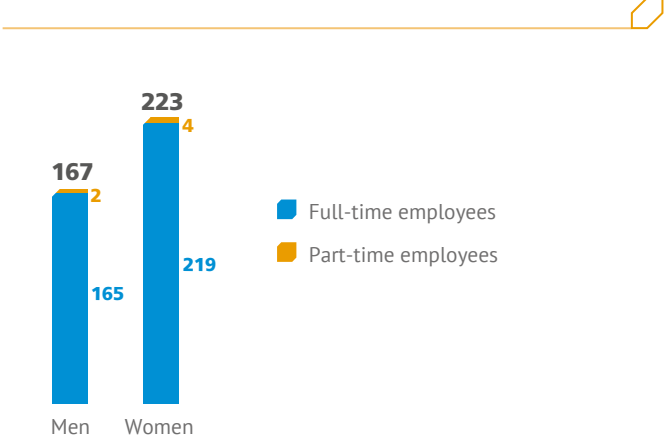
The Bank traditionally places a great emphasis on labor protection arrangements. To that effect, the Bank regularly organises occupational safety and first aid training for the staff. The employees undergo periodic medical examination. The internal conditions and air quality parameters are monitored in the working areas. These measures help to secure safe working environment and minimise the risk of work injuries and occupational diseases.

## Internal regulations and Code of Conduct for the Bank's employees (G4-56)

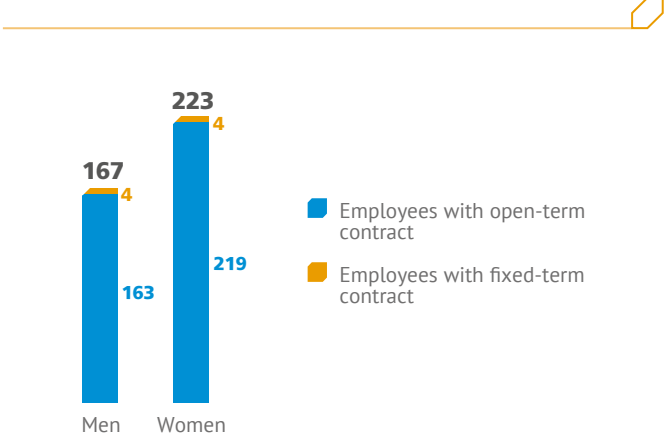
Bylaw	Familiarisation procedure	Division responsible for compliance with bylaw requirements	Bylaw-based training
Employee Handbook	Familiarisation with internal regulations is certified by signing the acknowledgement form.	Labor relations including corporate ethics are within the competence of HR Department.	During the hiring process the Bank's employees study the Employee Handbook and sign the acknowledgement form.
Code of Conduct	Familiarisation with internal regulations is certified by signing the acknowledgement form.	Corporate ethics-related issues are within the competence of HR Department.	During the hiring process the Bank's employees study the Code of Conduct and sign the acknowledgement form.

# PERSONNEL STRUCTURE

Actual number of employees by employment type and gender



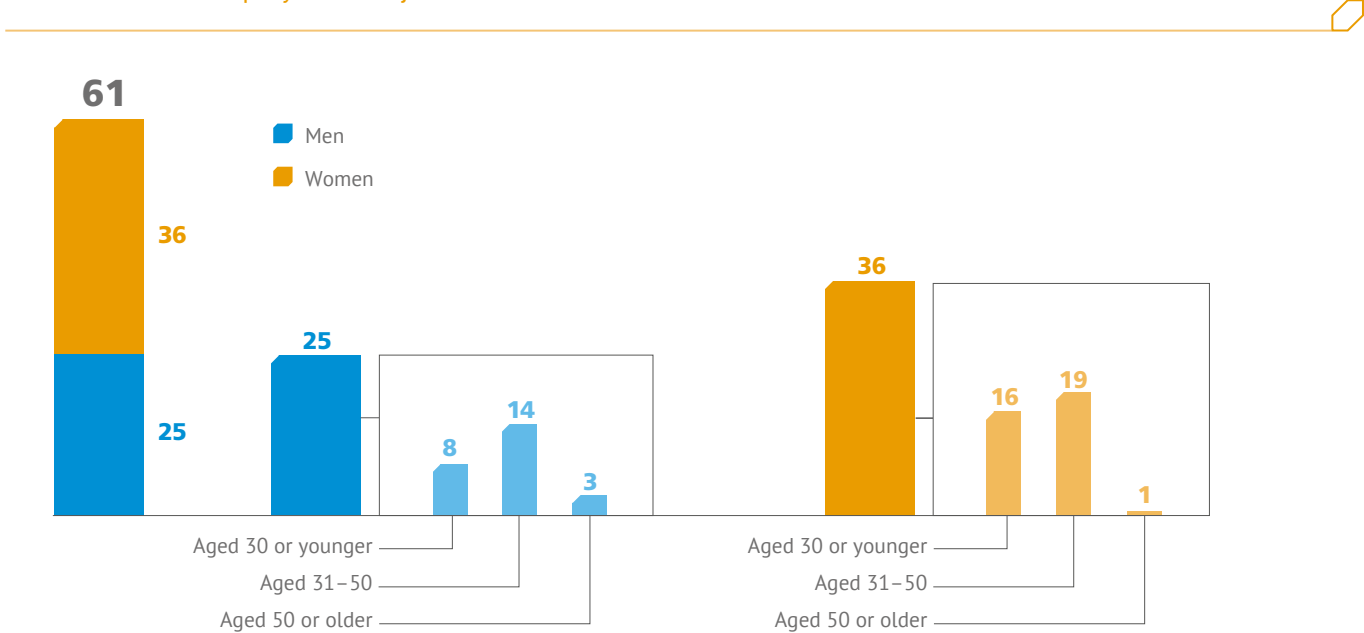
Actual number of employees by labor contract type and gender



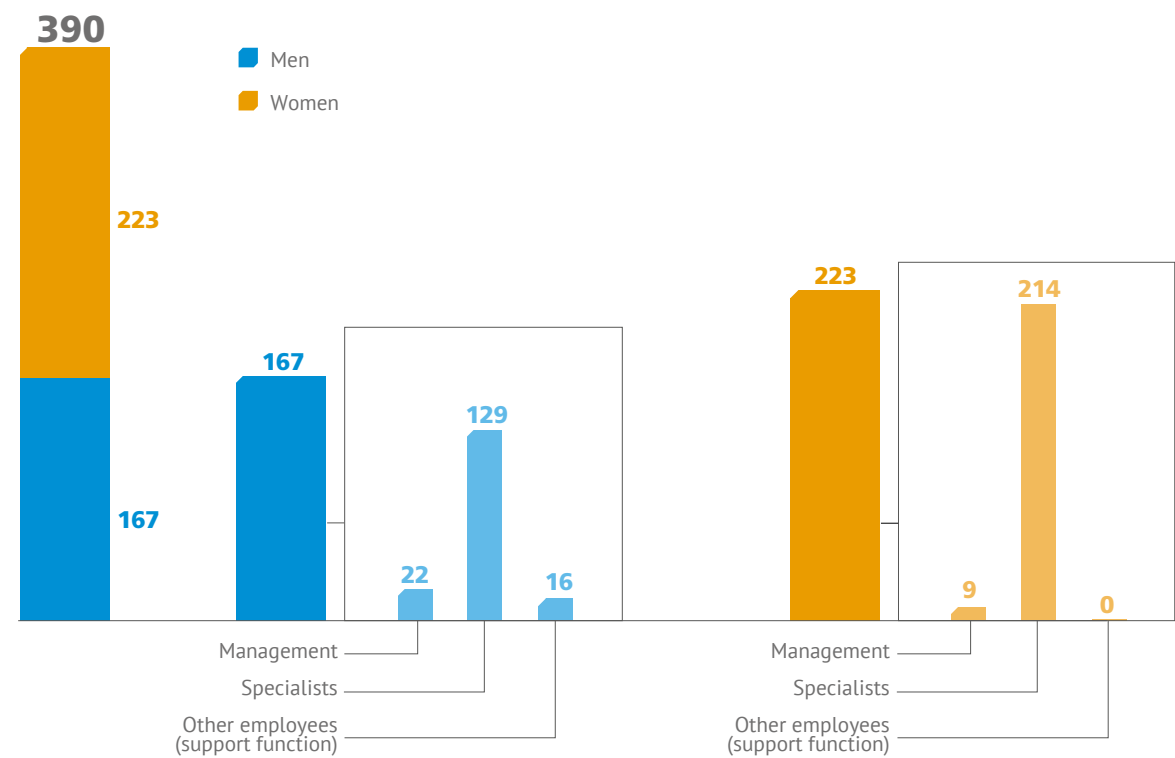
Standard entry level salary vs minimum wage rate (G4-EC5)

Region	Entry level salary of a full-time employee (RUB)			Minimum wage rate (regional)	Standard entry level salary vs minimum wage rate (%)		
	Management	Specialists	Other employees (support function)		Management	Specialists	Other employees (support function)
Moscow	120,000	18,500	42,000	14,000	857.1	132.1	300.0

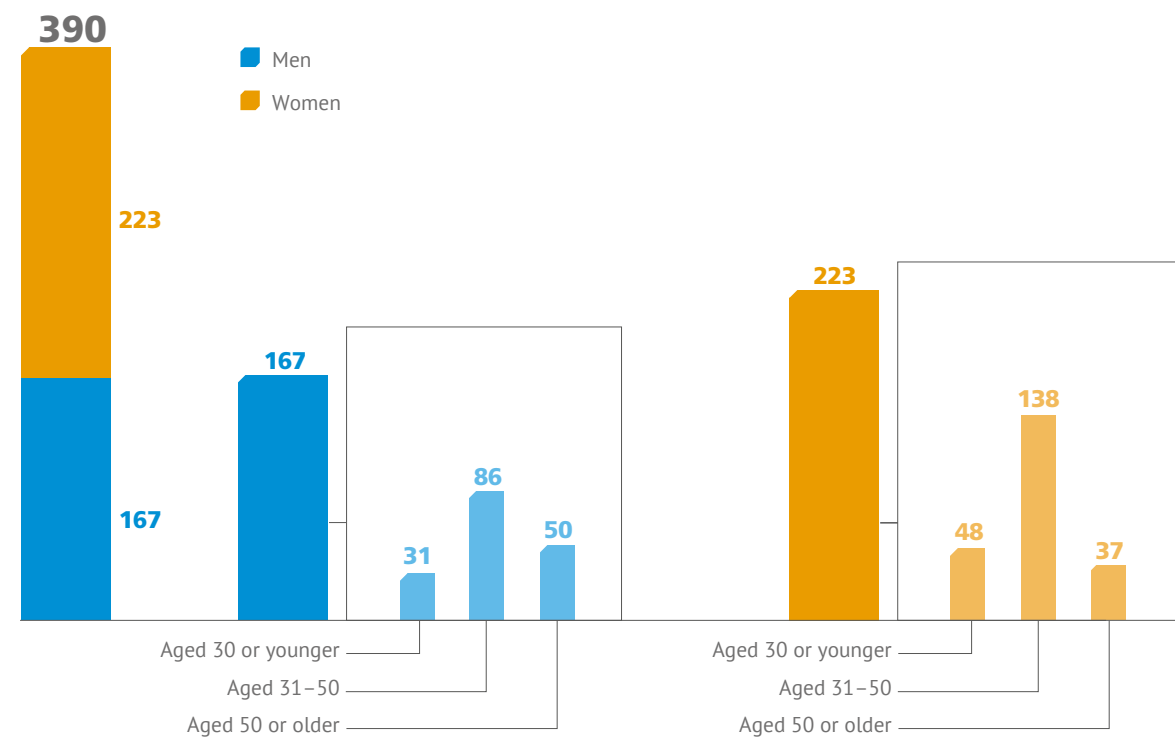
Total number of employees who joined the Bank in 2014



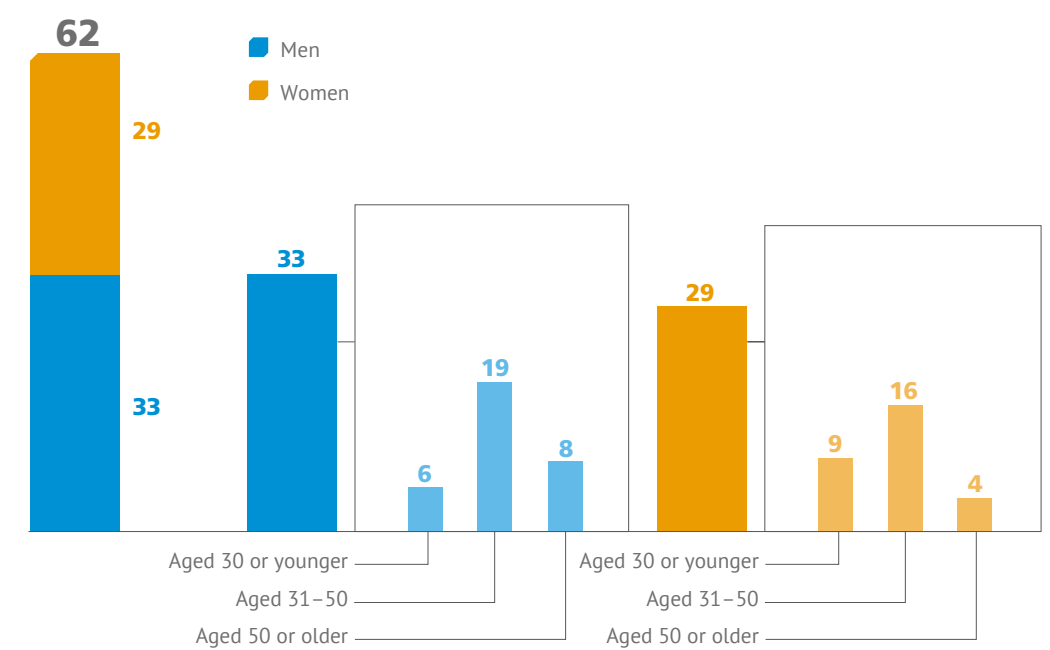
Actual number of employees by category and gender



Total number of employees by age group and gender



Total number of employees who left the Bank in 2014



Maternity / childrearing leave

Description	People
Total number of employees who took a maternity or childrearing leave in 2014	13
Men	0
Women	13
Total number of employees who returned to the Bank in 2014 after a maternity or childrearing leave	4
Men	0
Women	4
Total number of employees who were to return to the Bank in 2014 after a maternity or childrearing leave	2
Men	0
Women	2
Total number of employees who returned to the Bank in 2013 after a maternity or childrearing leave and continued to work in the Bank as of 31.12.2014 (i.e. those who worked more than a year after a maternity or childrearing leave)	2
Men	0
Women	2
Total number of employees who returned to the Bank in 2013 after a maternity or childrearing leave	1
Men	0
Women	1

Total number of calendar days off work because of any disability, except a maternity leave or childrearing leave for children under 3 years of age

	Total number of hours worked in 2014	Total number of days worked in 2014
Men	638	296,194
Women	1,451	358,174

Number of employees who took a training course in the Bank's anti-corruption policies and procedures in 2014	Total number of the Bank's employees by category	Share of employees who took a training course in the Bank's anti-corruption policies and procedures in 2014, %
Management	Management	Management
	Specialists	
	Other employees (support function)	
1	31	343
	16	3.2



Types of training and average number of training hours per employee in 2014 by gender and employee category (G4-LA9)

Description	Men	Women	Summary of training efficiency assessment process and evaluation results in 2014
Category: Management			<p>The efficiency of the training courses is assessed in accordance with SME Bank's Personnel Training and Development Policy. Upon completion of the training course each employee fills in the training feedback survey, which indicates whether:</p> <ul style="list-style-type: none"><li>the training met the employee's expectations</li><li>the employee is satisfied with the lecturer/trainer</li><li>the employee received the answers to his questions during the training course</li><li>all topics in the training program were comprehensively addressed</li><li>the employee received full and intelligible explanation of all queries, which came up during the training course</li><li>overall assessment of organisation of the training process.</li></ul>
Total number of employees as of 31.12.2014	22	9	
Total number of training hours	1,405	289	
Average number of training hours per employee	63.86	32.11	
Category: Specialists			
Total number of employees as of 31.12.2014	129	214	
Total number of training hours	2,555	3,026	
Average number of training hours per employee	19.81	14.14	
Category: Other Employees (support function)			
Total number of employees as of 31.12.2014	16	0	
Total number of training hours	36	0	
Average number of training hours per employee	2.25	0	

Employees' individual meetings with function heads
56 meetings were held with the Director of HR Department and function heads following the probation period.

LABOR SAFETY, CIVIL DEFENSE AND EMERGENCY SITUATION PROVISIONS

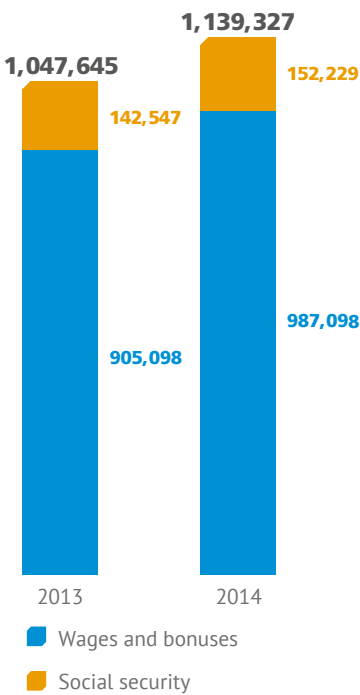
In 2014, the Bank continued to further develop and improve labor safety practices. To that effect, 212 employees passed mandatory medical examination, 26 function heads took the labor safety training course in a specialised training center, 61 people attended the labor safety induction course. All employees of the Bank received on-site HSE training and participated in civil defense and emergency situation drills.

SOCIAL SUPPORT OF EMPLOYEES

The Bank's system of social safeguards and benefits is intended to ensure the loyalty and motivation of employees through competitive wages and a broad range of social security arrangements.

In 2014, the scope of basic benefits remained unchanged. The social support program traditionally includes voluntary medical insurance, health and fitness benefits, one-off incentive payments on anniversary dates, and financial aid for the wedding, funeral and birth-related expenses. In addition, the loyalty pay system was introduced for the Bank's employees with five or more years of continuous service, as well as extra pay ensuring that employees get their daily wages during a sick leave (10 working days a year).

Staff costs, RUB thousand



Benefits Granted to Full-Time Employees (G4-LA2)			

86.8% of the Bank's employees received voluntary medical insurance in 2014

13.2% of employees who gave up the voluntary medical insurance policy received monetary compensation

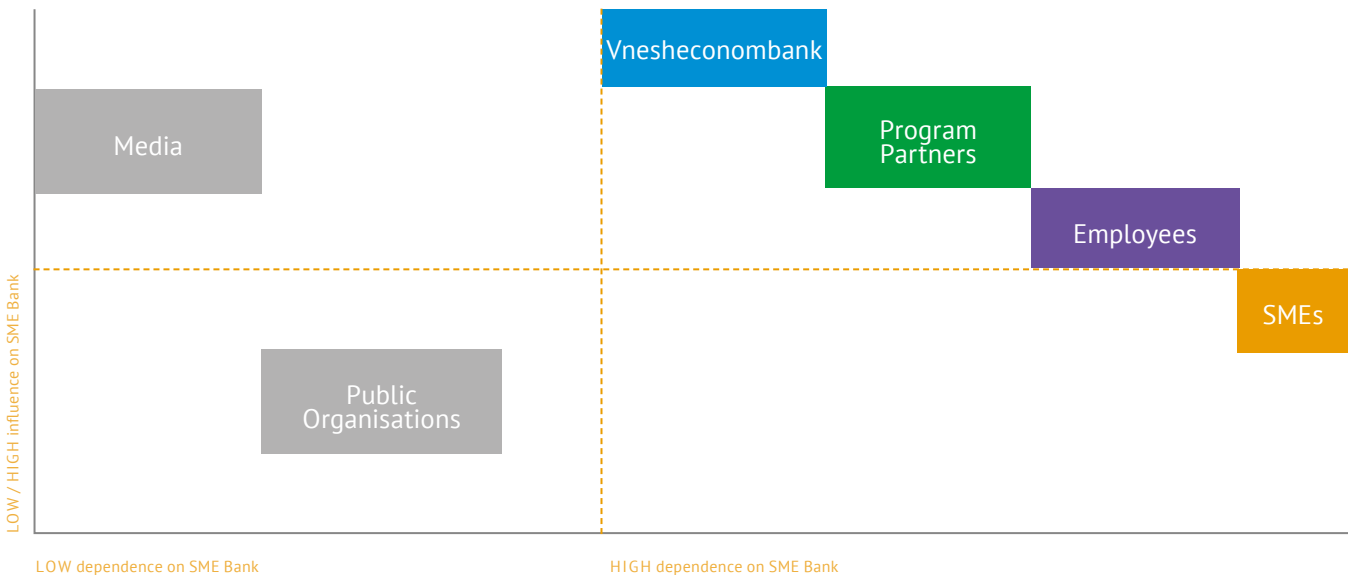
35.9% of employees received reimbursement of expenses on recreative sports activities

# RELATIONS WITH STAKEHOLDERS

Stakeholders' expectations and interests have a large impact on the Bank management decisions. The chart shows the balance of interests and expectations of SME Bank's key stakeholders.

Four categories of stakeholders are on the top priority list: the shareholder (VEB), participants in SME Bank's Support Program, the Bank's employees and SMEs.

## STAKEHOLDER MAPPING



## KEY INITIATIVES

### The Bank's Cooperation with the Ministry of Industry and Trade of the Russian Federation

In 2014, SME Bank launched pilot transactions for financing of management companies of industrial parks and technological clusters. The key eligibility criteria were defined with due regard to current practices of the Russian Ministry of Industry and Trade. Thanks to close cooperation between the Bank and the Ministry, property management

companies can receive integrated concessional financial support of the projects, including SME Bank's long-term loans at preferential rates and the Ministry's subsidies. With this financing mechanism in place, management companies can raise funds for major infrastructure projects on more favorable terms than market rates.

## Internet

Comprehensive information on the SME Support Program is available on the Bank's website [www.mspbank.ru](http://www.mspbank.ru). Over the year, the website has hosted more than a million visits. The site has a hotline for small business support and posts news and updates, detailed information about the Bank's credit products, completed projects

and contact details of our partners (support "entry points") and research publications.

Another source of information about the Program is social media. The Bank has presence on major social media – Facebook and Twitter.

## IT Development

IT development is ultimately governed by business needs and is intended to set up conditions for successful achievement of the Bank's strategic goals.

In 2014, SME Bank continued to implement projects aimed at improving the quality of IT services, upgrading the management system and enhancing the performance and transparency of its divisions:

- An automated system for SME Program funding and liquidity management was rolled out. By the end of 2014, the system became fully integrated with the Bank's existing information systems as well as MICEX, Reuters and Bloomberg trading facilities.
- A financial accounting data reconciliation system was developed and commissioned.
- In 2014, the Bank completed the formation of a static data administration system. The Bank's specialists developed a software for replication of client data to the Bank's accounting and processing systems.
- The module Intrabank Documents of the E-Document Monitoring Window system was put into service. It allows to display/sign/send intrabank documents electronically. Pilot operation/testing of SWIFT and Telex processing modules and iPad interface module for the management was completed.
- In 2014, SME Online, the Internet banking system, continued to develop.

This involved further upgrade of the system's software and hardware, the pilot project of processing of e-signed free format documents and the mechanism for counterparties' online requests in SME Online.

As part of the SME Online project, more than 40 new report templates for the Bank's counterparties were developed and introduced. All leasing companies switched to reporting via SME Online.

In 2H 2014, the Bank took the decision to replace a multi-platform IT system by a single one, thus minimising operational risks and improving data integrity and consistency. The Bank jointly with Ernst & Young assessed the risks of the existing IT infrastructure and the risk of transfer to a single IT platform. At the end of 2014, the Bank held the tender for implementation of a single IT platform.

In 2014, the Bank completed the project for remote access to its corporate network resources. Today the Bank's employees can work with their data stored on corporate servers off the premises and from any devices (laptops, iPads) which comply with information security requirements.

The top priority task for the Bank's IT division is to ensure the Bank's business continuity. In case of emergency, all key functions operate in accordance with the Business Continuity Plan. Per this Plan,



the IT division should ensure trouble-free operation of the backup data processing center. The 2014 implementations provide for almost instant access to the Bank's information systems in emergency situations. In 2014, the Bank's core staff completed the system test. Such tests will be continued on a regular basis.

Public Media

Public media regularly posts the Bank's news, interviews with top managers and key employees and Analytical Center research materials.

In 2014, SME Bank's Media Index was up by 44%, mainly due to interviews and comments of the Bank's spokespeople in leading media and news wires.

More than 140 press releases covering the Bank's activities were published over the year; many of them were posted by the country's leading news portals, such as PRIME (RIA Novosti), Interfax, RBC, Business-TASS, Cbonds, Banki.ru etc.

In 2014, the number of the Bank's mentions in media increased by 18% vs 2013.

Strategic Partners

To further develop the Program and efficiently resolve the entrepreneurs' problems the Bank closely cooperates with various public organisations representing the Russian business community as well as federal, regional and municipal authorities.

SME Bank's key partners:

- Opora Rossii ("Backbone of Russia")
- Opora-Credit
- Association of Regional Banks of Russia
- Association of Russian Banks (ARB)
- Chamber of Commerce and Industry of the Russian Federation (CCI)

In 2014, the computer users switched to virtual machines, which required large-scale upgrade of IT infrastructure (increased number of servers, disk drives and RAM).

The Bank stepped up the efforts to position its Analytical Center as a key competence hub in the SME segment. The number of federal and regional publications containing references to the Analytical Center research and data grew by 56% to 1,180 publications (346 federal and 834 regional ones).

Furthermore, the Bank regularly participates in public events, round tables, forums and conferences on SME support. In 2014, the Bank's representatives attended over 104 events. These included events organised for partners, SMEs, authorities, SME support organisations and young people in Moscow, St. Petersburg, Tyumen, Saratov, Volgograd, Astrakhan, Tambov, Kaluga, Petrozavodsk, Novosibirsk, Neryungri, Cheboksary and Dmitrov.

Such cooperation allows getting quick feedback on different aspects of Program implementation and find integrated solutions related to entrepreneurship development in Russia.

- Russian Union of Industrialists and Entrepreneurs
- Russian Microfinance Center (RMC)
- Business Russia
- Agency for Strategic Initiatives (ASI)
- Financial University under the Government of the Russian Federation

In 2014, SME Bank worked closely together with these organisations along the following lines:

- Recommendations for decision making within activities of the Bank's Supervisory Board and committees thereof
  - Recommendations on anti-crisis measures and SME development strategy
  - Joint events for SMEs, SME support institutions, financial institutions etc.
  - Legislative initiatives for improvement of the business regulation
- Drafting a standard loan agreement for SMEs
  - Proposals for improvement of the banking legislation
- The Bank's partners also presented expert opinions for the Bank's 2020 Development Strategy.

Strategic partners' membership in the Bank's Supervisory Board and the Board committees

Organisation	Membership
Opora Rossii	Supervisory Board Strategic Development Committee Audit Committee
Business Russia	Strategic Development Committee Audit Committee
CCI	Supervisory Board Strategic Development Committee
ASI	Supervisory Board Strategic Development Committee Audit Committee
Association of Regional Banks of Russia	Strategic Development Committee
ARB	Strategic Development Committee

Joint events in 2014

Organisation	Event
Opora Rossii	Forum "Small Business: Rebooting"
CCI	XIV National SME Conference "Cooperation of Small, Medium and Big Businesses – Unlocking Development Potential for Russian Regions"
Association of Regional Banks of Russia	XII International Banking Forum "Banks of Russia – XXI Century" Expert SME Board Interregional Banking Conference "Impact of the Regional Banking Sector on the Regions' Economic Development and SME Efficiency"
ARB	XXV ARB Congress "Russian Banking Industry Prospects: Banking Community Outlook"
RMC	XIII National Conference on Micro-Financing and Financial Accessibility "Market Development and Evolution in the Mega-Regulation Environment. Challenges and Opportunities for Consumer Credit Cooperatives and Micro-Financing Organisations"
Opora-Credit	National Entrepreneurship Award "Business Success"
Financial University under the Government of the Russian Federation	The Bank's Scholarship to Students of the Financial University National Competition for University Students and Graduates "MA Magic: Bringing Science and Practice Together" II Applied Science Conference "Promotion of Small and Medium-Sized Enterprises: Foreign Experience and Russian Practice"

Major events with participation of SME Bank in 2014

Event
1. Krasnoyarsk Economic Forum
2. XII International Banking Forum "Banks of Russia - XXI Century" (Sochi)
3. XVIII St. Petersburg International Economic Forum
4. Moscow International Innovation Forum "Open Innovations"
5. Entrepreneurship Forum "Territory of Business – Territory of Life" (series of events)
6. Gaidar Forum – 2014 "Russia and the World: Sustainable Development"
7. XIII National Conference on Micro-Financing and Financial Accessibility (St. Petersburg)
8. Series of the Bank's events (forums, lectures, master classes, conferences, business games, crash tests) for Partners, SMEs, Authorities, SME Support Non-Bank Financial Institutions and Young People in Moscow, St. Petersburg, Tyumen, Saratov, Volgograd, Astrakhan, Tambov, Kaluga, Petrozavodsk, Novosibirsk, Neryungri, Cheboksary, Dmitrov
9. Media Briefing on Joint Research Study by SME Bank, Finotdel and Russian Microfinance Center (RMC) "Banks and Micro-Financing Organisations: SME Choice in Economic Turbulence"
10. Business Forum "Business Climate in Russia" (Ulyanovsk)
11. Conference on Activities of Development Institutions Organised by the Russian Ministry of Economic Development (Crimea)

The Bank's management and employees are chairpersons and members of many state and public organisation bodies:

- The Workgroup for Renewal of Mono Profile Cities under the Russian Government Commission on Economic Development and Integration
  - Expert Boards on Legislative Initiatives Related to the Science and Technology Policy, Introduction of High Technologies and Modernisation under the State Duma Committee on Science and High Technologies
  - The Committee for Development of SME Financing/Lending System, SME Lending Standards Workgroup, Taxation, Accounting and Financial Reporting Committee of the Association of Russian Banks
  - The Council of the Association of Regional Banks of Russia ("Russia"
- Association), SME Expert Board as well as Workgroups for Finalising the Financial Market Development Strategy until 2020 and Development of a SME Standard Loan Agreement

  - The Council of the Russian Union of Industrialists and Entrepreneurs for Promotion of Youth, Innovation and Small Entrepreneurship
  - The Committee for Development of Free Enterprise and Small and Medium Businesses under the Chamber of Commerce and Industry of the Russian Federation and the Coordination Board for Promotion of Social Business and Entrepreneurship

The Bank is interested in unlocking the potential of Russia's young people to tackle challenges of entrepreneurship development. To that end, for the fourth year in a row the Bank sponsors scholarships for students of the Financial University under the Government of the Russian Federation.

For two years, SME Bank together with the University has been arranging the conference "Promotion of Small and Medium-Sized Enterprises: Foreign Experience and Russian Practice".

Following the 2<sup>nd</sup> conference, a booklet was published, which included reports of the Bank's representatives, University lecturers and students on various aspects of Russian and international practices in SME development.

As part of the initiative to support Russian manufacturing companies SME Bank backs the project (Technological Success Rating) implemented by OJSC RVK to identify and support Russia's fast-growing high-tech companies with high growth rates, efficiency and export potential.

## DEVELOPMENT PRIZE

On 23 May 2014, the St. Petersburg International Economic Forum featured the award ceremony “Development Prize” established by Vnesheconombank to mark the contribution of entrepreneurs to Russia’s social and economic development.

The Chief of Staff of the Presidential Executive Office Sergey Ivanov and Chairman of Vnesheconombank Vladimir Dmitriev handed out the awards to the winners in the categories “Best Infrastructure Project”, “Best Industry Project”, “Best Integrated Territorial Development Project” and “Best SME Project”.

The prize winner for the best SME investment project was the SME Bank financed project of development, production and distribution of immunochromatographic test strips OFK-Cardio to detect cardiac infarction by means of cardiac protein binding aliphatic acids.

The total cost of the OFK-Cardio project is RUB 124 million, RUB 30 million thereof contributed by SME Bank via its SME Support Program partner – Elita Bank LLC.

The Deputy Board Chairman of SME Bank Nadezhda Martynova stated, “The underlying concept of the award is to support the entrepreneurs who set up and develop socially important production facilities, use innovation technologies and create new jobs. Increasing interest of partner banks and enterprises to the award manifests its upside potential”.

Vnesheconombank’s Supervisory Board introduced the “Development Prize” in April 2012. It is awarded to companies for outstanding achievements in nationally significant investment programs and projects.

## RESEARCH

The Bank further raises public knowledge and awareness about its activities and SME development challenges through its Analytical Center. In 2014, the Center performed 25 research studies, the most significant of them are listed below.

- SME Financial Standing and Expectations in 2014
- Quality of SME Operating Environment Index in 2012-2013: Regional Imbalances
- Financial Crossroads Index: 2013 Results
- Financial Crossroads Index: 1H 2014 Results
- Banks and Micro-Financing Organisations: SME Choice in Economic Turbulence
- Evaluation of Regions’ Innovation Activity
- Practical Aspects of Innovation Support in Foreign Countries
- SME Lending Market in 2013
- Medium Business Demand for Long-Term Loans and Loan Guarantees for Investment Projects
- Demand of SMEs with International Business Activities in Loan Products
- SME Development. Comparison of Russian and International Experience
- SMEs: What is Best Remembered in 2014 and What to Expect in 2015

The Analytical Center regularly publishes General Indicators of the Russian Banking Sector Performance and SME Lending Statistics, and Macroeconomic Overview. These research materials are posted on the Bank’s website in the Research section under Analytical Center Reports / Research and Analysis (more than 54,000 visits per annum) and circulated to the Bank’s partners, public organisations, state authorities, research and development institutions. The Center also conducts internal research for the Bank including marketing studies. Leading experts were engaged in the assessment of strategic niches to evaluate the Bank’s position in specific market segments.

The Bank has a broad network of contacts to share analytical information with key research and public organisations (RA Expert Rating Agency, National Financial Research Agency, Opora Rossii, Association of Russian Banks, Russia Association, National Institute for System Studies of Entrepreneurship, Russian Microfinance Center, Higher School of Economics, Association of Factoring Companies etc).

In 2014, SME Bank continued to develop the SME Data Portal – an online project, which is a database on SMEs in Russia containing SME Bank’s Program updates and statistics from official sources (Rosstat, Russian Finance Ministry, CBR).

In 2014, the Portal upgrades included:

- An interactive window for information on six key indicators across federal districts and regions
- The Portal interface was significantly upgraded including its appearance due to the change of the Bank’s corporate design
- Program-related data was expanded including the loan guarantee information and addition of the Crimean Federal District



<http://mspbank.prognoz.ru/>, quick access through the banner on the Bank’s homepage





# ENTREPRENEURSHIP PROMOTION AND EDUCATION

## Partner Programs

In 2014, the Bank organised and held 25 partner events in 14 Russian cities (Astrakhan, Volgograd, Tyumen, Moscow, Cheboksary, Dmitrov, Saratov, Kaluga, Novosibirsk, Petrozavodsk, St. Petersburg, Neryungri) where over 1,400 entrepreneurs learned about the principles of the SME state financial support program, the Bank's product mix, various financial support instruments and guidelines for preparation of the application for financial support.

As part of the business promotion programs the Bank also ran 5 crash tests for 159 entrepreneurs from various Russian cities.

The participants showcased 28 projects and received an expert opinion on their eligibility for SME Bank's Program whereas the Bank's partners got comprehensive information about the projects.

Last year, the Bank placed special emphasis on young people education. The Bank jointly with professional business coaches held 8 business games for pupils and students in 5 Russian cities. Young people made online a shot at establishing and developing their own companies and endeavored to understand what is required from each individual to secure common success.

For this purpose, the Bank developed the business game "I Am an Entrepreneur" for young people aged 15 to 19 years. The game simulates in a user-friendly format the activities of a start-up entrepreneur, shows how to set up one's own business, manage resources, personnel, equipment, offices and finance to generate profit.

On 15 November 2014, the Bank's volunteers held the first volunteer business game at the Moscow Dashkova University. The students' and lecturers' positive feedback on the event was a good platform for further development of the Bank's volunteer activities.

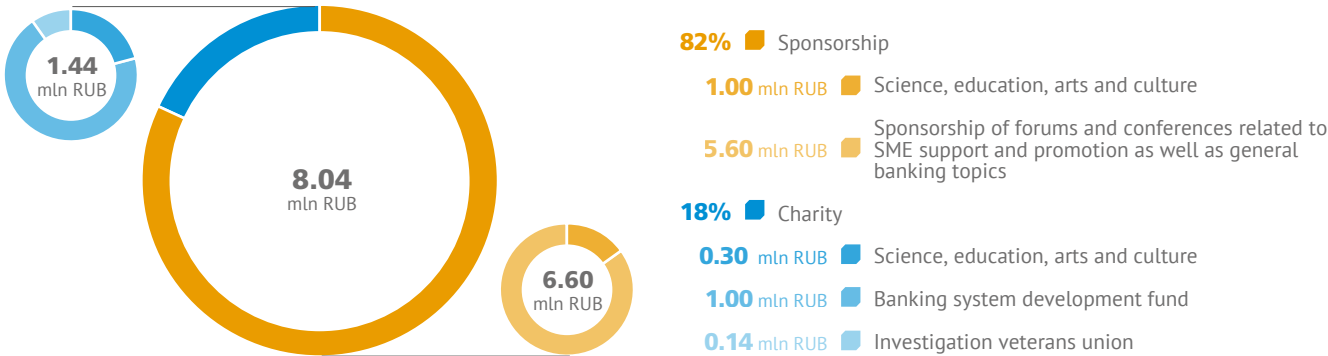
## Volunteer Activities in SME Bank

Volunteer activities are intended to favorably affect our society including young people. The Bank's volunteer program is an essential component of its corporate social

responsibility policy. One of the key tasks in 2014 was entrepreneurship promotion among pupils and students.



Further information about cooperation with entrepreneurs and youth is available in the Appendix hereto



# CHARITY AND SPONSORSHIP

In 2014, the Bank sponsored a number of events (forums, conferences etc.) related to SME promotion. Due to the Bank's sponsorship, a wide audience – SMEs, existing and potential partners of the Bank and other stakeholders – learned about the Bank's operations and the possibilities to receive state support for business development.

SME Bank supported the national competition for university students and graduates "MA Magic: Bringing Science and Practice Together" organised by the Financial University under the Government of the Russian Federation. In 2014–2015, the number of the competition disciplines increased from 4 to 7 (Finance and Credit, Economics, Management, State and Municipal Management, Sociology and Politology, Legal, IT).

SME Bank introduced three monthly scholarships of RUB 10,000 each for the best students of the Financial University to foster education of qualified specialists and incentivise students' successful studies and SME research activities.

Candidates for the Bank's scholarships can be third or fourth year students of the Finance and Credit Faculty of the Financial University who have an aggregate average grade of 4.75 or higher and are involved in SME-relevant scientific activities, in particular, a term paper or graduate thesis, participation in conferences and/or student's competitions with the focus on SME financial support (lending).

SME Bank selects candidates for the scholarships based on the examination results and scientific/research activities in the SME area.

## The winners and runners-up of the competition get benefits and discounts for MA programs:

- The winners join the MA course of the Financial University in 2015 and 2016 without admission tests
- The runners-up get a 50% discount for corresponding MA programs in 2015 and 2016

# APPENDICES

## REVAMPING THE BANK'S PRODUCT LINE IN 2014

In 2014, the Bank managed its product line in accordance with the 2013–2015 Strategy of SME Bank (hereinafter the Strategy).

In line with the Strategy, the Bank introduced a new feature in its product mix, i.e. the refinancing option, which allows to replace funding from other sources used to finance SME's innovation, modernisation and energy-efficiency projects. In June 2014, this concept was approved by the Bank's Supervisory Board and was introduced in the product mix, namely in the Financing for Innovation and Modernisation (FIM) – Targeted product. Starting from November 2014, the Bank offers the new version of this product with refinancing option.

In addition, throughout the year the Bank adjusted and reduced the product mix to bring it in line with the Strategy targets.

Thus, the Refinancing of the Non-Trade Sector product was updated, renamed into SME – Non-Trade Sector and harmonized with the strategic target Long-Term Lending to Non-Trade Small and Medium Businesses that do not Belong to the Innovation Segment. The Bank modified its factoring products to offer them only to non-trade small and medium companies and renamed them into Non-Trade Factoring – Company and Non-Trade Factoring – Bank.

For SME – Regional Growth and Leasing – SME Regional Potential the Bank revised the list of regions based on its methodology for identification of special support territories. Moreover, in execution of the Russian Government Decree No. 1398-p of 29.07.2014 the Bank updated the list of mono profile cities where such products will be offered to small and medium-sized enterprises.

In 2014, the Bank took the following actions to reduce the number of products:

- The new version of the SME – Maneuver product was rolled out combining two existing products – SME – Idea and SME – Maneuver. This product is implemented on a project basis, i.e. the Bank approves each project and participates in setting the project milestones
- The Leasing – SME Progress product was cancelled but its options are now available within the Leasing – Targeted product
- Sales of three credit products - SME Baltika, SME Baltika Plus and SME Baltika Innovations - were stopped. They were offered out of KfW funding which was fully utilized.

In June 2014, the Bank's Supervisory Board approved a new version of the SME – Stability product aimed at supporting small and medium-sized enterprises, whose accounts were frozen in the credit institutions, which lost their banking licenses. Prior to that, the product was distributed only in the Kaliningrad Region. The new version is offered across the country.

In 2014, the Bank focused on yet another strategic initiative – Transformation of the Product Line to Include Straight-Through Products for Ultimate Borrowers. At the beginning of 2014, the Bank together with a consulting company initiated the research to test out the concept of straight-through credit products and get a feedback from the banking community.

Based on the research, the Bank developed a roadmap for its straight-through products and is currently running pilot transactions.

The Bank developed the concept of a special anti-crisis product for SMEs, which will be distributed through partner banks. The rationale of this initiative is to provide anti-crisis support for investment projects launched by small and medium businesses in a stable economic situation and to ensure their successful continuation and completion. The Bank will allocate the funds to refinance loans earlier received

by small and medium-sized enterprises, if this helps to de-leverage the business by changing the loan currency, extension of the financing period or reduction of interest rate.

Following the changes to the Order of the Russian Ministry of Economic Development No. 143 of 21.03.2013 Definition of Eligibility Criteria for Russian Medium Businesses and their Investment Projects, the Bank is updating the concept of the Guarantee to Medium-Sized Enterprises product and its internal regulation on guarantee support to medium businesses.

### SME Bank's Product Line as of 01.01.2015

Banks	Leasing
<p>FIM – Targeted</p> <p>SME – Maneuver</p> <p>SME – Regional Growth</p> <p>SME – Non-Trade Sector</p> <p>SME – Stability</p>	<p>Leasing – Targeted</p> <p>Leasing – SME Regional Potential</p> <p>Leasing – SME Start</p>
Guarantee Support	Microfinance
<p>Guarantee to Medium Businesses</p>	<p>SME Microloan</p> <p>SME PLUS Microloan</p> <p>2<sup>nd</sup> Tier SME Microloan</p> <p>SME Microcredit</p>
Factoring of Non-Trade SMEs	
<p>Non-Trade Factoring – Bank</p> <p>Non-Trade Factoring – Company</p>	

EXTERNAL AUDIT ACTIVITIES

In 2014, SME Bank further focused on improving the efficiency of monitoring and control over observance of product terms and conditions under the SME Support Program, inclusive of comprehensive external audits.

In the reporting period, the Bank conducted audits in 78 partner banks and 43 non-bank financial institutions, having checked adherence to the terms of 254 loan contracts with the Bank. The audits involved control activities with regard to 868 loan agreements signed with ultimate borrowers, which received financial support under the Program, including 217 SME on-site audits.

Concurrently with external audits, the Bank’s employees provided advisory support to partners, in particular, briefing them on the terms of the Bank’s existing credit products.

Furthermore, SME Bank’s divisions exercise continuous remote control over fulfilment of loan contract terms by the borrowers.

Number of audits conducted by SME Bank in 2014

Object	Number of audits	
	1H 2014	2H 2014
Objects audited:		
Partner banks	38	40
Loan agreements with partner banks	84	102
SME agreements	255	254
including on-site audits	72	68
Non-bank financial institutions	24	19
Loan agreements with non-bank financial institutions	36	32
SME agreements	181	178
including on-site audits	46	31

Number of violations detected by SME Bank in 2014

Organisation	Number of detected violations			
	1H 2014		2H 2014	
	improper use of funds	other violations	improper use of funds	other violations
Partner banks	32	186	31	163
Non-bank financial institutions	2	415	4	375

COMPLIANCE WITH THE CORPORATE CODE OF CONDUCT

To improve corporate governance practices the Bank introduced the Corporate Code of Conduct, which is one of the Bank’s fundamental documents setting and classifying the corporate governance principles and rules for SME Bank’s operations.

The Code of Conduct is based on international corporate governance guidelines, the Bank’s Articles

of Association and bylaws. The document is fully compliant with applicable corporate and banking requirements, CBR and BCBS recommendations and other industry sources.

SME Bank adheres to applicable provisions of the Corporate Code of Conduct recommended by the Central Bank of Russia.

ENGAGEMENT WITH ENTREPRENEURS AND YOUNG PEOPLE

Events for young people	Objective	Participation format	Number of participants
8 business games in Moscow (30.01.2014), Tyumen (27.02.2014), Novosibirsk (03.09.2014), Cheboksary (30.10.2014), Dmitrov (21.11.2014)	Promotion of entrepreneurship among young people	Business game "I Am an Entrepreneur"	288 senior school pupils
1 lecture under the Gaidar Foundation educational program in St. Petersburg (19.04.2014)	Communication of information about financing innovations by SME Bank	Presentation	40 young entrepreneurs and postgraduates
1 volunteer-driven business game in Moscow Dashkova University (15.11.2014)	Implementation of corporate social responsibility policy and entrepreneurship promotion among young people	Business game "I Am an Entrepreneur"	30 pupils and students

Events for entrepreneurs	Objective	Participation format	Number of participants
16 events for entrepreneurs and partners in Moscow (16.05.2014), Tyumen (27.02.2014), Saratov (07–08.04.2014), Volgograd (09.04.2014), Astrakhan (10–11.04.2014), Tambov (01.07.2014), Bashkortostan – Tulinovka village (01.07.2014), Kaluga (14.07.2014), Petrozavodsk (23.07.2014), Novosibirsk (03–04.09.2014), Neryungri (03.09.2014), Cheboksary (30.10.2014), Dmitrov (21.11.2014)	Communication of information about the SME Support Program implemented by SME Bank, its product line, documentation preparation procedure, Russian and international expertise of SME support	Seminars, conferences, round tables, meetings at CCI, remote (Bashkortostan) and virtual (Neryungri) participation in the partners' events	1,168 entrepreneurs, representatives of regional authorities, SME support institutions, public organisations
1 master class "From Ideas to Success" in Petrozavodsk (24.07.2014)	Review of successful projects funded by the Bank in the Republic of Karelia	Presentations of local entrepreneurs who received support under SME Bank's Program	41 entrepreneurs, city government heads of the Republic of Karelia
5 crash tests of entrepreneurs' projects in Moscow (21.04.2014, 01.08.2014), Novosibirsk (04.09.2014), Cheboksary (31.10.2014), Dmitrov (21.11.2014)	Projects' ad-hoc analysis for their eligibility for the Bank's Program	Expert analysis	284 entrepreneurs, project originators



COMPOSITION OF THE SUPERVISORY BOARD COMMITTEES OF SME BANK

STRATEGIC DEVELOPMENT COMMITTEE

Chairman	Oleg Teplov	Head, Department for Development of Economy Sectors, Expert Board at the Presidential Executive Office
Deputy Chairman	Denis Ursulyak	First Deputy Chairman of the Board, SME Bank
Members	Aleksey Eskindarov	Director, SME Support Department, Vnesheconombank
	Artem Avetisyan	Director, New Business Division, Agency for Strategic Initiatives
	Aleksey Korneev	Board member, Opora Rossii
	Anton Danilov-Danilyan	Co-Chairman, Business Russia Russian Public Organisation; Chairman of Federal Intersectoral Board, Business Russia
	Dmitry Kurochkin	Vice President, Chamber of Commerce and Industry of the Russian Federation
	Veronika Putilina	Head of SME and Infrastructure Support Programs Division, SME Development and Competition Department, Ministry of Economic Development of the Russian Federation
	Mikhail Mamuta	Head of Main Office of Micro-Finance Market and Financial Inclusion Methodology, Central Bank of Russia
Experts	Garegin Tosunyan	President, Association of Russian Banks
	Anatoly Aksakov	President, Association of Regional Banks of Russia

HR AND REMUNERATION COMMITTEE

Chairman	Aleksey Eskindarov	Director, SME Support Department, Vnesheconombank
Deputy Chairman	Olesya Teploukhova	Deputy Chairman of the Board, SME Bank
Members	Oksana Butorina	Head of SME Lending Division, SME Development and Competition Department, Ministry of Economic Development of the Russian Federation
	Olga Karaseva	Director, HR Department, SME Bank
	Vladimir Minin	Director, Department of Affiliated Banks, Vnesheconombank
	Maksim Petrov	Director, Department for HR Management and Document Support, Vnesheconombank

AUDIT COMMITTEE

Chairman	Artem Avetisyan	Director, New Business Division, Agency for Strategic Initiatives
Deputy Chairman	Varvara Patyulina	First Deputy Director, Internal Control, Vnesheconombank
Members	Anna Zvereva	Deputy Chairman of the Board, SME Bank
	Andrey Shubin	Executive Director, Opora Rossii
	Irina Ivanova	Managing Partner and Director, Law Finance HR consulting company; member of the Committee for Business Financial/Credit Support, Business Russia

Activities of SME Bank’s Supervisory Board Committees

Strategic Development Committee	HR and Remuneration Committee	Audit Committee
Chairman		
Oleg Teplov – Head of Department for Development of Economy Sectors, Expert Board at the Presidential Executive Office	Aleksey Eskindarov – Director, SME Support Department, Vnesheconombank	Artem Avetisyan – Director, New Business Division, Agency for Strategic Initiatives
Objectives		
Providing support and recommendations to the Bank’s Supervisory Board on issues related to the Bank’s key activities	Providing support and recommendations to the Bank’s Supervisory Board on HR issues and general principles of remuneration to the Management Board members, Deputy Chairmen of the Management Board and the management of the Bank’s subsidiaries	Providing support and recommendations to the Bank’s Supervisory Board on selection of auditors for review of the Bank’s financial performance and operations as well as its SME support projects
Number of meetings		
6	4	1
Key issues addressed in 2014		
Definition of temporary priority criteria for classifying SMEs and their projects for lending interest rate below 10% per annum. Review of the refinancing concept for partners’ portfolios. Approval of the 2013 Report of SME Bank’s Management Board. Approval of SME Bank’s updated business plan for 2014. Update of SME Bank’s current strategic targets and determination of new objectives. Exclusion from the strategic initiative The Bank’s Product Line Transformation with the Focus on Providing Straight-Through Products to Ultimate Borrowers of the principle of financing priority categories of SMEs and their projects at the interest rate below 10% per annum. KPIs and the KPI methodology for the SME Support Program. Review of the draft of the Bank’s Development Strategy until 2020. Approval of SME Bank’s 2015 business plan and budget and the 2015 sponsorship and charity. Review of the new version of General Guidelines for Eligibility of Banking Institutions as SME Bank’s Partners under the SME Financial Support Program. Review of the new version of the Pricing Procedure for Bank Guarantees.	New version of the Provisions on Bonus Payments to the Bank’s Employees. Payment of the 2013 year-end bonus to the members of the Bank’s Management Board. Nominees for Deputy Chairmen of the Management Board. Proposed individual KPIs for the Bank’s Management Board members in 2014. Proposed individual KPIs for the Bank’s Management Board members in 2015.	Approval of the open tender results for selection of the auditor for the mandatory audit of SME Bank’s annual financial statements and consolidated financial reporting.

THE BANK'S MEMBERSHIP IN PROFESSIONAL ASSOCIATIONS

Item No	Organisation	Participation Body/Group	Participation Status/ Position	Membership Status
1	Bright Capital Management LLC	Investment Committee	Independent member of the Management Board (Investment Committee), Fund's Managing Partner	Personal initiative of the Deputy Chairman of the Management Board
2	NPO New Emergency and First Aid	Supervisory and Regional Board	Board member	Personal initiative of the Deputy Chairman of the Management Board
3	Association of Regional Banks of Russia	SME Expert Board	SME Expert Board Chairman	Strategically important membership
4	Association of Regional Banks of Russia	Workgroup for SME Credit Contract Standardisation	Group member	Strategically important membership
5	Association of Regional Banks of Russia	Workgroup for Updating the Financial Market Development Strategy until 2020	Group member	Strategically important membership
6	Association of Regional Banks of Russia	Workgroup for Standardisation of SME Loans	Group member	Strategically important membership
7	Association of Russian Banks (ARB)	Committee for SME Financing	Committee Chairman and Deputy Chairman	Strategically important membership
8	Association of Russian Banks (ARB)	Committee on AML / CFT and Compliance Risks	Committee member	Strategically important membership
9	Association of Russian Banks (ARB)	Workgroup for SME Lending Standardisation	Group member	Strategically important membership
10	Association of Russian Banks (ARB)	Committee for Banking Law and Law Enforcement Practices	Committee member	Strategically important membership
11	Vnesheconombank	Workgroup of "Development Prize" Awards	Group member	Vnesheconombank is the Bank's shareholder
12	CJSC LK SME Penza	Board of Directors	Board member	Control and operational management of CJSC LK SME Penza for providing SME support
13	Infracund RVK	Investment Committee	Committee member	Control and operational management of RVK Fund for providing SME support
14	KOLTEK KAMA	Board of Directors	Board member	Control and operational management of KOLTEK KAMA for providing SME support
15	Ministry of Economic Development of the Russian Federation	Expert Board on Industrial/ Manufacturing Special Economic Zones	Board member	Involvement in economic development of the Russian Federation
16	Ministry of Economic Development of the Russian Federation	Expert Board on Technology and Innovation Special Economic Zones	Board member	Involvement in economic development of the Russian Federation
17	Non-commercial partnership National Payment Council (NPC)	Committee on AML / CFT and Compliance Risks	Committee member	Access to up-to-date information on AML / CFT issues
18	OJSC SME Leasing	Board of Directors	Board Chairman and members	Control and operational management of OJSC SME Leasing for providing SME support
19	PermRegionLeasing LLC	Board of Directors	Board member	Control and operational management of PermRegionLeasing LLC for providing SME support
20	Chamber of Commerce and Industry of the Russian Federation	Committee for SME and Private Enterprise Development	Committee member	Involvement in financial sector development in the Russian Federation

INTERNAL REGULATIONS FOR SIGNIFICANT ISSUES

Activity	SME Bank		
	Regulations relevant for this activity	Document date	Significant changes in 2014
HR policy and human rights observance (code of ethics, corporate code of conduct, regulation on personnel performance evaluation, personnel training program, social program, collective labour agreement, assessment of vendors' labor practices, assessment of human rights observance by vendors etc.)	Corporate Governance Code	24.06.2014	None
	Corporate Code of Conduct	05.07.2012	None
	Regulation on SME Bank's Personnel Certification	23.03.2011	None
	Regulation on SME Bank's Remuneration and Incentives	17.12.2012	None
Labour safety	Regulation on Labor Safety Arrangements Accident Investigation and Record Procedure Occupational Safety Instruction (11-off)	27.09.2012	None
		24.12.2013	None
		26.11.2012	None
Prevention of corruption	This activity is not governed by the organisation's regulations	N/A	None
AML / CFT	AML / CFT Internal Control Regulations	23.09.2014	None
Information and personal data protection	Policy No. 608-M on Status of SME Bank's Automated Banking Systems as Personal Data Information Systems and Their Classification List No. 605-PC of Personal Data Processed in SME Bank's Information Systems List No. 606-PC of SME Bank's Information Systems for Processing Personal Data Regulation on Personal Data Processing at SME Bank Policy No. 607-P on Information Protection in the Course of Personal Data Processing at SME Bank Procedure No. 609-P on Handling Inquiries Related to Personal Data Processing at SME Bank	07.11.2012	None
		07.11.2012	None
		07.11.2012	None
		07.11.2012	None
		07.11.2012	None
		07.11.2012	None
Prevention of misuse of insider information and market manipulation	Regulation on Managing the List of SME Bank's Insiders and Circulating the Transaction Notices Guidelines No. 686-I on Internal Control to Prevent Misuse of Insider Information and Market Manipulation List of Insider Information No. 513-PC of SME Bank	27.12.2013	None
		Effective from 01.09.2013	None
		29.03.2012	None
Procedures of handling clients' and partners' inquiries	This activity is not governed by the organisation's regulations	N/A	None
Procurement management (policy/regulation on procurement activities, procedure of purchasing goods and services for the organisation, "green" procurement policy etc.)	Regulation No. 716-P on Purchases of Goods and Services for SME Bank	10.12.2013	None
Environmental impact of office operations (environmental policy, environmental assessment of vendors, cars etc.)	Policy No. 734-P on SME Bank's Corporate Social Responsibility and Sustainable Development	31.12.2013	None
Charity (charity policy, handling of applications from legal entities and individuals for donation etc.)	Policy No. 734-P on SME Bank's Corporate Social Responsibility and Sustainable Development Regulation on SME Bank's Charitable Activity	31.12.2013 approval in progress	None
Sponsorship (sponsorship policy, handling of applications from legal entities and individuals for sponsorship support etc.)	Policy No. 734-P on SME Bank's Corporate Social Responsibility and Sustainable Development Regulation on SME Bank's Sponsorship Activity	31.12.2013 approval in progress	None
Volunteer activities	Regulation on Corporate Volunteering at SME Bank	07.08.2014	None



ENVIRONMENTAL PERFORMANCE INDICATORS

Paper Purchased (tons)			Mercury-Discharge Bulbs Purchased (items)	Print Cartridges Purchased (items)	Additional Information
A4 paper	A3 paper	Full-color printing paper			
13.736	0.007	0	0	454	Paper and cartridge consumption reduced due to enhanced electronic document flow. The 2013 numbers are: A4 paper – 14.9 tons, A3 paper – 0.05 tons, cartridges – 408, off.
Electricity Consumption in 2014 (kWh)		Thermal Energy Consumption in 2014 (Gcal)		Additional Information	
1,502,494		991.731		Electricity consumption increased due to headcount growth. Thermal energy consumption reduced by 3.7% due to improvement of the heating system.	

Water consumption in 2014 totaled 2,847 cub.m. Water consumption increased due to the headcount growth (2,770 cub.m in 2013).

Total waste volume in 2014 – breakdown by waste hazard class and handling (G4-EN23)

Waste	Volume	Handling
Moderately hazardous waste (hazard class III)		
Used cartridges (items)	454	Delivery to contractor for further processing
Computer hardware and equipment (items)	105	Delivery to contractor for further processing
Low-hazard waste (hazard class IV)		
Solid municipal waste (tons)	161.76	Delivery to landlord for burial / landfilling

Meaningful environmental impact of transportation of goods / materials and work force in 2014 (G4-EN30)

Use of transport fleet for the Bank's purposes	SME Bank
Total mileage (thousand km)	278.0
Total gasoline consumption (thousand litres)	55.8
Total diesel fuel consumption (thousand litres)	0.06
Additional information	Reduction in mileage and gasoline consumption is due to fewer cars (22 in 2014 vs 24 in 2013) and traffic optimization.
Solid municipal waste (tons)	161.76

Total environmental expenses and investments – breakdown by cost type (thousand RUB) (G4-EN31)

Pollution charges	749.271
Disposal of computers and IT hardware	18.008
Purchase of office equipment	31.800
Purchase of cars with emission class EURO-4 or higher	6,662.800
Solid municipal waste (tons)	161.76

Measures to reduce negative environmental impacts (G4-EN31-1)

Reduced resource consumption	
Use of energy-efficient equipment	Installation of thin clients (instead of traditional PCs) resulted in significant energy saving.
Equipment scheduled maintenance	2014 results were not assessed.
Paper saving	
Electronic document flow	In 2014, paper consumption and associated costs significantly reduced (total saving about 50,000 sheets) due to introduction of electronic document flow.
Duplex printing	2014 results were not assessed.
Use of scratch paper	2014 results were not assessed.
Reduction of gasoline consumption and CO2 emissions	
Replacement of used cars with new ones complying with EURO-4 or higher requirements	In 2014, gasoline consumption reduced due to replacement of used cars.
Use of gasoline complying with EURO-4 requirements	2014 results were not assessed.
Traffic optimization	In 2014, gasoline consumption reduced due to traffic optimization.
Scheduled car maintenance	2014 results were not assessed.
Introduction of fuel limits	2014 results were not assessed.
Reduction of business trips due to use of telecommunication means	2014 results were not assessed.
Actions to improve energy efficiency	
Energy audit of buildings	2014 results were not assessed.
Energy-saving and energy-efficiency measures	2014 results were not assessed.

GRI DISCLOSURES  
(G4 version, Core)

Chapter	Indicator	Description	Page	Audit
Strategy and analysis	G4-1	Board Chairman's statement on the role of the organisation's sustainable development and the strategy used by the organisation to ensure sustainable growth	7	No
Company profile	G4-3	Name of the organisation	3	No
	G4-4	Key brands, products and services	18, 24	No
	G4-5	Location of organisation's main office	Cover page	No
	G4-6	Countries with organisation's operations	14	No
	G4-7	Ownership and legal status	Cover page	No
	G4-8	Market coverage	15	No
	G4-9	Organisation scale	16	No
	G4-10	Headcount	59	No
	G4-11	Share (%) of employees with collective labour agreements	100%	No
	G4-12	Supply chain	57	No
	G4-13	Significant changes in organisation size, structure or ownership	2	No
	G4-14	Precautionary principle	N/A	No
	G4-15	Third-parties' economic, environmental and social charters, policies and other initiatives, which the organisation joined or supports	82	No
	G4-16	Membership in associations and/or national and international advocacy organisations	80	No
Revealed significant aspects and boundaries	G4-17	Legal entities whose financial reports were included in consolidated financial statements	Cover page	No
	G4-18	Report contents and boundaries methodology	10	No
	G4-19	List of all significant aspects	Cover page	No
	G4-20	Significant aspects for all legal entities included in the report	Cover page	No
	G4-21	Significant aspects outside the organisation	19–24	No
	G4-22	Changes in statements published in prior reports	Cover page	No
	G4-23	Significant changes in the aspects' scope and boundaries as compared with prior reporting periods	Cover page	No
Relations with stakeholders	G4-24	List of stakeholder groups	64	No
	G4-25	Guidelines for identification and selection of stakeholders for cooperation	64	No
	G4-26	Approach towards the relations with stakeholders	64	No
	G4-27	Key topics and concerns raised by stakeholders in the course of cooperation with the organisation	64	No

Chapter	Indicator	Description	Page	Audit
General information on the report	G4-28	Reporting period	General information on the report	No
	G4-29	Date of prior report	Cover page	No
	G4-30	Reporting cycle	Annually	No
	G4-31	Point of contact	Cover page	No
	G4-32	Report version in accordance with GRI guidelines	Cover page	No
	G4-33	Policy and current practices for ensuring external assurance of sustainable development reporting	Internal audit	No
Corporate governance	G4-34	Corporate governance structure	44	No
Ethics and integrity	G4-56	Values, principles, standards and code of conduct	58	No

In 2014, SME Bank did not receive any financial support from state authorities.

In 2014, SME Bank’s equity capital was increased by RUB 2,059 million. These funds were provided for implementation of the SME State Support Program. In 2014, the Bank’s employees did not receive training on social and/or environmental risk management and responsible financing. In 2014, SME Bank received a notice from the CBR under case No. 45–14–U/0376

on the administrative violation opened against the Bank by reason of non-compliance with AML/CFT Law (115-FZ), which causes liability under Article 15.27 of the Administrative Offences Code of the Russian Federation. The Bank submitted incorrect information on the date of a transaction subject to mandatory control. To prevent such violations in the future, the Bank improved control of report generation, introduced additional procedures for automated report generation and hired a new AML officer.



## ADDITIONAL INFORMATION



SME Bank's website  
[www.mspbank.ru](http://www.mspbank.ru)



CBR banking operations license  
[www.mspbank.ru/files/content/licensija-msp.pdf](http://www.mspbank.ru/files/content/licensija-msp.pdf)



SME Bank's consolidated financial statements  
[www.mspbank.ru/userfiles/doc/MSP%20Bank\\_RAP\\_2014\\_rus.PDF](http://www.mspbank.ru/userfiles/doc/MSP%20Bank_RAP_2014_rus.PDF)



Research by SME Bank's Analytical Center  
[www.mspbank.ru/ru/analytical\\_center/](http://www.mspbank.ru/ru/analytical_center/)



SME Leasing's website  
[www.mspleasing.ru](http://www.mspleasing.ru)



Encyclopedia of leasing for SMEs  
[www.mspleasing.ru/information/](http://www.mspleasing.ru/information/)



Vnesheconombank's 2012–2015 Corporate Responsibility Strategy  
[www.veb.ru/about/kso/](http://www.veb.ru/about/kso/)



Agreement on cooperation between development institutions  
[www.mspbank.ru/ru/about/support\\_for\\_innovation/](http://www.mspbank.ru/ru/about/support_for_innovation/)



Global Reporting Initiative (GRI)  
[www.globalreporting.org/languages/russian/Pages/default.aspx](http://www.globalreporting.org/languages/russian/Pages/default.aspx)



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[www.mspbank.ru](http://www.mspbank.ru)