

Chairman's Statement



Honorable colleagues and partners!

I am delighted to present to you the VEB Group's 2014 Sustainability Report. The report highlights the key performance results of Vnesheconombank as a national financial institution and the VEB Group's strategic priorities for operation in the new conditions the country and Vnesheconombank has faced. Obviously, today's economic climate has become tougher than

Yet, with the Bank celebrating its 90th anniversary, 2014 has been a landmark year for us. In his congratulatory message, Russian President Vladimir Putin noted that throughout its history, Vnesheconombank has addressed the most important challenges of social and economic development of the country and served as a key financial tool for the s

Such high profile recognition drives us on to new goals and these have been reflected in our development strategy to 2020. However, we assume that the country will have to rise to new challenges. Our most immediate objective will be, therefore, to assist in curbing crisis developments in the Russian economy to embark on a path towards sustainable economic growth.

In this context, it becomes even more essential to increase the Bank's efficiency in such areas as real sector lending, national export support, development of import-substitution industries, aid to small and medium-sized enterprises, improving the investment climate across the regions.

Admittedly, the Bank has more than once solved most complicated tasks including those related to quick stabilisation of the banking system and financial market. Vnesheconombank's role in the implementation of the government's bail-out measures in 2008-2009 is the most prominent of recent examples. Having successfully managed the crisis, the Bank proved its effectiveness and ability to quickly adapt to external challenges.

Today we are in a situation where western capital markets are practically closed for the leading Russian banks. That is why the Bank's role in backing the sector with long-term finance is as vital as ever. By the end of 2014, Vnesheconombank participated in more than 190 large investment projects across regions, primarily in infrastructure, manufacturing, agribusiness and high-tech. As a result, new manufacturing facilities including those with a focus on substitution and innovation have been created. Moreover, high-tech projects directly contribute to rapid development of the regions, boosting employment and increasing revenues to the budgets.

Our strategic goal is to ramp up financing projects that fully comply with the priorities of our investment policy. Under the modernisation scenario of the development strategy, the Bank's loan portfolio is to nearly double by end 2020 to RUB 2.5-3 tn. Eventually, the Bank expects to considerably strengthen its positions on the real sector lending market by scaling up its share in the cumulative amount of long-term bank finance up to 11-14%.

Importantly, the Bank's strategy to 2020 places a stronger focus on green energy projects that are of high social and environmental significance, as well as on energy efficiency initiatives. It is precisely these business aspects that are viewed as a priority by most global and national development banks. Together with the International Finance Corporation, Vnesheconombank has been working to develop a mechanism for assessing the energy efficiency potential

of investment projects. Its practical implementation in lending and investment practice will help expand the Bank's role in financing the green economy.

Still another strategic objective of the Bank is to move to a fundamentally new level of export support, aid to small and medium sized businesses and economic rehabilitation of single-industry towns. The Bank's work in these directions has already brought tangible results owing, primarily, to the integrated operation of the VEB Group's subsidiaries — specialised financial institutions, commercial banks, funds and agencies. Although operating on a stand-alone basis, the subsidiaries align their activities with Vnesheconombank's strategic objectives.

Joint efforts towards creating an integrated export support system have become a good example of how the VEB Group's potential can be effectively used. The VEB Group offers Russian companies and foreign buyers of non-primary products a variety of financial instruments such as loans and guarantees, insurance cover and leasing services. There has been significant progress in this area achieved, inter alia, owing to Export Insurance Agency of Russia (EXIAR), a specially established subsidiary of the VEB Group. It is worth noting that by the end of 2014, Vnesheconombank alone extended more than RUB 259 bn worth of loans to back Russian exporters.

Furthermore, the Bank actively developed a range of non-financial export aid instruments. One of them is an on-line system launched on its official web offering a 'one stop shop' service for Russian exporters, foreign importers and organisations of the VEB Group. The system aims to facilitate access to markets for Russian manufacturers, primarily for export-oriented medium-sized enterprises. The next step in this direction is to establish Russian Export Centre on Vnesheconombank's basis, which will accumulate all financial and non-financial export aid instruments available to the VEB Group, thus delivering a full-fledged 'one stop shop' service.

SME support is another important area of activity in which most organisations of the VEB Group are engaged. Our strategic goal is to reinforce the role of SMEs in boosting the economy. Primarily, this can be achieved by increasing accessibility of long-term finance for SMEs. These objectives are addressed through the SME Financial Support Programme run by Vnesheconombank's subsidiary SME Bank.

Priority areas of the Programme include support to SMEs in single-industry towns and socially and economically disadvantaged regions, as well as to inland residents. By the end of 2014, funds provided to SMEs under the Programme exceeded RUB 100 bn.

Looking back to 2014, we cannot forget mentioning one of the year's major highlights — the Sochi Winter Olympic Games. The Olympics were an event everyone looked forward to and had high hopes for. And both organisers and athletes did a brilliant job. The outstanding show captivated a global audience and deserved the highest praise.

Sharing the nation's enthusiasm, Vnesheconombank still has another reason to be proud. In the lead-up to the Olympic Games, the Bank financed a number of complex and large-scale construction projects relating to sports, tourist, transport and energy infrastructure. Today, the constructed facilities are actively used by Sochi citizens and guests of the region which has become the biggest sports and recreational centre in Russia. The popularity of the area with tourists and athletes gives us confidence that the Bank's investments will pay off.

The Olympic Games ended, but we have other big challenges ahead. To illustrate, 27 investment projects with Vnesheconombank's commitment over RUB 220 bn were approved in 2014. These include the 'Accommodation for Russian Families' programme to be implemented by the Residential Mortgage Agency. Some 25 mn square meters of new residential housing primarily for low-income and multi-child families are planned for construction under the programme. Another project ranking high on the list of import substitution initiatives backed by the Bank is expansion of livestock breeding facilities in Bryansk region. This project is led by Miratorg Agribusiness Holding. Of special note is the Bank's assistance for the development programme of AVTOVAZ, Russia's leading car manufacturer.

Obviously, the success of the above and many other ambitious plans depends on the sufficiency of the Bank's resource base to ensure financial sustainability. This is particularly relevant now that a number of West European countries have imposed sanctions restricting access to international capital for core European banks including VEB. Another point is that for the last few years the Bank has been scaling up its loan portfolio to an extent considerably exceeding the regulatory minimum which pushed it closer to the regulatory minimum of the capital adequacy ratio. In response to this, a decision was made to increase the Bank's capital.

Given Vnesheconombank's specific remit and its particular role in the crisis management, state aid measures were implemented. In particular, RUB 27 bn worth of the Bank of Russia's 2014 income were contributed to Vnesheconombank's authorised capital and RUB 300 bn from the National Welfare Fund were deposited on its accounts. These funds may only be used where strict qualifying conditions are met. The resources from the National Welfare Fund are earmarked to finance projects of national importance subject to approval by Vnesheconombank's Supervisory Board.

Tapping national finance sources, the Bank also seeks to expand its cooperation with Asia and Middle East to get an access to their capital markets. In this context, Vnesheconombank's chairing the BRICS and SCO interbank associations plays an even greater role. The Bank has long-standing ties with development institutions of these countries and mutual plans for strengthening trade and economic relations.

The groundbreaking outcome of BRICS cooperation is a decision to establish the New Development Bank (NDB) with Brazil, Russia, India, China and South Africa as the founders. NDB sees its main objectives in financing long-term infrastructure and sustainable development projects. In the future, NDB is expected to add a new dimension to the BRICS cooperation.

Importantly, Vnesheconombank has always been open for cooperation and willing to work towards mutually beneficial solutions. We look forward with optimism and hope for a further constructive dialogue with our business partners. Such policies guarantee that Vnesheconombank will successfully achieve its objectives and, ultimately, contribute to the national economic growth, a rise in living standards and environmental sustainability. Building on our experience and international best practices, we will do whatever it takes to ensure progressive development of our country as part of the international community.



Vladimir Dmitriev

