

## Investment Management

*Vnesheconombank is one of the key sources of long money for the real economy's growth. As at the end of 2014, loans with maturities above 5 years accounted for 89.8% in the Bank's loan portfolio structure*

*We lead the Russian market in terms of expert evaluation and financing of major investment projects and sectoral and regional development programs. In the current economic context, the Bank focuses on lean use of financial resources to support projects that promote the government's social and economic policy, including innovations, import substitution and infrastructure development. As part of our lending and investment efforts, we place a special emphasis on implementing responsible financing practices to minimise environmental and social risks of projects that we finance.*

The major sectoral priorities and focus areas of Vnesheconombank's investments are set forth in the Memorandum on Financial Policies of State Corporation 'Bank for Development and Foreign Economic Affairs ([Vnesheconombank](#))'. We run our investment operations with a focus on supporting major projects of strategic importance for Russian economic growth that lack sufficient financing by commercial lending institutions due to their ambitious scope of investment requirements and long payback periods.

We decide on whether investment projects can and need to be financed based on their thorough analysis and evaluation governed by the Bank's Regulation on Due Diligence of Investment Projects. In making our investment decisions, we always evaluate whether projects that apply for the Bank's financing requirements of national environmental laws.

To further enhance efficient management of the environmental and social footprint of our investment projects, we were the first in Russia to actively integrate responsible financing principles into our operations. The key objectives and vision in this area are defined in Vnesheconombank's Responsible Financing Policy approved in 2013. In 2014, the Bank's investment management focused on improving the methodology for environmental and social review of investment projects.

In 2014, we joined the initiative of the International Financial Corporation (IFC) on integrating corporate governance principles into investment activities, which became an important step towards making our investment policy more efficient. By engaging in this initiative, Vnesheconombank has committed to introduce a system to assess the quality of corporate governance of its borrowers, which will mitigate our lending and investment risks, but also will help us promote best international practices across the Russian business community.

### Procedure for Reviewing Investment Projects of Vnesheconombank



Core principles



Due diligence stages



Project financing decision  
taken by Vnesheconombank's

---

### Investment Performance

---

### Investment Lending Performance by Vnesheconombank as a Development Bank

**27** projects

approved for financing in 2014

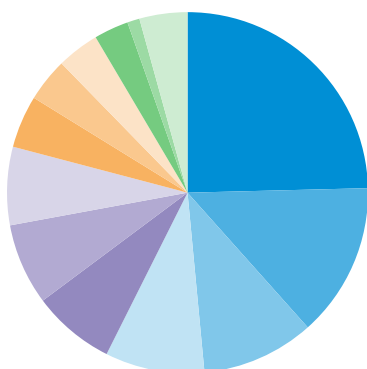
**320** projects

approved by Vnesheconombank  
acting as a development bank  
(2007–2014)

**72** projects

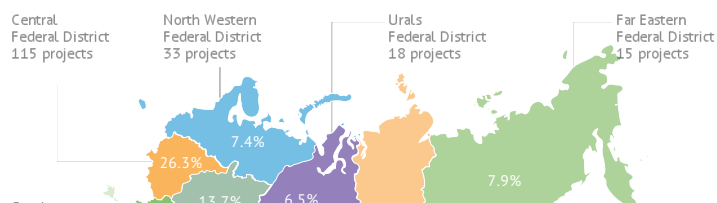
completed in 2007–2014

### Sectoral Breakdown of Projects Approved for Financing by Vnesheconombank in 2007–2014 (% of the Bank's commitment)

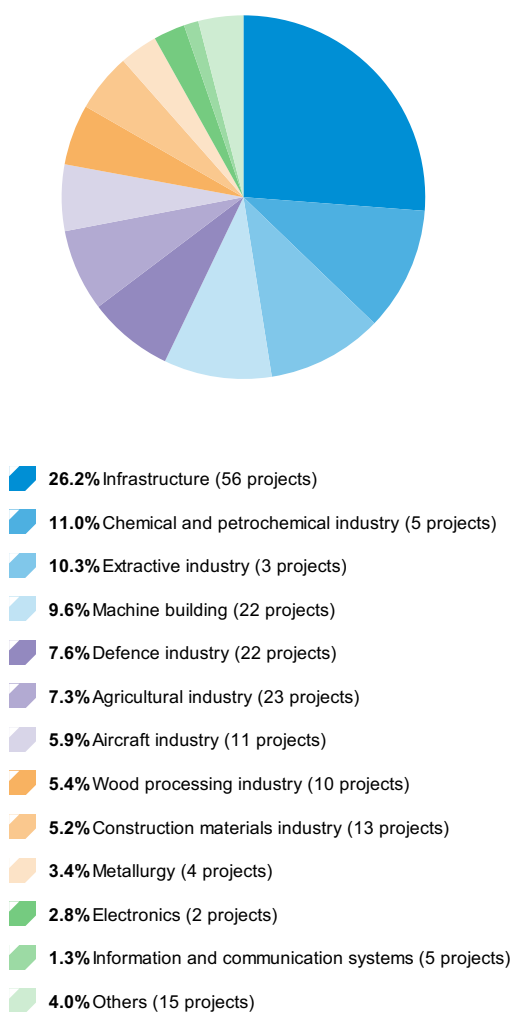


- 24.6%** Infrastructure (88 projects)
- 13.8%** Metallurgy (8 projects)
- 10.1%** Defence industry (79 projects)
- 8.9%** Chemical and petrochemical industry (7 projects)
- 7.4%** Machine building (28 projects)
- 7.3%** Extractive industry (4 projects)
- 7.0%** Agricultural industry (29 projects)
- 4.7%** Aircraft industry (14 projects)
- 3.9%** Wood processing industry (11 projects)
- 3.8%** Construction materials industry (15 projects)
- 3.1%** Electronics (6 projects)
- 1.1%** Information and communication systems (9 projects)
- 4.3%** Others (22 projects)

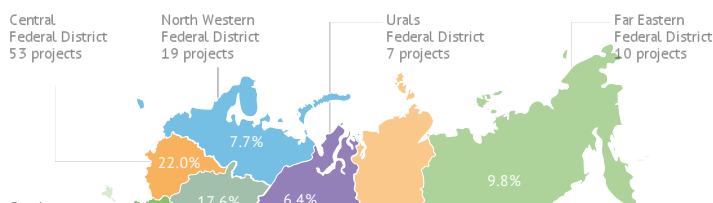
### Regional Breakdown of Projects in Russia Approved for Financing by Vnesheconombank in 2007–2014



### Sectoral Breakdown of Projects that the Bank was Financing as at the End of 2014 (% of the Bank's commitment)



## Regional Breakdown of Projects in Russia that the Bank was Financing as at the End of 2014



## Investment Performance Monitoring and Evaluation

*In 2014, Vnesheconombank consolidated information on social and economic effects of more than 100 projects financed by the Bank and ran 11 field audits of projects involving regional representative offices of the Bank in Russia*

We evaluate how efficient the projects we are financing are in line with the Procedure for Monitoring and Supporting Investment Projects Sponsored by Vnesheconombank. As part of monitoring, we assess actual macroeconomic and budgetary performance by projects against targets and evaluate social and economic effects produced by the projects.

In 2014, we particularly focused on evaluating the social and economic footprint of projects financed by us for such parameters as new jobs, and taxes similar payments to federal, regional and local budgets.

Over the year, we consolidated the social and economic footprint data for more than 100 projects that we finance.

These efforts brought us a long way towards the goal of implementing an integrated system for evaluating the social and economic performance of our investments. The relevant implementation guidelines developed in 2012 are currently at the validation stage. In 2014, these guidelines were tested on 10 investment projects of the Bank, with the testing slated to be completed in 2015. This will provide us with the necessary framework of practices for comprehensive evaluation of how our investment lending contributes to sustainable socio-economic growth of the Russian economy.

## Investment Opportunities

*Under the modernisation development scenario, by the end of 2020, the share of Vnesheconombank's loan portfolio will grow to 5–6% of total bank loans and to 11–14% of long-term bank loans*

In 2014, as part of preparing its Development Strategy for 2015–2020, Vnesheconombank substantially revised its approach to the structure of its loan portfolio. We took into account aggravating geopolitical risks and tougher access to international and domestic capital markets that resulted in sluggish investment in the Russian economy. In the context of high demand by real sector businesses for long money, the Bank strategically focused on increasing its funding of investment projects while maintaining high quality of the loan portfolio.

To ensure sustained growth and higher quality of Vnesheconombank's loan portfolio, its Development Strategy for 2015–2020 divides the portfolio into development bank projects and special projects of national importance that carry higher risks and that are subject to other funding principles. In 2014, Vnesheconombank also amended its Credit Policy Regulations to adjust how loan interest rates should be calculated and how project implementers or borrowers should evaluate their own project funding sources. There were also adjustments to types of collateral value of property pledged to secure Bank's loans.

The development bank's loan portfolio for 2015–2020 is planned to be built with a focus on creating new industrial production facilities, including innovative and import substitution projects, participating in programmes for financial recovery of defence industry flagships, supporting infrastructural initiatives in transportation, energy and public utility industries and green projects with heavy social and environmental footprint.



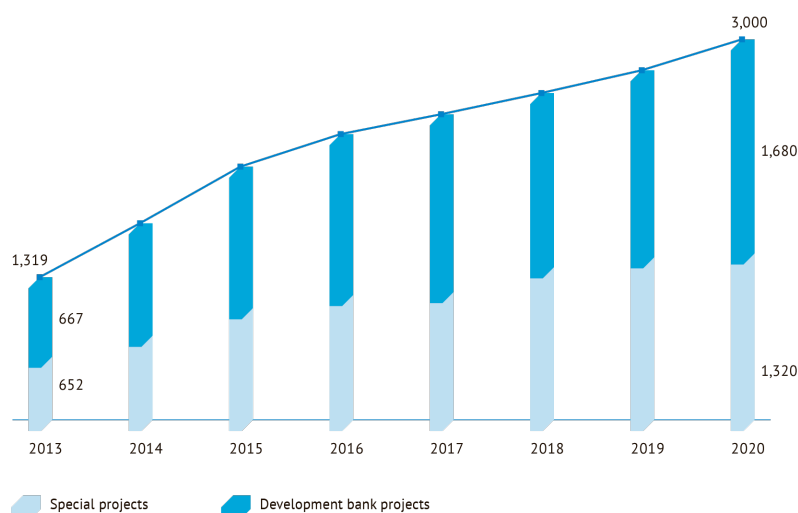
Specific objectives with respect of special projects that are to make up about one half of the Bank's loan portfolio will be set by the Supervisory Board of Vnesheconombank. On the back of a stagnating economy, rising costs and limited access to capital markets, some projects of the development bank may be reclassified as special projects that need public funding.

Given that the loan portfolio is broken down into development bank projects and special projects, the modernisation scenario of Vnesheconombank's development for 2015–2020 provides for an almost twofold growth of the loan portfolio to RUB 2.5–3.0 tn. The development bank's loan portfolio will grow approximately to RUB 1.4–1.7 tn, while the special projects portfolio will be RUB 1.1–1.3 tn. The growth of the loan portfolio will support the Bank's input in the financing of investments in capital stock at a level of c. 1.7–2.3% by late 2020.

#### Priority Areas in Building the Development Bank Portfolio for 2015-2020



#### Size of Vnesheconombank's loan portfolio under the modernisation development scenario for 2015–2020 (at the year end, RUB bn)



#### Integration of Responsible Financing Principles into the Bank's Operations

*In 2014, Vnesheconombank ran a training course on application of guidelines for environmental and social evaluation of investment projects that involved over 20 employees of the Bank*

Guided by the best international sustainability practices, we have been consistently integrating responsible financing principles into our operations to enhance efficiency of the system for management of environmental and social risks of investment projects and to ensure efficient support to environmental protection.

We were first in Russia to join the United Nations Environmental Programme Finance Initiative (UNEP FI) and confirm thereby our commitment to sustainability principles and our intention to implement a range of environmental initiatives in our investment lending operations. An important step to

meeting our obligations was to approve Vnesheconombank's Responsible Financing Policy in 2013. The policy will be put in place, among other things, by implementing the Guidelines for Environmental and Social evaluation (ESE) of Investment Projects that the Bank started developing in 2014.



#### Key strategic goals of the Bank in implementing responsible financing principles

- ✓ Enhance environmental and social responsibility of the Bank and its contribution to sustainable development of the society
- ✓ Efficiently support environmental activities and work towards better living standards
- ✓ Improve the environmental and social risk management system
- ✓ Comply with best international practices followed by financial development institutions



#### Mechanisms to integrate responsible financing principles in the Bank's operations

- ✓ Improve procedures and mechanisms for environmental and social evaluation and monitoring of investment projects guided by best international practices
- ✓ Embed environmental and social evaluation into investment project diligence
- ✓ Implement the system of socio-economic and environmental performance evaluation of the Bank's investment lending operation

The draft investment project ESE guidelines prepared by Vnesheconombank capture the main approaches to the evaluation of project solutions current used in the Russian Federation and best international practices, including approaches of the Organisation for Economic Cooperation and Development (OECD), the World Bank's policy and guidelines of the International Financial Corporation. The draft guidelines provide for evaluation of investment projects in terms of:

- ✓ the environmental and social issue management system;
- ✓ the procedure for assessing environmental and socio-economic impact of the project;
- ✓ prevention and minimisation of negative impact on environment and human lives and health, and maintenance of local biodiversity and traditions of indigenous peoples;
- ✓ disclosure and stakeholder engagement.

ESE mechanisms will be integrated into the existing investment project evaluation procedure of Vnesheconombank. The draft guidelines provide for environmental and social screening of all investment projects of the Bank and their ranking by the level of environmental and social risks at the preliminary due diligence stage. The formal ESE due diligence is run based on the results of the screening with respect to projects with high potential impact on environment and local life quality. Where necessary, an environmental and social roadmap is drafted based on ESE results to address risks identified.

#### Environmental and Social Evaluation (ESE) Procedure



##### Preliminary due diligence

- ✓ Environmental and social screening (ESS) of the project
- ✓ Environmental and social ranking of the project
- ✓ Opinion on ESS results and choice of due diligence methods



##### Due diligence

- ✓ ESE due diligence
- ✓ Opinion on the results of due diligence, including review of conformity to applicable requirements and recommendations on the terms of the Bank's involvement in the project financing



##### Monitoring

- ✓ Follow-up of compliance with applicable requirements and environmental and social terms of the Bank's involvement
- ✓ Report on compliance with environmental and social terms of the Bank's involvement

When embedding ESE guidelines into our lending and investment activities, we focus on identifying environmentally and socially important projects and projects eligible for the Bank's financial support. The draft guidelines provide for a list of criteria for the Bank's project to be assigned to these categories which will allow streamlining the Bank's monitoring and analysis of the impact by its investment lending operations on the achievement of its sustainability objectives. Later on, we are considering providing additional lending preferences to projects with heavy environmental and social footprint.

### Socially important project



if

**The project meets one or several of the following criteria**

- ✓ Creates alternative jobs in single-industry towns
- ✓ Supports socially vulnerable groups
- ✓ Improves quality and accessibility of social infrastructure
- ✓ Puts in place practical steps to reconstruct cultural heritage
- ✓ Provides social support to indigenous minorities

### Environmentally important project



if

**The project meets one or several of the following criteria**

- ✓ Considerably reduces manmade environmental footprint
- ✓ Recovers environmentally challenged territories
- ✓ Puts in place innovative, resource-saving and green technologies and practices
- ✓ Recovers and preserves environment and biodiversity