Raising Investments

In 2014, Vnesheconombank signed a USD 500 mn loan agreement with the Export-Import Bank of China to finance the project on the development of the northwestern block of the Elginskoye Coal Deposit in the Republic of Sakha (Yakutia)

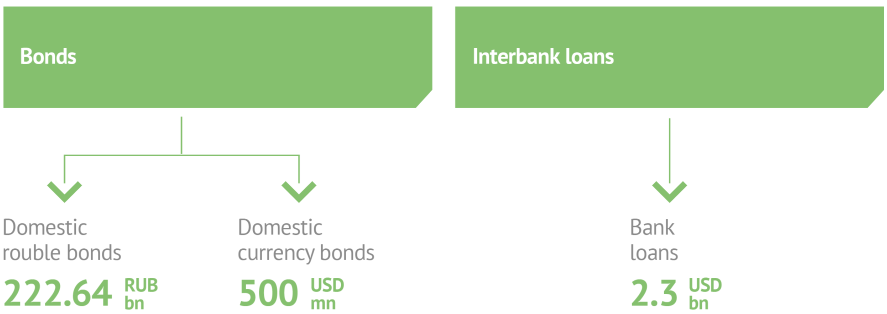
Building a resource base that would provide the required level of investment for the development of the Russian economy is a pivotal pre-requisite for Vnesheconombank to efficiently act as the national financial development institution. In the context of constrained access to capital markets of the US, EU and other developed economies, our paramount task is to diversify international financing sources, mainly by intensifying our relationships with development institutions of Asia and the Middle East.

Vnesheconombank takes long-term loans in the domestic and international capital markets to build the resource base required to expand its investment lending operations, maintain the cost of funding at an acceptable level and ensure its own financial stability. Key market borrowing instruments of the Bank include debt securities, bilateral and multilateral interbank loans and funds raised from international financial organisations and foreign development institutions.

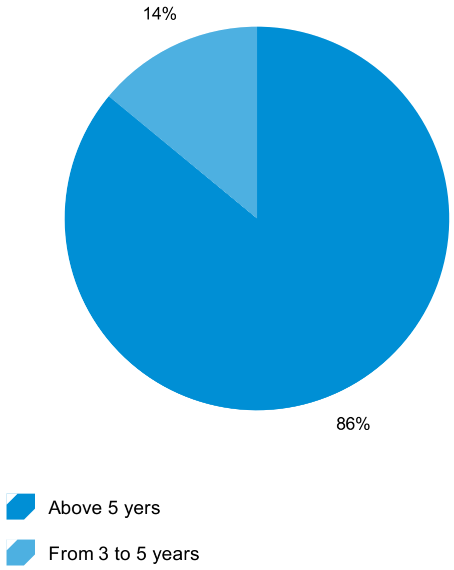
In 2014, Vnesheconombank was borrowing from foreign capital markets in a challenging international political situation caused by sanctions imposed on the Bank by the US, EU, Canada, Switzerland, Japan and other countries that had considerably restricted our access to foreign capital markets. We, however, have retained our ability to raise financing for import contracts made with counterparties from Europe and Asia.

In 2014, due to the sanctions, the Bank used domestic rouble- and USD-denominated bonds and bank loans as its principal sources of funding. We also worked on diversifying funding instruments and reducing service and refinancing risks with respect to previously taken financial obligations. For this purpose, we examined opportunities for raising debt in financial markets not covered by sanctions, including in Asian and Middle East countries.

Borrowings by Vnesheconombank in 2014



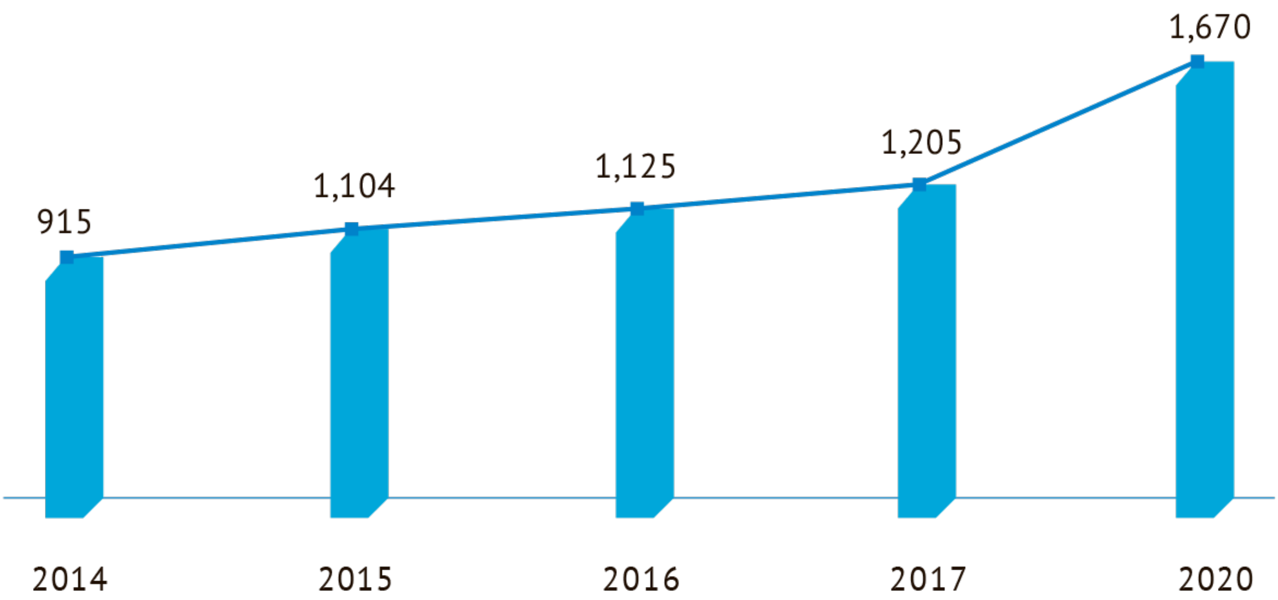
Breakdown of borrowings made in the capital market in 2014 by maturity



In 2014, Vnesheconombank continued its relations with major financial groups, clubs and associations to raise foreign financing, and tap into expertise and knowledge of international financial organisations and development institutions, including the BRICS Interbank Cooperation Mechanism, Shanghai Cooperation Organisation Interbank Consortium (SCO IBC), Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), Association of Export and Import Banks of Northeast Asia, etc. As a result, we have entered into a number of agreements to co-finance projects and initiatives, including on energy efficiency. More details on the Bank's achievements in international relations are given in the 'Stakeholder Engagement' Section.

Under its Development Strategy for 2015–2020, the Bank is planning to expand international debt sources by entering new capital markets of the Asian-Pacific Region, Middle East and Central Asia countries. Efficient relations with sovereign funds of these countries, including using Islamic banking instruments, offer great opportunities in terms of the Bank's operations. In organising our borrowings in the Asian-Pacific Region, we are intending to take full advantage of the capabilities of VEB Asia, the Group's Hong Kong based subsidiary established in 2013.

Vnesheconombank's market borrowing trends under the modernisation development scenario for 2015–2020 (as of the year end, RUB bn)



To reduce the cost and increase availability of financial resources in capital markets, we are planning to use the government guarantee mechanism for debt raising and continue implementing responsible financing principles in the Bank's investment operations. We are also planning to build business relations with green funds that focus on investing in renewable energy, resource and energy efficiency, water supply and waste recycling projects.

Vnesheconombank considers raising funds in the domestic capital market as a potential substitution for foreign credit resources. This step will be facilitated by an issue of bonds guaranteed by the Russian Government. The Bank estimates the amount of debt that can be raised in the domestic market in 2015–2016 at RUB 224 bn.

Our development strategy also provides for additional loans to be issued to the Bank by government sources. Their amount will determine the Bank's capabilities for expanding its investment lending operations at the scale provided for in the modernisation development scenario. We assume that government support to the Bank will mainly include capital injections, subsidised government loans and other tools, including subsidies to cover interest rates under export and other contracts, and guarantees on loans issued and taken by the Bank.

Activities of the Russian Direct Investment Fund	Operations of VEB Asia

The Russian Direct Investment Fund managed by LLC RDIF Management Company plays the leading role in attracting foreign investments to the Russian economy. The Fund has been specifically created by Vnesheconombank Group for this purpose. The RDIF focuses on implementing a variety of measures aimed to attract domestic and foreign investments to the Russian economy and highly qualified professionals and innovative technologies.

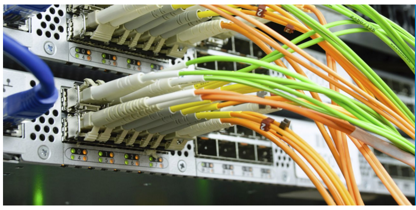
The RDIF invests subject to mandatory co-financing by major institutional investors: private equity funds, sovereign funds and industry champions. The amount of the RDIF's investment may not exceed the co-financing level. The RDIF runs a detailed review of the projects financed by engaging at least two independent expert teams: from the RDIF and an international partner.

In 2014, the RDIF focused on attracting investments to those Russian industries that have sustainable competitive advantages. In selecting investment projects, the Fund also captured their potential in terms of import substitution, enhancing efficiency of Russian companies and meeting the demand of the national economy for infrastructure investments.

Projects Financed by RDIF in 2014

- Projects of the Russia-China Investment Fund
- Construction of LPG and light petrol products transhipment terminal in the port 'Ust-Luga'
- Construction of logistics centres in the Moscow Region
- Bridging the Digital Divide
- Moscow Exchange
- Cotton Way
- Tigers Realm Coal
- Construction of Smart Grid

In 2014, RDIF continued building long-term strategic partnerships with foreign investors by creating joint investment funds and platforms. These initiatives provide for joint investments by RDIF and foreign investors in long-term projects across a number of Russian industries and stronger trade and economic relations between countries represented by the partners.



Project: Bridging the Digital Divide

Project implementer: OAO Rostelecom

Total project value: up to RUB 67.5 bn

Commitments by project stakeholders, including RDIF: up to RUB 10.1 bn

Debt financing: up to RUB 30.4 bn

Financing by the National Wealth Fund: up to RUB 27 bn

Project goal: construct a public utility system to provide access to the Internet in Russian localities with a population of 250 to 500 persons.

The project provides for the construction of a communications network that would comprise about 200 thousand km of new optical fibre communication lines for access to the Internet at a rate of at least 10 Mb/s in 13.6 thousand localities. The solutions and methods used in the project meet international and Russian environmental safety requirements as confirmed by an independent advisor who ran an engineering review of the project.

The project is implemented in line with the Resolution by the Russian President dated 21 October 2013 to cover rural localities with a population of 250 to 500 persons with up-to-date communication services in 2014–2016. The project will also help to achieve the target for ensuring equal access to communication services and the Internet, set in the plan of the Russian Ministry of Communications and Mass Media for 2013–2018.

The project's results will contribute to the social and economic development of Russian regions and enhance accessibility of information resources to the wider population of the country, and to the creation of a new generation of communications infrastructure for schools, hospitals, post offices and public institutions. Moreover, the project will give a fresh impetus to the development of the construction and telecommunication industries, and enhance labour productivity through better communications.

Agreements reached by RDIF on creation of investment funds and platforms as at the end of 2014

- Russia-China Investment Fund
- Mechanism of co-investment with the Government Bank of India
- Mechanism of co-investment with the Arab Investment Fund 'Mubadala'
- Mechanism of co-investment with the Sovereign Fund of Qatar
- Russia-Japan Investment Platform
- Russia-France Investment Platform
- Russia-Korea Investment Platform
- Mechanism of co-investment with the Sovereign Fund of Kuwait
- Russia-Italy Investment Platform
- Mechanism of co-investment with Mumtalakat, the Investment Arm of the Kingdom of Bahrain
- Mechanism of co-investment with the Indian Infrastructure Corporation