



**VNESHECONOMBANK
GROUP
NON-FINANCIAL
REPORT 2016**



**BANK
FOR DEVELOPMENT**

**STATE CORPORATION
“BANK FOR DEVELOPMENT
AND FOREIGN ECONOMIC
AFFAIRS
(VNESHECONOMBANK)”**

CONTENTS

Address by Sergey Gorkov, Chairman of Vnesheconombank	2
About the Report	4
1. VEB Group: Strategic Priorities	10
1.1 VEB Yesterday, Today, Tomorrow	11
1.2 VEB's Key Performance Results	12
1.3 VEB 2.0 Strategy	16
1.4 VEB Group: Results and Outlook	22
1.5 Promoting Sustainability Principles	25
2. VEB Group: On the Way to Transformation ...	28
2.1 Corporate Governance	29
2.2 Risk Management	35
2.3 New HR Policy	39
2.4 New Quality of Customer Service	48
3. Investment in Development	51
3.1 VEB Investment Performance	52
3.2 Support for Innovations	58
3.3 Environmentally Important Projects	63
3.4 Support for Exports	66
4. VEB Group in Russian Regions	71
4.1 Regional Development	72
4.2 Support for Single-Industry Towns	78
5. Financial Institution Engagement	82
5.1 Raising Investments	83
5.2 International Relations	87
6. Responsible Business Practices	89
6.1 Anti-Corruption Procedures	90
6.2 Procurement	93
6.3 Green Office	95
6.4 Investment of Pension Savings	99
7. Investing in Communities	102
7.1 Volunteering and Sponsorship	103
7.2 Development Award	106
7.3 Promoting Financial Literacy	109
7.4 Socially Important Products and Services of Subsidiary Banks	111
Appendices	113

ADDRESS BY SERGEY GORKOV, CHAIRMAN OF VNESHECONOMBANK



photo by Semen Katz for Forbes magazine

Dear Colleagues and Partners!

We are pleased to present to you Vnesheconombank Group Non-Financial Report 2016. This Report is designed to recap the first operating outcomes achieved by VEB after evolving into a new phase. 2016 was an eventful year full of challenges that tested out all our team. As we headed into that year, we faced compelling financial issues, since VEB's major problems had piled up. Despite the situation, we succeeded in regaining foothold to ward off a default of the Bank itself and the VEB Group companies, and so were able to set about the transformational change process across the VEB Group.

VEB Group started its transformation journey in 2016, with the transformational change spreading across all areas of its operations as a development bank and bringing about the first positive outcomes yet today. Over 2016, we had regained investor's trust so causing an inflow of funds worth more than one billion US dollars from markets; we had continued to finance projects that are critical to the national economy, we now have a new regional-level interaction model and we had set about efforts to dramatically transform our internal business processes.

A key outcome for VEB after 2016 is that VEB 2.0 Strategy 2021 has been worked out by the VEB team and its Russian and international partners allying together and backed by the Russian state. The new Strategy is based on understanding the VEB's role as a leading national development institution whose main mission is to make Russia a country driven by and promoting innovation.

According to VEB 2.0 Strategy, the Bank's top priority areas for investments are the ones where Russia has a potential of becoming a global leader and a peer for the world's leading countries in terms of level of technology. The new strategy thus addresses VEB's investing to drive development to anticipate challenges and outmatch rivals, with the digital economy, Industry 4.0, blockchain, neurotechnology and convergence technology as top

critical investment segments. Concurrently, VEB will support projects to promote development to catch up to the required levels in sectors such as high-technology industry, non-resource-based exports, infrastructure development and defence industry production migration to non-defence high-technology production.

We are working to replace the old-version VEB's red tape and bureaucracy with the agile management and project-based approach. We will rely on these new practices to enable us review and assess new projects within shorter times and reach new heights in terms of gaining knowledge and expertise and boosting the appraisal quality for the most critical areas of VEB 2.0 investments.

Looking back over the year 2016 in terms of non-financial highlights, we cannot but credit as really important the VEB corporate volunteer project to promote social welfare. It is called Dream Has No Age! and it brings together VEB and VEB Group employees to support elderly people. I believe this is an important effort proving that our team is truly committed to the corporate social responsibility principles.

The VEB team today is made up of people who are passionate in and about what they do. They are deeply involved in solving tasks put in front of them. They lead the way and are open to constantly improving themselves. These are the very qualities that are at the heart of VEB corporate values that our team had reinvented and committed to over 2016. We are guided by these values, as they help us to advance toward our goals, to change the Bank for the better, to work for the benefit of Russia and to drive its further development.

Over 2016, the VEB team has made an outsized progress that was acknowledged by Russia's national government. Today, we are facing the future with confidence. Our goal is to become a top efficient innovation-driven and innovation-driving development institution globally and a pillar that will underpin Russia's development in the long term. And what we have done is that we have laid a robust groundwork for reaching this goal.

Sergey Gorkov
Chairman of Vnesheconombank

ABOUT THE REPORT

This Vnesheconombank Group Non-Financial Report 2016 has been prepared in line with the Global Reporting Initiative (GRI) Guidelines (Version G4, Core Disclosure Level) and the Sector Disclosures for the Financial Services Sector. The Report also discusses Vnesheconombank Group's performance in terms of achieving the UN Global Compact's principles on human rights, labour, environment and anti-corruption. The Report was prepared in accordance with AA 1000 standards and with the elements of the International Integrated Reporting Standard.

The preparation of the Report is governed by the Regulations for Vnesheconombank Group Sustainability Report as approved by Vnesheconombank Order No. 630 of 8 July 2014.

The Report presents a comprehensive overview of VEB Group management approaches and key performance indicators for the reporting period in the context of social responsibility and sustainability. The key areas covered by the Report include:

- VEB Group new operating priorities as covered in the VEB Development Strategy 2021 and business model (hereinafter, VEB 2.0 Strategy);
- Enhancing VEB's efficiency as a development institution and implementing projects to transform its key business processes;

- First outcomes achieved by VEB as a development institution to promote Russia's social and economic growth.

The Report has been reviewed by the Internal Control Service of Vnesheconombank (Appendix No. 13), verified by NP Consult as independent auditors (Appendix No. 14) and obtained public assurance by the Board for Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (Appendix No. 15).

The Report was reviewed by Vnesheconombank Executive Board on 30 October 2017 and approved by the Bank's Order No. 748 of 21 November 2017.

REPORT BOUNDARIES

For the purposes of this Report, Vnesheconombank Group¹ (hereinafter, VEB Group) includes Vnesheconombank and its subsidiaries that were part of the Group as of 31 December 2016. In addition, the Report contains information regarding VEB performance in terms of supporting export operations of the subsidiaries of the Russian Agency for Export Credit and Investment Insurance (EXIAR) and Russian Export - Import Bank (Eximbank of Russia), as well as key performance indicators for the Monotown Development Fund.

1. The definition of Vnesheconombank Group neither coincides with that of a bank group, or a financial and industrial group as provided in the Russian laws, nor with that of Vnesheconombank Group as provided in the relevant financial statements prepared in compliance with the Russian Accounting Standards and the International Financial Reporting Standards.

REPORT BOUNDARIES

State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"
(hereinafter, "VEB"; "Vnesheconombank")

Russian Export Centre JSC (REC)	Open Joint-Stock Company "The Far East and Baikal Region Development Fund" (The Far East and Baikal Region Development Fund)
VEB Innovations Fund	North Caucasus Development Corporation (NCDC)
JSC Federal Centre for Project Finance (FCPF)	JSCB Sviaz-Bank (Sviaz-Bank)
LLC VEB Engineering (VEB Engineering)	GLOBEX Commercial Bank, Joint Stock Company (GLOBEXBANK)
Limited Liability Company Investment Company of Vnesheconombank "VEB Capital" (VEB Capital)	Bank BelVEB OJSC (BelVEB)
JSC VEB Leasing (VEB Leasing)	PSC Prominvestbank (Prominvestbank)

The Report boundaries in terms of the companies covered have been changed versus the previous reporting period²:

- The Report does not disclose information regarding JSC Russian Bank for Small and Medium Enterprises Support, since on 21 April 2016 100% of its equity was transferred to JSC Federal Corporation for Development of Small and Medium Enterprises in compliance with the Decree of the President of the Russian Federation On Measures for Further Development of Small and Medium Enterprises;
- The Report does not disclose information regarding the Russian Direct Investment Fund (RDIF) managed by LLC RDIF Management Company, because in accordance with Federal Law No. 154-FZ of 02 June 2016 (On the Russian Direct Investment Fund) LLC RDIF Management Company was reorganized into a non-public company whose sole shareholder is the Russian government.

2. Over 2016, the boundaries of Vnesheconombank Group changed significantly. Consequently, the Report does not contain the quantitative indicators of the Group as compared to the previous reporting periods, since, due to a great extent of change making, it is difficult to present the figures on a year-on-year basis.

DEFINING REPORT CONTENT

When defining the Report content, we adhered to the procedures for identifying material aspects recommended by GRI Guidelines (Version G4). All phases of deter-

mining the scope of the Report, identifying material aspects and relevant Standard Disclosures prescribed by the GRI Guidelines were documented. The approach selected and all of its phases have proved appropriate and consistent after having been verified by the auditors.

Procedure for determining the scope of the Report

STEP 1

Identifying relevant topics to be included in the Report

Based on the analysis of all of VEB Group's business areas and their materiality in terms of GRI Guidelines disclosures

STEP 2

Analyzing essential topics in terms of their materiality for VEB Group's development

Based on the survey of Vnesheconombank Management Committee members

STEP 3

Analyzing relevant topics in terms of their materiality for stakeholders

Based on the survey of VEB Group's stakeholders and public debate on the report concept

STEP 4

Identifying the final list of relevant topics to be included in the Report, as well as its boundaries and scope

Based on the analysis of the materiality of VEB Group's impacts and GRI Guidelines aspects for stakeholders

STEP 5

Assessing the relevant topics disclosed in the Report for completeness and integrity.

Based on expert review by independent auditors

To prepare the report, VEB in cooperation with the Russian Union of Industrialists and Entrepreneurs organized public debate on its concept with stakeholders. The participants in the debate included representatives from the financial services sector, government authorities, professional associations and public organizations. As part of the debate, a participant survey was conducted.

After the report content identification procedures have been completed, a map of relevant topics and GRI aspects to be disclosed in the Report was outlined. The impact of VEB Group's operations on its stakeholders was assessed based on the VEB Group stakeholder survey. The respective impact on the VEB Group's operations was evaluated based on the Bank Management Committee survey and the VEB 2.0 Strategy analysis.

VEB GROUP KEY STAKEHOLDER MAP³

EXTERNAL STAKEHOLDERS		
high priority	<ul style="list-style-type: none"> • VEB Supervisory Board • Government of the Russian Federation • Government authorities 	VEB Group is responsible for promoting the government policy on social and economic development
	<ul style="list-style-type: none"> • Investors and partners • Clients and borrowers 	VEB Group is responsible for enabling mutually beneficial cooperation with its counterparties
medium priority	<ul style="list-style-type: none"> • Russian and international financial institutions • Professional and expert communities 	VEB Group is responsible for improving professional environment and investment climate
	<ul style="list-style-type: none"> • Suppliers and contractors 	VEB Group is responsible for ethics and integrity
	<ul style="list-style-type: none"> • Local communities at locations of operation 	VEB Group is responsible for improving the quality of life in the result of the projects financed
INTERNAL STAKEHOLDERS		
high priority	<ul style="list-style-type: none"> • VEB Management Board • VEB Group entity management 	VEB Group is responsible for efficient operation of the corporate governance system in decision-making
	<ul style="list-style-type: none"> • VEB Group entity employees 	VEB Group is responsible for providing its employees with decent working conditions and equal opportunities for professional development

3. The key stakeholders were identified by VEB management based on the analysis of the mutual impact between stakeholders and Vnesheconombank Group.

Map of essential topics and relevant GRI aspects disclosed in the Report

Impact of VEB Group's operations by aspect	High	<ul style="list-style-type: none"> • Development of internal communication system [15] • Professional development and training of employees [17] • Corporate volunteering [1] [3] • Transition to a new organizational structure; personnel turnover [14] • Customer satisfaction level assessment [28] 	<ul style="list-style-type: none"> • Support for innovation projects [3] [30] • Support for export projects [3] [30] • Support for infrastructure projects [3] [30] • Evaluation of project energy efficiency [3] • Support for environmental projects [3] [30] • Investment in single-industry towns (monotowns) [3] [30] • Financial performance [1] • Raising of foreign investment [3] • Development of regional cooperation [23] • State financial aid [1] • Anti-corruption policy [24]
	Moderate	<ul style="list-style-type: none"> • Financial literacy initiatives [3] [28] • Procurement procedures [12] [19] [26] • Employee compensation [2] [18] • Employee social welfare [14] • Complaint handling [13] [20] [22] [27] [29] 	
	Low	<ul style="list-style-type: none"> • Charity [1] [3] • Office operational waste [8] • Corporate vehicle emissions [7] [10] • Labour and occupational safety [16] • Prevention of discrimination of women, disabled persons, etc. [21] 	<ul style="list-style-type: none"> • Pension obligations to employees [1] • Legal and regulatory fines [9] [25] • Resource consumption through office operations [4] [5] [6] • Environmental protection costs and investment as part of office operation [11]
	Low	Moderate	High
Degree of impact of VEB Group's operation aspects on stakeholders			

Material GRI Guidelines aspects disclosed in the Report
Aspects of high significance to key stakeholders and/or of VEB Group's impacts should be considered material for VEB Group's operations.

GRI Guidelines Aspects

ECONOMIC

- [1] Economic Performance
- [2] Market Presence
- [3] Indirect Economic Impacts

ENVIRONMENTAL

- [4] Materials
- [5] Energy
- [6] Water
- [7] Emissions
- [8] Effluents and Waste
- [9] Compliance
- [10] Transport
- [11] Overall
- [12] Supplier Environmental Assessment
- [13] Environmental Grievance Mechanisms

SOCIAL

- [14] Employment
- [15] Labour/Management Relations
- [16] Occupational Health and Safety
- [17] Training and Education
- [18] Equal Remuneration for Women and Men
- [19] Supplier Assessment for Labour Practices
- [20] Labour Practices Grievance Mechanisms
- [21] Non-discrimination
- [22] Human Rights Grievance Mechanisms
- [23] Local Communities
- [24] Anti-corruption
- [25] Compliance
- [26] Supplier Assessment for Impacts on Society
- [27] Grievance Mechanisms for Impacts on Society
- [28] Product and Service Labeling
- [29] Consumer Privacy

ASPECTS OF G4 SECTOR DISCLOSURES FOR FINANCIAL SERVICES SECTOR

- [30] Portfolio



VEB GROUP: STRATEGIC PRIORITIES

1.1 VEB Yesterday, Today, Tomorrow	11
1.2 VEB's Key Performance Results	12
1.3 VEB 2.0 Strategy	16
1.4 VEB Group: Results and Outlook	22
1.5 Promoting Sustainability Principles	25

1.1

VEB YESTERDAY, TODAY, TOMORROW

VEB 2.0 Mission is to promote Russia's long-term economic development, primarily by supporting the high-technology industries and projects, promoting export operations and developing the infrastructure that enables the economic growth

Vnesheconombank is one of the largest Russian financial institutions with a background of more than 90 years in the industry. Over this time, the Bank changed its name more than once. It was called the Russian Commercial Bank, the Bank for Foreign Trade (Vneshtorgbank) of the USSR, Vnesheconombank and the Bank for Development. Still, the Bank has always continued to pursue the same mission, which is to support the national economy in accordance with the state development priorities.

In 2007, Russian Government adopted a decision to grant Vnesheconombank a special status of a development bank playing the key role in Russia's economic modernization. Seeking to deliver on this mission, VEB has been funding the most complex and large-scale projects crucial for Russia's social and economic development. The Bank has commissioned dozens of industrial enterprises and major infrastructure projects, invested in the development of innovative production facilities and Russia's non-resource exports.

However, since 2014, VEB's operations have been affected by the restrictive sanctions cutting the Bank off from most foreign capital markets. Combined with accumulated bad assets, it resulted in reduced liquidity for meeting the Bank's external obligations. A new, harsh economic environment has required VEB to revise its strategy and business model.

Rising to new challenges, VEB initiated in 2016 a massive transformation with a view to improving its performance as a development institution and stabilizing its financial position. A new management team led by Sergey Gorkov has been appointed to take the Bank forward.

Despite a difficult situation early in 2016, VEB has successfully completed its challenges. Overall, the Bank has improved its liquidity position as well as that of its subsidiaries, launched the transformation of core business processes and continued financing of priority projects. The Bank also designed and adopted VEB 2.0 Strategy to turn an entirely new page in its history.

1.2

VEB'S KEY PERFORMANCE RESULTS

PERFORMANCE IN 2007-2016

AS A DEVELOPMENT INSTITUTION, VEB FINANCED AND COMPLETED 114 PROJECTS



RUB 770.68 bn
Total project value



RUB 52 bn
Benefits exceeding costs



RUB 424.29 bn
VEB's commitment



27,529
New jobs

PROJECTS COMPLETED



INNOVATION PROJECTS

8 projects

Total project value: RUB 127.65 bn
VEB's commitment: RUB 41.04 bn



MONOTOWN PROJECTS

14 projects

Total project value: RUB 157.82 bn
VEB's commitment: RUB 75.91 bn



NATURAL RESOURCES AND ENERGY EFFICIENCY PROJECTS; ENVIRONMENTAL PROJECTS

4 projects

Total project value: RUB 67.52 bn
VEB's commitment: RUB 44.09 bn

PERFORMANCE IN 2016

PROJECTS COMPLETED IN 2016



24 projects

Total project value: RUB 290.49 bn
VEB's commitment: RUB 129.31



RUB 24 bn

Benefits exceeding costs



1,338

New jobs

PROJECTS FINANCED SINCE 2016



21 projects

Total project value: RUB 103.24 bn
VEB's commitment: RUB 60.60 bn



RUB 235 bn

Expected benefits exceeding costs



3,255

Expected number of new jobs

EXPORT SUPPORT

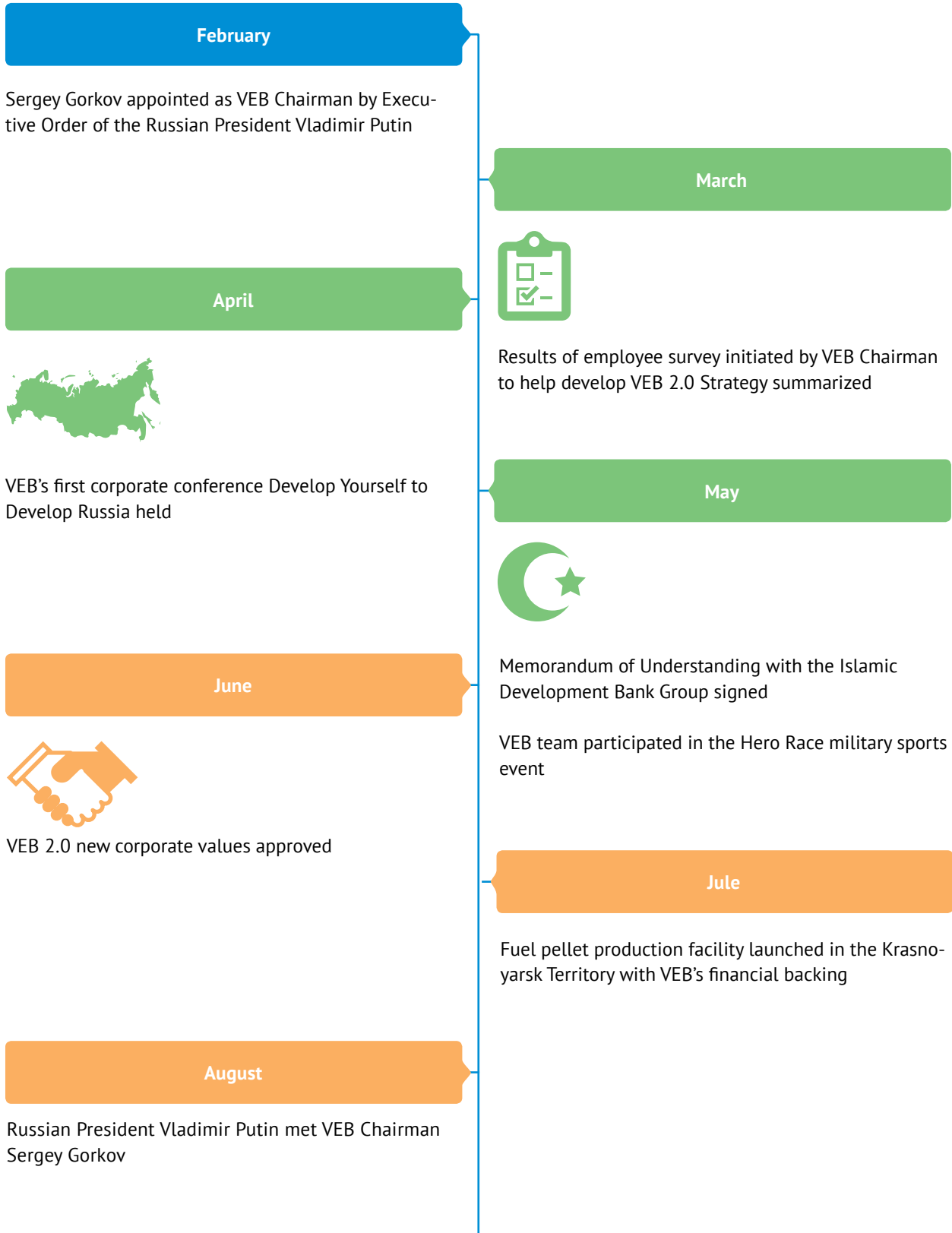
Export support by the end of 2016: **RUB 874.31 bn**

- Export support loan portfolio: RUB 67.73 bn
- Export guarantee portfolio: RUB 806.58 bn

19 export credits and **86 guarantees** issued in 2016

- Total export credits granted in 2016:
RUB 15.84 bn
- Total export guarantees issued in 2016:
RUB 252.33 bn

Key events at VEB in 2016



September

An agreement signed with Chinese banks' club for a CNY 10 bn untied syndicated loan

CSKA stadium build with VEB's financial support officially opened

Production of household gas stoves commissioned in the Orsk Region with VEB's financial support

A sawmill complex commissioned in the Krasnoyarsk Territory with VEB's financial support

October

Dream Has No Age corporate volunteer project designed to help the launch of the old people's homes

November



A CNY 6 bn framework agreement with China Development Bank signed

December



VEB 2.0 Strategy approved by Vnesheconombank Supervisory Board

The central section of the Western High-Speed Diameter toll motorway built in St.-Petersburg with VEB's financial backing officially opened

Memorandum of Intent on the Integrated Development Platform signed by the Government of Belarus, Development Bank of Belarus, VEB, EXIMBANK of Russia and BelVEB

1.3

VEB 2.0 STRATEGY

Investing to ensure the maximum positive impact on Russia's economy, VEB views PATRIOTISM as its core corporate value

On 21 December 2016, VEB Supervisory Board approved new VEB 2.0 Strategy.⁴ The strategy was devised drawing on the analysis of VEB's performance and global development banks' best practices. It also addresses Russia's economic needs and state priorities. More than 200 of the Bank's customers and employees, as well as public officials took part in the discussions of the Strategy.

Working out the Strategy, VEB focused on a limited number of its business lines to develop the necessary competences and save resources. Consequently, VEB concentrated on the most crucial for Russia's economic transformation industries where it can play the key role without duplicating other development banks' functions.

In compliance with its new strategy, VEB will provide long-term financing and export support for debottlenecking projects where commercial lenders and other development institutions prove to be inefficient. In partnership with its customers, financial institutions and government agencies, VEB will act as an anchor investor to encourage Russian businessmen and foreign partners to invest in its projects.

VEB will support investment projects using advanced IT solutions and public-private partnership mechanisms, thus creating additional value for its customers and mitigating their risks. VEB will select investment projects depending on their impacts on sustainability and energy efficiency.

VEB 2.0 Investment Priorities

CATCH-UP DEVELOPMENT



INFRASTRUCTURE

Priority areas

Projects for development of transport, energy and high technology, public health infrastructure and industrial asset infrastructure



NON-COMMODITY EXPORT SUPPORT

Priority areas

Supporting unique major projects, high technology product exports, operations in challenging markets in Asia, Africa and Latin America, pre-export investment projects in Russia or abroad using Russian equipment



HIGH-TECHNOLOGY INDUSTRIES

Priority areas

High-technology industry projects to promote technological development of the economy in line with the nation's priorities

ADVANCED DEVELOPMENT



DEFENCE INDUSTRY'S MIGRATION TO CIVILIAN PRODUCTION

Priority areas

Projects providing for defense industrial facilities to produce sophisticated civilian products, in particular, with high export potential



INNOVATIONS AND NATIONAL TECHNOLOGY INITIATIVE PROJECTS

Priority areas

Launching and scaling-up innovative production facilities and services; investments in breakthrough technology

VEB 2.0 Strategy provides for a 500-billion increase in the Bank's investment (inclusive of co-investment) to ensure a 0.4-0.7% growth of the national GDP by 2021

DEVELOPMENT AND GROWTH GOALS

Pursuing its new strategy, VEB expects to become a national leader in financing projects crucial for Russia's economic development and enhance its investment climate. VEB's operations will produce significant positive impacts on the economic structure, help build new quality economy, boost productivity and reduce dependence on imports and primary commodity exports.

As a national financial development institution, VEB will contribute to a variety of social and economic development objectives set by the Russian government:

- Economic diversification and reducing dependence on primary commodity exports;
- Import substitution;
- Export promotion;
- Support for innovations and boosting productivity;
- Defense industry production migration to civil production;
- Development of territorial clusters.

KEY STRATEGY INDICATORS⁵

Indicator	2017	2018	2019	2020	2021
Financing extended, bn RUB ⁶	110	120	160	180	200
Commitment as per national priorities (Russia's Ministry of Economic Development, Ministry of Industry and Trade, Ministry of Transportation, and NTI)	50	70	70	80	80
Exports support (loans and guarantees issued) bn RUB ⁶	82	87	103	113	124

5. The indicators conform to the basic strategy scenario.

6. Including debt and equity financing of VEB's projects. The value depends on the allocation of target funding by the Government and interest rate subsidies and excludes funds extended by REC.

A new level of industry expertise and life-cycle project monitoring will ensure the repayment of funds entrusted to VEB by the government and customers

VEB 2.0 PROJECT LIFE CYCLE

As part of its new strategy, VEB will introduce a new investment process to identify projects that comply with the requirements in terms of support for the national economy, risk profile, and co-financing. VEB will offer its customers integrated solutions including financial products and industry expertise, to reduce project finance risks, in particular, the risks of market misjudgment and the wrong business model. VEB's participation in project preparation and risk mitigation will promote co-financing from a wide range of investors, which, in its turn, will help reduce borrowing costs for the customers.

The new process for supporting VEB-financed projects provides for regular interaction between VEB managers and customers thus keeping the Bank updated on the project progress. Project support will be provided by cross-functional teams comprising professionals from subdivisions responsible for investment, customer, business solutions, risks, monitoring, and, if necessary, dealing with distressed assets. Thus, VEB will gain a deeper understanding of the project's progress.

Using sophisticated IT-solutions, VEB will ensure a more friendly and prompter customer interaction process at the project support stage. At the same time, VEB will analyze the feasibility of a common information environment for the Bank, borrowers, project managers and contractors based on the state-of-the-art blockchain technology.

New project model

INVESTMENT PROCESS

INDUSTRY BUSINESS SOLUTIONS

- VEB will establish an industry analysis function to analyze economic value chains and select potential investment areas
- Drawing on its industry expertise and taking into account the national priorities, VEB will proactively search for projects and select potential investment areas together with the customer
- In the course of the project analysis, VEB will facilitate the customer's market forecasting, determining key success factors in the areas selected and building a successful business model

PROJECT STRUCTURING

- VEB will cooperate with the customer to develop integrated project solutions including the selection of VEB's best support tools, co-financing from other financial institutions, and government aid programmes

SYNDICATION

- VEB will build its operations to raise syndicated financing for its projects from commercial banks
- VEB will help improve syndication regulating mechanisms

PROJECT SUPPORT PROCESS

MONITORING

- VEB will use advanced IT solutions for customer interaction to monitor financial and operational indicators of the projects

CROSS-FUNCTIONAL TEAM

- A cross-functional team comprising experts from VEB's relevant departments will ensure project support throughout its lifecycle

COMMON INFORMATION ENVIRONMENT AND PROJECT INFORMATION PANEL

- VEB will create a common information environment to monitor the project progress online, timely become aware of any problems, and forecast the project progress

PROJECT MANAGEMENT SERVICES

- VEB will offer its customers additional services including engineering, procurement and project management, financial control and project support services

Key tasks of VEB 2.0 Strategy include launching a new investment process in compliance with the Strategy priority areas, resolving accumulated problems of the existing Bank, and large-scale internal transformation

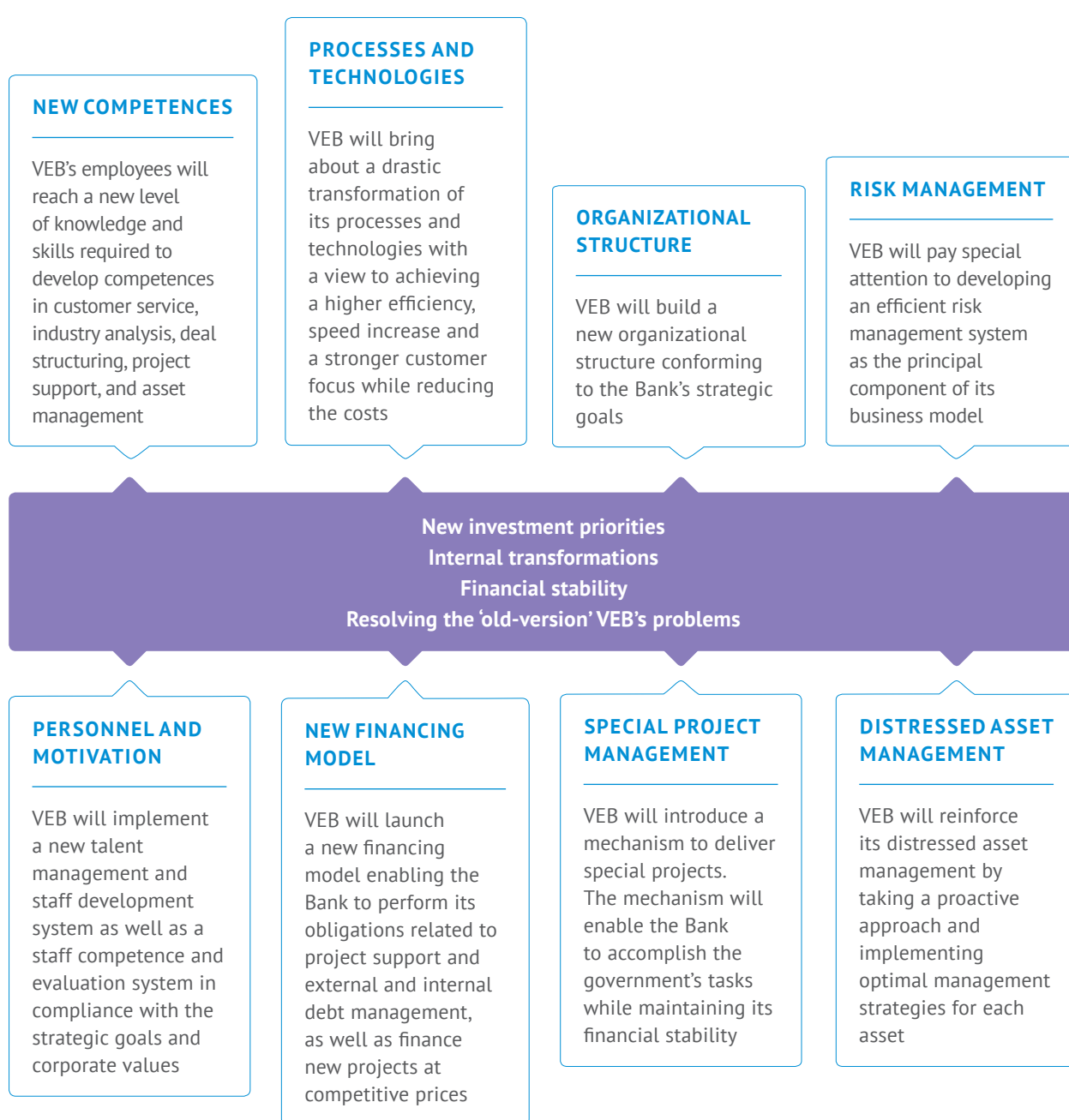
STRATEGY IMPLEMENTATION MECHANISMS

For the Strategy to succeed, Vnesheconombank will have to effect large-scale internal changes aimed to develop new competences, introduce efficient processes and technologies, and modernize the organizational structure and corporate governance system. As part of the Strategy, VEB will introduce state-of-the-art IT solutions and customer services, significantly enhance the development of the customers' business models, build a systematic approach to risk management, develop a stronger customer focus, and promote a new corporate culture.

VEB will be launching its new business model concurrently with resolving the accumulated problems of the existing Bank. First and foremost, these include pressure on the Bank's equity and the return on distressed assets including special projects that do not comply with VEB's

requirements for risks or profitability. To solve this issue, in the coming years, VEB will have to restructure its distressed assets and withdraw from non-core business areas, as well as launch new fund raising tools to be able to fulfill its external and internal debt obligations⁷.

VEB 2.0: Challenges and Solutions



7. Data on the tools used by VEB to develop its resource base in 2016 are given in Section 5.1. "Investment Raising" of the Report.

1.4

VEB GROUP: RESULTS AND OUTLOOK

In a new environment, VEB has to adjust group composition, optimize the subsidiary management model and unleash the synergy potential of VEB Group

Comprising specialized financial institutions and commercial banks in Russia, the Republic of Belarus and Ukraine, Vnesheconombank Group was established to accomplish the objectives of the 'old-version' VEB. Since the current group structure is inconsistent with the strategic priorities of VEB 2.0, the group composition requires optimization. However, the Group will retain those subsidiaries, whose operations, in general, comply with new areas defined in VEB's investment policy.

Functional management of the subsidiaries included in the Group's target boundaries will be performed by the relevant VEB competence centers. This is designed to help boost the Group's synergy potential. As part of the strategy, VEB implements a set of measures to enhance the quality of corporate governance at all the subsidiaries irrespective of whether they will remain in the Group or not. To do so, VEB will need to:

- implement business synergies and increase efficiency and manageability of subsidiaries through the centralization of certain functions;
- adjust business models of certain subsidiaries;
- implement short-term measures to improve the financial condition of certain subsidiaries;
- create a common financial control and risk management system;
- ensure better coordination of customer services;
- build a goal-setting process around new priorities and increase the responsibility of subsidiaries for the result.

MEASURES IMPLEMENTED IN 2016 TO ENHANCE MANAGERIAL EFFICIENCY AT VEB GROUP SUBSIDIARIES

- Vnesheconombank established the VEB Group subsidiary management center consisting of four new subdivisions
- Vnesheconombank's functional managers were put on the supervisory boards and boards of directors of VEB Group subsidiaries
- VEB established the VEB Group subsidiary and affiliate management committee
- The targets were set for the managers of Vnesheconombank's strategic subsidiaries and affiliates
- Management teams of VEB Group subsidiaries have been reinforced
- VEB Group's subsidiaries will now have to submit managerial reports on a weekly basis
- The practice of business planning and regular business reviews has been introduced

Subsidiaries remaining in VEB Group (strategic partners)

Russian Export Centre

- Head office location: Moscow
- Authorized capital⁸: RUB 57.63 bn
- VEB's share: 100%
- Headcount: 134

Key results in 2016

- Supported exports for USD 8.9 bn
- Provided support to more than 500 exporting companies

VEB Innovations Fund

- Head office location: Moscow
- Contribution by the sole founder (VEB): RUB 1 bn
- Headcount: 15

Key results in 2016

- Recovered RUB 76.351 mn worth of investment in Skolkovo Fund companies' projects

Federal Centre for Project Finance

- Head office location: Moscow
- Authorized capital⁸: RUB 4.93 bn
- VEB's share: 100%
- Headcount: 94

Key results in 2016

- Started preparation work for 10 new projects on regional and municipal development with FCPF's commitment standing at RUB 755 mn

VEB Engineering

- Head office location: Moscow
- Authorized capital⁸: RUB 0.15 bn
- VEB's share: 100%
- Headcount: 37

Key results in 2016

- Provided engineering and consulting services to support 20 projects including 4 VEB projects
- RUB 92.3 mn worth of proceeds from project support services

VEB Capital

- Head office location: Moscow
- Authorized capital⁸: RUB 54.99 bn
- VEB's share: 100%
- Headcount: 56

Key results in 2016

- Provided management services for VEB distressed and non-core assets to increase their market value and dispose of them subsequently

Monotown Development Fund

- Head office location: Moscow
- Contribution by the sole founder (VEB): RUB 0.016 bn
- Headcount: 67

Key results in 2016

- Co-funding of Russian regions' costs associated with infrastructure projects in single-industry towns equaled RUB 2,231.2 mn
- Funds allocated to implement investment projects in single-industry towns amounted to RUB 1,810 mn

8. The amount of the authorized capital is indicated based on the consolidated IFRS statements as of 31 December 2016.

Subsidiaries with VEB's management role to be determined

BelVEB

- Head office location: Minsk (Republic of Belarus)
- Authorized capital⁹: RUB 14.64 bn
- VEB's share: 97.52%
- Headcount: 2,319

Key results in 2016:

- The Bank ranked 4th among Belarusian banks in terms of assets, equity and loans to customers
- Russian-Belarusian integrated projects accounted for 49.9% of the total financing of the Bank's corporate customers
- Support for Russian exports in the Republic of Belarus equaled USD 96.2 mn

The Far East and Baikal Region Development Fund

- Head office location: Moscow
- Authorized capital⁹: RUB 18.42 bn
- VEB's share: 100%
- Headcount: 71

Key results in 2016:

- 6 projects were financed in the macroregion for a total of RUB 4.8 bn
- Financing of 6 new projects was approved for a total of RUB 107.92 bn, including RUB 13.24 bn of the Fund's investments

North Caucasus Development Corporation

- Head office location: Yessentuki
- Authorized capital⁹: RUB 7.60 bn
- VEB's share: 100%
- Headcount: 67

Key results in 2016:

- The company withdrew from 2 projects, with the amount of investments recovered standing at RUB 0.91 bn
- Due diligence of one new project for a total of RUB 600 mn was approved, with NCDC's commitment standing at RUB 450 mn

Subsidiaries with strategies to be revised

VEB Leasing

- Head office location: Moscow
- Authorized capital⁹: RUB 0.04 bn
- VEB's share: 99.79%
- Headcount: 1,367

Key results in 2016:

- 4 jumbo jets withdrawn from Transaero Airlines were transferred to Rossiya Airlines to be used for the Far-East destination
- Lease portfolio amounted to RUB 525 bn
- The company retained the top position on the Russian market in terms of the lease portfolio and ranked 5th in terms of the new business volume

Subsidiaries to be removed from the Group

Sviaz-Bank

- Head office location: Moscow
- Authorized capital⁹: RUB 45.75 bn
- VEB's share: 99.77%
- Headcount: 3,790

Key results in 2016:

- The bank ranked 28th in Interfax-100 in terms of assets and equity
- The bank expanded the range of retail services in terms of deposits and loans
- The structure of the loan portfolio and borrowings corporate customers was improved

GLOBEXBANK

- Head office location: Moscow
- Authorized capital⁹: RUB 30.57 bn
- VEB's share: 99.99%
- Headcount: 1,915

Key results in 2016:

- The bank ranked 45th in Interfax-100 in terms of assets
- The bank maintained the leadership on the market of government-backed mortgages
- The bank launched a new line of products for small enterprises and microbusinesses

Prominvestbank

- Head office location: Kyiv (Ukraine)
- Authorized capital⁹: RUB 90.92 bn
- VEB's share: 99.72%
- Headcount: 1,769

Key results in 2016:

- The bank ranked 2nd in terms of authorized capital among Ukrainian banks
- The bank converted assets in a highly liquid form
- The bank stabilized the outflow of customers' funds
- The bank met all of the capital requirements of the National Bank of Ukraine

1.5

PROMOTING SUSTAINABILITY PRINCIPLES

In 2016, VEB Sustainability Roadmap received an award in the category Outstanding Business Sustainability Achievement of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) and the European Organization for Sustainable Development (EOSD)

As a development financial institution, VEB pays particular attention to promoting best responsible business practices conforming to the global sustainability agenda among the Russian business community. In particular, the Bank is looking into the feasibility of establishing a competence center to promote in the Russian financial sector the practice of green finance, which is becoming increasingly popular in foreign markets. Following the meeting of the State Council in December 2016 "On Environmental Development of the Russian Federation for the Benefit of Future Generations", Russian President Vladimir Putin also called for proposals to use green financing tools in Russia.

In 2016, VEB took an active part in the G20 Green Finance Study Group (G20 GFSG) comprising representatives of G20 ministries, development banks and other financial institutions as well as international rating agencies, consulting companies and non-profit organizations. It was a year-long session where the working group, drawing on the relevant global experience, engaged in active discussions of common approaches to the use of green financing tools for all market players.

On the national level, VEB facilitates the promotion of sustainability principles in close cooperation with government agencies, professional associations and expert organizations. In 2016, VEB participated in an inter-departmental working group established under the auspices of Russia's Ministry of Economic Development to formulate a Concept of Promoting Public Non-Financial Reporting in the Russian Federation, which was approved by the Russian Government Decree in May 2017. Moreover, VEB actively engaged in the discussion of a Roadmap for Greenhouse Gas Emission Reduction in the Public Sector of Economy worked out by Russia's Ministry of Economic Development.

In 2016, seeking to develop the Bank's non-financial competence of a national development institution drawing on the experience of international development institutions and to accommodate the needs of Russia's regional authorities, VEB participated in the expert discussions and formulation of the Russian Federation spatial development concept, strategic plan-

ning documents of Russia's constituent entities, social and economic development plans of municipalities, development strategies and programmes of innovative territorial clusters. Furthermore, VEB experts prepared proposals for strategic planning improvement at the regional level.

PARTICIPATION IN THE GLOBAL IMPACT

On VEB's initiative, the Association "National Network of the Global Compact" was established in 2016 as the legal successor of the Global Compact Network Russia

Chairing the UN Global Compact Network Russia¹⁰ since 2013, VEB acts as the coordinator of the Network activities in Russia and globally and the official intermediary between the UNGC Russian participants, its head office in New York and national networks in 88 countries across the world. As the chair of the UNGC Network Russia, VEB is actively promoting among the business community the best responsible business practices based on the Ten Principles of the UN Global Compact in the areas of human rights, labour, the environment and anti-corruption to help achieve sustainability goals.

Seeking to streamline and expand the UNGC Network Russia activities and following the decision of the 2016 Annual General Meeting of the UN Global Compact Network in Russia, VEB undertook the initiative to establish the Association "National Network of the Global Compact". The Association was registered with the support of Russia's Ministry of Foreign Affairs. Its founders include ACIG Group of Companies, RUSS-INVEST Investment Company and the Russian Union of Industrialists and Entrepreneurs (RSPP).

Establishing the Association has enabled the UN GC Network Russia to switch over to a new operational mode based on a systemic project approach. The Association will conduct its operations in compliance with the portfolio of strategic projects aimed to promote responsible investment practice and public non-financial reporting in Russia. Moreover, the Association will create a national platform to support the Russian business with a view to achieving the Sustainable Development Goals, in particular, in terms of the global climate agenda.

The Association's strategic project portfolio will be implemented in close cooperation with Russia's Ministry of Foreign Affairs and Ministry of Economic Development, Chamber of Commerce and Industry, Russian Managers Association and other stakeholders who took part in the negotiations on joint projects and initiatives in 2016.

As the chair of the UNGC Network Russia, in 2016 VEB participated in the most important international summits, forums and meetings arranged by the UNGC to discuss effective ways to engage the business community in the Sustainable Development Goals, including those related to the implementation of the Paris Climate Agreement. Following the discussions, VEB submitted to the UNGC Network Russia for consideration its initiatives for project development and incorporation of instruments devised by the UNGC for the business community.

VEB'S PERFORMANCE AS THE CHAIR OF THE UNGC NETWORK RUSSIA

Promotion of the UNGC network Russia in Russia and abroad

PARTICIPATION IN THE UNGC INTERNATIONAL FORUMS

- The UNGC Leaders Summit (New York)
- The UNGC national network meetings (Prague, Dubai)
- The Forum on Business and Human Rights (Geneva)

IN CHARGE OF THE UNGC NETWORK RUSSIA MANAGEMENT BODIES' WORK

- Three meetings of the UNGC Network Russia Steering Committee
- General Meeting of the UNGC Network Russia
- The Association "National Network of the Global Compact" registered
- Executive Directorate of the Association "National Network of the Global Compact" set up

Promoting the 10 UNGC principles in the business community

PROMOTING THE UNGC VALUES IN RUSSIA

- Presentations on the UNGC activities at the forums of RSPP, Russian Managers Association, the Association of Branded Goods Manufacturers in Russia RusBrand, etc.
- "The UN Global Compact in Russia" brochure
- The UNGC national networks overview

HUMAN RIGHTS AND LABOUR

- Participation in Russia's Ministry of Foreign Affairs Business Council meeting on human rights
- Participation in the UNGC working group on human rights and labour
- Initiating expert review of the UN Guiding Principles on Business and Human Rights in the context of the Russian laws
- A panel discussion on business and human rights

CLIMATE AND ENVIRONMENT

- Participation in Russia's Ministry of Foreign Affairs Business Council meeting "Environment, Climate and Arctic Region Agenda for the Russian Business in the International Context"
- A cooperation agreement between the Association "National Network of the Global Compact" and International Environmental Foundation 'Terra Viva'

ANTI-CORRUPTION

- Participation of the UNGC Network Russia in the World Without Corruption initiative aimed to promote the UN Convention against Corruption
- Presentation of the operating results of the UNGC Network Russia at the workshop "Consolidating Government, Business and Community Efforts to Implement the UN Convention against Corruption"

2

VEB GROUP: ON THE WAY TO TRANSFORMATION

2.1 Corporate Governance	29
2.2 Risk Management	35
2.3 New HR Policy	39
2.4 New Quality of Customer Service	48

2.1

CORPORATE GOVERNANCE

In 2016, seeking to enhance the corporate governance at Vnesheconombank and VEB Group entities, VEB established new collegial working bodies and broadened the powers of the existing ones

VEB is building its corporate governance system in accordance with Federal Law No. 82-FZ of 17 May 2007 “On the Bank for Development” stipulating that Vnesheconombank’s highest governing body is the Supervisory Board led by the Chairman of the Government of the Russian Federation. The sole executive body is the Chairman of Vnesheconombank appointed by the President of the Russian Federation. The collegial executive body is the Management Board whose members are appointed in accordance with the decisions by the Supervisory Board of Vnesheconombank.

Vnesheconombank’s collegial working bodies conduct preliminary review of the issues to be approved by Vnesheconombank’s highest governing body. In 2016, to ensure the successful implementation of VEB 2.0 Strategy, Vnesheconombank began to streamline the operations of its collegial working bodies in order to address deficiencies in the corporate governance and, in particular, enhance control on and synergy of VEB Group subsidiaries.

The most important outcome of those efforts was the establishment of Vnesheconombank Management Committee in 2016. The Management Committee is to produce optimal managerial solutions on strategic and organizational development and business planning. Over the year, the Bank also established Vnesheconombank Distressed Asset Management Committee, Vnesheconombank Process and Technology Management Committee, Vnesheconombank Group Security Committee and Vnesheconombank Subsidiary and Affiliate Management Committee.

In 2017, the Bank plans to establish a Strategy Committee under the auspices of Vnesheconombank Management Board. Its remit will include the approval of the priority investment areas of the bank for development. The Audit Committee will be set up to facilitate the efficient control over the Bank’s financial and business operations by Vnesheconombank Management Board.

Vnesheconombank Supervisory Board

MEMBERS OF VNESHECONOMBANK SUPERVISORY BOARD AS OF 31 DECEMBER 2016

Dmitry Medvedev

Chairman of Vnesheconombank Supervisory Board,
Chairman of the Russian Government

Andrey Belousov

Member of Vnesheconombank Supervisory Board,
Aide to the President of the Russian Federation

Sergey Gorkov

Member of Vnesheconombank Supervisory Board,
Chairman of Vnesheconombank

Arkady Dvorkovich

Member of Vnesheconombank's Supervisory Board,
Deputy Chairman of the Russian Government

Dmitry Kozak

Member of Vnesheconombank Supervisory Board,
Deputy Chairman of the Russian Government

Anton Siluanov

Member of Vnesheconombank Supervisory Board,
Finance Minister of the Russian Federation

Maxim Oreshkin

Member of Vnesheconombank Supervisory Board, Minister
of Economic Development of the Russian Federation

Alexander Khloponin

Member of Vnesheconombank Supervisory Board,
Deputy Chairman of the Russian Government

Igor Shuvalov

Member of Vnesheconombank Supervisory Board,
First Deputy Chairman of the Russian Government

CHANGES IN VNESHECONOMBANK SUPERVISORY BOARD IN 2016

- Sergey Gorkov was appointed as Vnesheconombank Chairman by the Decree of the Russian President of 26 February 2016
- Alexey Ulyukaev was removed as a member of Vnesheconombank Supervisory Board by the Russian Government Executive Order of 15 December 2016; Maxim Oreshkin was appointed as a member of Vnesheconombank Supervisory Board

Vnesheconombank Management Board

MEMBERS OF VNESHECONOMBANK MANAGEMENT BOARD AS OF 31 DECEMBER 2016

Sergey Gorkov	Vnesheconombank Chairman
Julia Karpova	Vnesheconombank Deputy Chairman, Member of the Management Board
Andrey Klepach	Vnesheconombank Deputy Chairman (Chief Economist), Member of the Management Board
Sergey Lykov	Vnesheconombank Deputy Chairman, Member of the Management Board
Mikhail Poluboyarinov	Vnesheconombank First Deputy Chairman, Member of the Management Board
Tatyana Sakharova	Vnesheconombank Deputy Chairman, Member of the Management Board
Nikolay Tsekhomskiy	Vnesheconombank First Deputy Chairman, Member of the Management Board
Vladimir Shaprinskiy	Vnesheconombank Chief Accountant, Member of the Management Board

CHANGES IN VNESHECONOMBANK MANAGEMENT BOARD IN 2016

- Sergey Gorkov was appointed as Vnesheconombank Chairman by the Decree of the Russian President of 26 February 2016
- Sergey Vasiliev was prematurely removed as a member of Vnesheconombank Management Board by Decision of Vnesheconombank Supervisory Board of 29 March 2016; Nikolay Tsekhomskiy was appointed as Vnesheconombank First Deputy Chairman while also acting as a member of Vnesheconombank Management Board
- Pyotr Fradkov was prematurely removed as a member of Vnesheconombank Management Board by Decision of Vnesheconombank Supervisory Board of 23 June 2016
- Andrey Sapelin was prematurely removed as a member of Vnesheconombank Management Board by Decision of Vnesheconombank Supervisory Board of 20 October 2016; Tatyana Sakharova was appointed as Vnesheconombank Deputy Chairman while also acting as a member of Vnesheconombank Management Board

ACTIVITIES OF VEB'S GOVERNANCE BODIES IN 2016

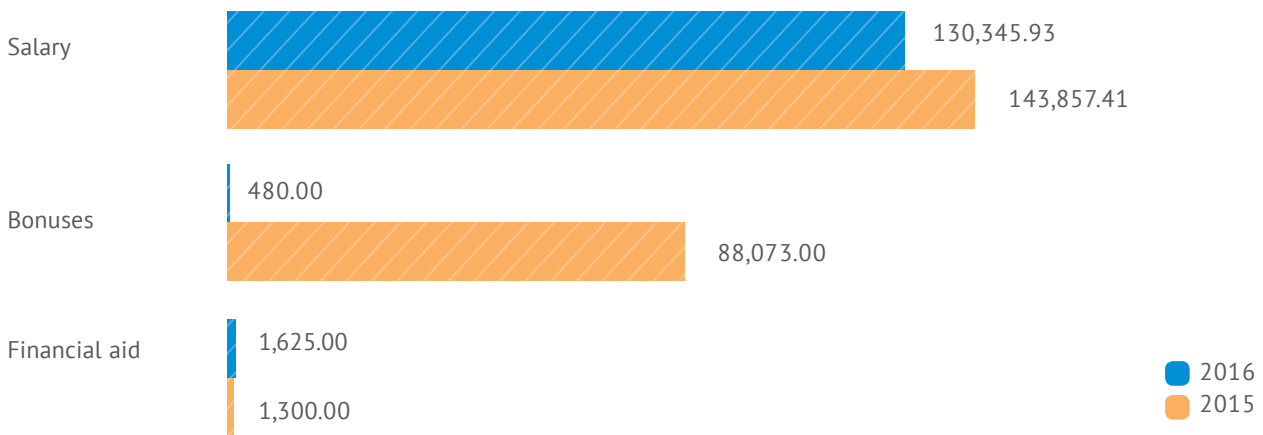
In 2016, Vnesheconombank Supervisory Board held 21 meetings to review 117 issues. Vnesheconombank Management Board held 340 meetings and reviewed 915 issues. The meetings of Vnesheconombank Supervisory Board and Management Board had the attendance of 100% except when their members' absence was due to business or vacation.

The key issues reviewed by Vnesheconombank Supervisory Board and Management Board in 2016 included:

- lending and investment operations;
- financial and guarantee support to exports;
- equity participation in outside organizations; operations of Vnesheconombank subsidiary banks and companies.

In 2016, no remuneration was paid to the members of Vnesheconombank Supervisory Board. The remuneration paid to the members of Vnesheconombank Management Board was calculated in compliance with the uniform requirements for VEB employees imposed by Vnesheconombank Regulation on Employee Remuneration and Incentives as approved by Vnesheconombank Supervisory Board.

Remuneration to Members of Vnesheconombank Management Board (thou. RUB)



Collegial working bodies of Vnesheconombank Supervisory Board

WORKING GROUP TO REVIEW MATERIALS FOR VNESHECONOMBANK SUPERVISORY BOARD MEETINGS

26
Meetings in 2016

9
Members as of the end of 2016

Key functions

Approving Vnesheconombank Supervisory Board meetings agenda; drafting recommendations for Vnesheconombank Management Board on the follow-up revision and relevance of issues to Vnesheconombank Supervisory Board

HR AND REMUNERATION COMMITTEE

8
Meetings in 2016

8
Members as of the end of 2016

Key functions

Drafting recommendations for Vnesheconombank Supervisory Board on HR and remuneration-related issues with respect to the members of Vnesheconombank Management Board, Vnesheconombank Deputy Chairmen who are not members of Vnesheconombank Management Board, heads of Vnesheconombank subdivisions and heads of Vnesheconombank subsidiaries

Vnesheconombank's collegial working bodies

VNESHECONOMBANK MANAGEMENT COMMITTEE

Established in 2016

Key functions

Developing optimal managerial decisions on strategic and organizational development, business planning; formulating main operational policies and procedures; assisting Vnesheconombank governing bodies

STRATEGIC DEVELOPMENT COMMITTEE

Key functions

Reviewing strategic development-related issues; assisting Vnesheconombank Management Board in taking decisions aimed to increase Vnesheconombank's long-term efficiency

SITUATIONAL COMMITTEE

Key functions

In charge of Vnesheconombank continuity management system

INVESTMENT DEVELOPMENT COMMITTEE

Key functions

Producing recommendations on feasibility of investment projects due diligence, following project pre-screening

CREDIT COMMITTEE

Key functions

Taking decisions on deals (transactions) or a group of related deals (transactions) related to acquisition, alienation or potential alienation by VEB of assets bearing credit risk and/or related to equity participation in business entities, as well as other issues

DISTRESSED ASSET MANAGEMENT COMMITTEE

Established in 2016

Key functions

Ensuring consistent management of bad debt and distressed assets, producing recommendations for Vnesheconombank's governing bodies on bad debt settlement and distressed asset management

PROCESS AND TECHNOLOGY MANAGEMENT COMMITTEE

Established in 2016

Key functions

Developing unified project management approaches and principles for VEB, business process improvement and incorporation of advanced IT technologies

ASSET AND LIABILITY MANAGEMENT COMMITTEE

Key functions

Drafting opinions and recommendations for Vnesheconombank's governing bodies on asset and liability management including VEB market and structure risk management and ensuring the Bank's breakeven operation

BUDGET COMMITTEE

Key functions

Drafting opinions and recommendations for Vnesheconombank's governing bodies on budget planning and financial supervision at VEB

RISK MANAGEMENT COMMITTEE

Key functions

Assisting Vnesheconombank's governing bodies in risk management at VEB and VEB Group

VEB GROUP SECURITY COMMITTEE

Established in 2016

Key functions

Assisting governing bodies of Vnesheconombank and its subsidiaries in ensuring stable operation and long-term sustainable development of these entities and the group as a whole amidst external and internal threats to VEB Group's interests

VEB SUBSIDIARY AND AFFILIATE MANAGEMENT COMMITTEE

Established in 2016

Key functions

Taking decisions on the operation of Vnesheconombank subsidiaries and affiliates

HR COMMITTEE

Established in 2016

Key functions

Ensuring more effective implementation of Vnesheconombank's HR policy, transparency and fairness of individual HR decisions on VEB employees or VEB subsidiaries' managers

APPRAISAL COMMITTEE

Established in 2016

Key functions

Fair appraisal of relative importance of each position in VEB job hierarchy and determining its place in the grade structure by comparing job descriptions against the common set of criteria

WORKING GROUP TO COORDINATE PUBLIC BORROWINGS BY SUBSIDIARY BANKS AND COMPANIES

Key functions

Assisting VEB subsidiary banks and companies in raising finance and determining key parameters thereof

WORKING GROUP TO COORDINATE LIQUIDITY AND RISK MANAGEMENT AT SUBSIDIARY BANKS AND FINANCIAL COMPANIES

Key functions

Coordinating VEB Group's operations to ensure coordinated liquidity and risk management at VEB Group

VNESHECONOMBANK AUDIT SYSTEM

The functions of internal audit are performed by Vnesheconombank Internal Control Service (ICS) reporting directly to Vnesheconombank Supervisory Board and to Vnesheconombank Chairman in terms of day-to-day activities. Such procedure ensures independent and efficient performance by ICS of its control functions.

In 2016, Vnesheconombank Supervisory Board, on a quarterly basis, reviewed the following matters falling within the remit of ICS:

- Vnesheconombank ICS reports;
- Reports on internal control to prevent illegal use of insider information and market abuse.

VEB's annual financial statements are subject to independent audit by independent auditors selected through a bidding procedure and approved by Vnesheconombank Supervisory Board. LLC Ernst & Young was selected through bidding procedures to audit VEB's financial statements for 2016.

VNESHECONOMBANK EXPERT COUNCIL

The Expert Council is VEB's advisory body comprising leading figures from academic and expert community. The Expert Council performs an in-depth scientific analysis and prepares proposals for VEB governing bodies to take decisions on the core business lines of the bank for development. In 2016, at its four meetings, the Expert Council addressed the following issues:

- climate Agreement: new business environment and outlook;
- investment trends in the Russian economy and up-and-coming investment areas for VEB in 2017-2018;
- sophisticated projects and the National Technology Initiative;
- global economic trends and VEB's foreign economic outlook.

2.2

RISK MANAGEMENT

VEB 2.0 Strategy places an increased emphasis on the risk management functions across VEB Group, primarily, in terms of the unique risk profile of Vnesheconombank as a development institution

Built on the principles of the process consistency and continuity, Vnesheconombank's risk management system¹¹ comprises a set of methodological, organizational and IT-based measures aimed to ensure the Group's financial stability. The main risk management targets, principles and procedures for risk management at VEB Group are governed by VEB Group Risk Management Policy. The Policy provides for continuous measures designed to identify, assess, monitor, as well as mitigate risks.

VEB Group's overall risk is managed by Vnesheconombank's governing and collegial bodies, in particular, Vnesheconombank Supervisory Board, Vnesheconombank Management Board, and Vnesheconombank Risk Management Committee. These approve the requirements, policies, standards and limitations that govern any decisions taken by the management of the Group entities. The main regulatory documents governing the risk management at the Group entities are subject to prior approval by Vnesheconombank.

As part of its major reinvention, VEB set about to increase the efficiency of the risk management system as the pillar of a new business model of the bank for development. VEB has devised a target risk management model taking full account of the tough economic environment that exerts pressure on the Bank's liquidity position and negative impact on its equity and return on the accumulated distressed assets.

With a view to enhancing the efficiency of its risk management system, the Bank has begun to build at VEB Group a common designated risk function and a common function to manage distressed assets, as well as to create and foster the risk culture among the Group's employees. In developing its risk management system, VEB Group gives priority to:

- a uniform risk management system at VEB Group to comprise three lines of defense: at business subdivisions, risk management subdivisions, and control subdivisions;
- a uniform lending process at VEB, as well as risk assessment and control standards at all its stages;
- a uniform limit system for products and groups of related borrowers;
- determining risk appetite in compliance with key indicators and introducing advanced risk metrics (economic capital, etc.);
- a more thorough evaluation of the bank book risks; eliminating or hedging the risk of mismatch in the currency denomination of assets and liabilities; interest rate risk management;
- tighter controls on the market risks.

11. A detailed description of VEB Group's risk management system is given in IFRS statements for 2016: <http://www.veb.ru/ifi/rep/msfo>

VEB new business model: risks and approach to risk mitigation

PROJECT FINANCE RISK

Project finance risk

Long-term project financing, support for projects at an early stage, subordinated loans

Mechanisms to increase risk management

- New investment process for more detailed project elaboration
- Special project-oriented monitoring
- System for active deviation management in the course of project implementation

Credit risk

Portfolio with relatively high concentration, short-term loans and rather high debt burden for borrowers

Mechanisms to increase risk management efficiency

- Specialized models to assess project, borrower and portfolio risks
- Procedures for individual financial monitoring of projects
- Specialized credit documents
- Improving the limit system and other credit risk mitigation mechanisms

Industry risk

Identification of several priority industries for investment in compliance with VEB 2.0 Strategy

Mechanisms to increase risk management efficiency

- Create a system for key industries monitoring and an industry limit system

RISKS RELATED TO FINANCIAL SUPPORT FOR EXPORTS

Country risk

Affordable export support for buyers of Russian products in as many countries as possible

Mechanisms to increase risk management efficiency

- Develop expertise on country risk assessment and update the existing limit system

Sovereign risk

Using sovereign guarantees of other countries or other instruments to cover the credit risk

Mechanisms to increase risk management efficiency

- Develop special expertise and enhance the system of limitations on sovereign credit risk

Credit risk

Provision of financing for foreign buyers and buyers' banks

Mechanisms to increase risk management efficiency

- Develop expertise on counterparty risk assessment in other countries

RISKS RELATED TO LIQUID ASSET PORTFOLIO MANAGEMENT

Market risk

Limitation of the risk of loss associated with adverse changes in market prices of financial instruments

Mechanisms to increase risk management efficiency

- Update the limit system in particular set portfolio limitations to exclude high-risk instruments

Counterparty credit risk on financial markets

Limitation of credit risk associated with financial market operations

Mechanisms to increase risk management efficiency

- Strict requirements for counterparties' creditworthiness, setting a uniform limit system

RISKS ASSOCIATED WITH VEB OPERATIONS AS A FINANCIAL INSTITUTION

Liquidity risk

High asset and liability concentration, need for new funding sources to substitute for foreign debt and maturity mismatches

Mechanisms to increase risk management efficiency

- Prediction of factors that may adversely affect VEB's liquidity
- Transition to consolidated liquidity management at VEB Group

Currency risk

Significant liabilities to foreign creditors, special projects and impaired loans

Mechanisms to increase risk management efficiency

- Develop a strategy for application of hedging instruments and restructuring of the currency composition of assets and liabilities

Interest rate risk

Focus on long-term financing amidst limitations on market borrowings for respective terms

Mechanisms to increase risk management efficiency

- Improve asset and liability management policy in terms of reducing interest gaps
- Evaluate requirements for additional capital to cover interest rate risk

Operational risk (including legal risk and compliance risk)

Complexity and scale of VEB's operations

Mechanisms to increase risk management efficiency

- Proactive operational risk management system for early risk identification and preventive measures to mitigate such risks; control procedures automation

DISTRESSED ASSET MANAGEMENT

Asset quality risks

Ensuring more effective management of distressed assets is one of the key tasks at VEB and VEB Group

Mechanisms to increase risk management efficiency

- Develop a system for identifying potentially distressed assets and taking preventive management
- Develop strategies to manage each distressed asset based on the recovery rate

Measures implemented in 2016 to develop risk management system

METHODOLOGICAL SUPPORT

- Vnesheconombank's risk appetite and risk identification concept approved
- Procedure for Operational Risk Management at Vnesheconombank approved
- Operational Risk Management Standard for Vnesheconombank Group approved
- Interim Procedure for Provisioning in Accordance with International Accounting Standard (IAS) 39 approved
- Liquidity Risk Management Standard for Vnesheconombank Group approved
- Comprehensive Stress Testing Methodology for Vnesheconombank approved
- Procedure for Interaction between VEB's Stand-Alone Structural Subdivisions for Vnesheconombank to Disclose Information as a Securities Professional developed

RISK-BASED ANALYSIS OF BUSINESS LINES

- VEB's total economic capital assessment based on the risk data aggregation conducted
- Analysis of risk management conducted and respective improvement measures at major subsidiaries and affiliates approved

RISK MANAGEMENT PROCEDURE DEVELOPMENT

- Procedure for monthly accounting of measures to be conducted by VEB's structural subdivisions in terms of information disclosure by Vnesheconombank as a securities professional introduced
- Operational risk appetite indicators approved

INFORMATION SYSTEM DEVELOPMENT

- Project Investment Process Enhancement at VEB launched
- Project Credit Risk Limit Accounting and Control System launched
- Requirements for transitioning to VEB's new automated banking system (ABS) developed
- Pilot operation of VEB Automated Asset, Liability and Structural Risk Management System conducted
- Project on Integration of Automated Operational Risk Management System (AORMS) launched

STAFFING MEASURES

- VEB Risk Directorate reorganized; subdivisions responsible for integrated risk management, operational risks, bank book risks, lending process and technology development, and risk due diligence established

DEVELOPING RISK CULTURE ACROSS VEB GROUP

- Remote training in collection of information about operational risk events conducted
- A training workshop on operational risk expert review for senior officers at VEB subdivisions held

2.3

NEW HR POLICY

In 2016, VEB had its corporate values developed and approved through open discussions by employees. These include DEVELOPMENT, LEADERSHIP, PARTNERSHIP, TEAMWORK, INTEGRITY and PATRIOTISM

Human capital is the key asset required to respond to the challenges identified in VEB 2.0 Strategy. The major transformation that started in the Bank in 2016 requires extraordinary achievements of all the employees in order to lay the groundwork for VEB's long-term success. In this process, the Bank's employees have been guided by the new corporate values serving as a reference system for VEB's operation and existence. The pillars of the system are an ability to assume responsibility for the outcomes, a strong team spirit, a drive for constant personal growth, an eagerness to embrace the new, and pride in work that helps Russia become a better place.

VEB's new HR policy is aimed to help unlock full potential of the Bank's employees and encourage them to actively participate in achieving the strategic goals. VEB's HR policy priorities include: creating an effective talent management system and providing employees with opportunities for training, promotion and self-fulfillment. Simultaneously, VEB will introduce a new competence and personnel appraisal system based on the strategic goals and corporate values. The quantitative and qualitative performance indicators developed by VEB will be cascaded to all governance levels of the Group.

VALUE PROPOSITION FOR VEB EMPLOYEES

- An opportunity to contribute to projects that are changing the country
- A high-profile company for ambitious leaders who are willing to take on challenges and go to the top
- The best place for professional growth and developing a new way of thinking
- A unique environment to gain in-depth industry expertise and comprehensive business solutions
- The best experience of managing major industrial projects supported by the government
- A unique experience of customer management to help develop a culture of long-term customer relations

CORPORATE CULTURE

Open dialogue between the management and employees is the backbone of VEB's new corporate culture. Regular meetings between Vnesheconombank Chairman Sergey Gorkov and employees of VEB and the Group's entities have become the main forum for such dialogue

To inform employees of VEB's new strategic goals and tasks, encourage them and improve their performance and team work, and ensure full development of employees, in 2016 the Bank held 6 corporate-wide meetings, about 30 public lectures, excursions and master classes as well as over 10 theme events and family parties. SkyLab – a creative laboratory that opened in May 2016 in VEB's main building – has become one of the main venues for corporate events; the laboratory has everything required to deliver conferences, informal meetings, brainstorm sessions and entertainment events for employees.

Each and every employee can become immediately involved in the transformations that are happening at VEB, in particular, by sending his or her proposal or question personally to Vnesheconombank Chairman. An important mechanism ensuring feedback between the management and employees comes in a form of employees' questionnaires completed at the beginning and at the end of 2016. In addition, over 25 online voting sessions were held on VEB's internal intranet portal on a wide range of subjects including better working conditions and employees' participation in corporate events as well as business process optimization.

VEB corporate events in 2016

CORPORATE MEETINGS

- The first Develop Yourself to Develop Russia corporate conference at Skolkovo featuring world-known motivational speaker Nick Vujicic
- Presentation of VEB's new corporate values at Et Cetera Theater
- Presentation of a draft of new VEB 2.0 strategy at Skolkovo
- Meeting with Vnesheconombank Chairman to discuss VEB interim results in 2016
- Direct dialogue with Vnesheconombank Chairman at the premises of the World Trade Center with broadcasting in offices of VEB Group entities

EDUCATIONAL EVENTS

- VeloNotte: a cycling event around the historical center of Moscow accompanied by Sergey Nikitin, an expert in History and Architecture, Professor at the University of Verona
- Public lectures of Mikhail Kovalchuk, President of the Kurchatov Institute, Oleg Solntsev, Deputy Director General of the Centre of Macroeconomic Analysis, and other experts in economy, science and culture
- A series of lectures by child psychologist Irina Mlodik as part of the Parents' Club meetings
- Group tours, master classes, concerts

SPORTS AND HEALTH

- Week of Health for Big City Citizens arranged in cooperation with the World Class and X-Fit clubs
- Sports and patriotic game Hero League
- Color Run race
- Moscow semi-marathon

ENTERTAINING EVENTS

- Memorial Day at the Frontier of Glory Memorial Complex and a celebration for members of Vnesheconombank's Council of Long-Service Employees dedicated to the Victory Day
- Corporate family New Year's party "Miraculous Winter"

EVENTS FOR CHILDREN

- A lecture by, and simultaneous game of chess with Anatoly Karpov
- Kids' Saturdays at the Pushkin State Museum of Fine Arts
- Visits to the Russian University of Theatre Arts (GITIS)

ORGANIZATIONAL STRUCTURE

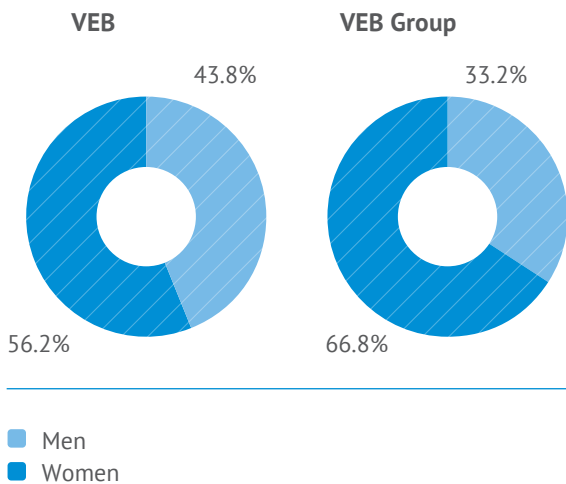
In 2016, the Bank arranged training programmes for VEB's employees who had been selected for redundancy to ensure their subsequent employment, and assisted them in job search. Individual consultations were provided for employees at VEB and Sviaz-Bank

In 2016, VEB started developing a new organizational structure conforming to VEB 2.0 Strategy goals and tasks. Hence, VEB held certain redundancy events aimed to optimize its internal business processes. In addition, the Bank hired new employees who were qualified and experienced enough to effectively participate in large-scale tasks faced by VEB 2.0. development bank.

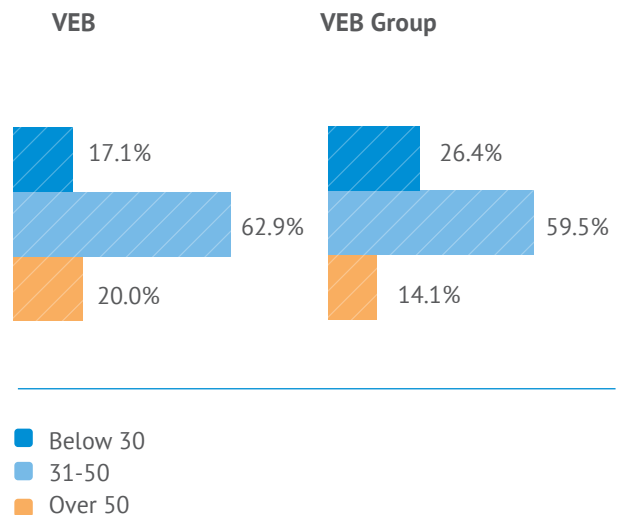
In 2016, VEB's headcount was reduced by 158 to make 1,911. During the reporting year, VEB hired 270 new employees with 428 employees dismissed from the company. VEB Group's headcount was reduced by 1,471 to reach 13,546. The change in the Group's headcount was mainly due to the removal of SME Bank and RDIF from the Group and considerable redundancy in Prominvestbank.

In the year under report, VEB Group hired 2,571 employees including 7 young professionals who had previously done internship with Sviaz-Bank, Prominvestbank and FCPF. VEB Group's entities dismissed 3,498 employees.¹² There were no significant changes in the personnel structure of VEB or the Group's entities by gender or age as compared to 2015.

Personnel structure by gender



Personnel structure by age



12. Data on VEB Group's personnel structure by type of activity, type of contract, employee group and gender are given in Appendix No. 3, data on staff turnover in 2016 – in Appendix No. 4.

CORPORATE TRAINING

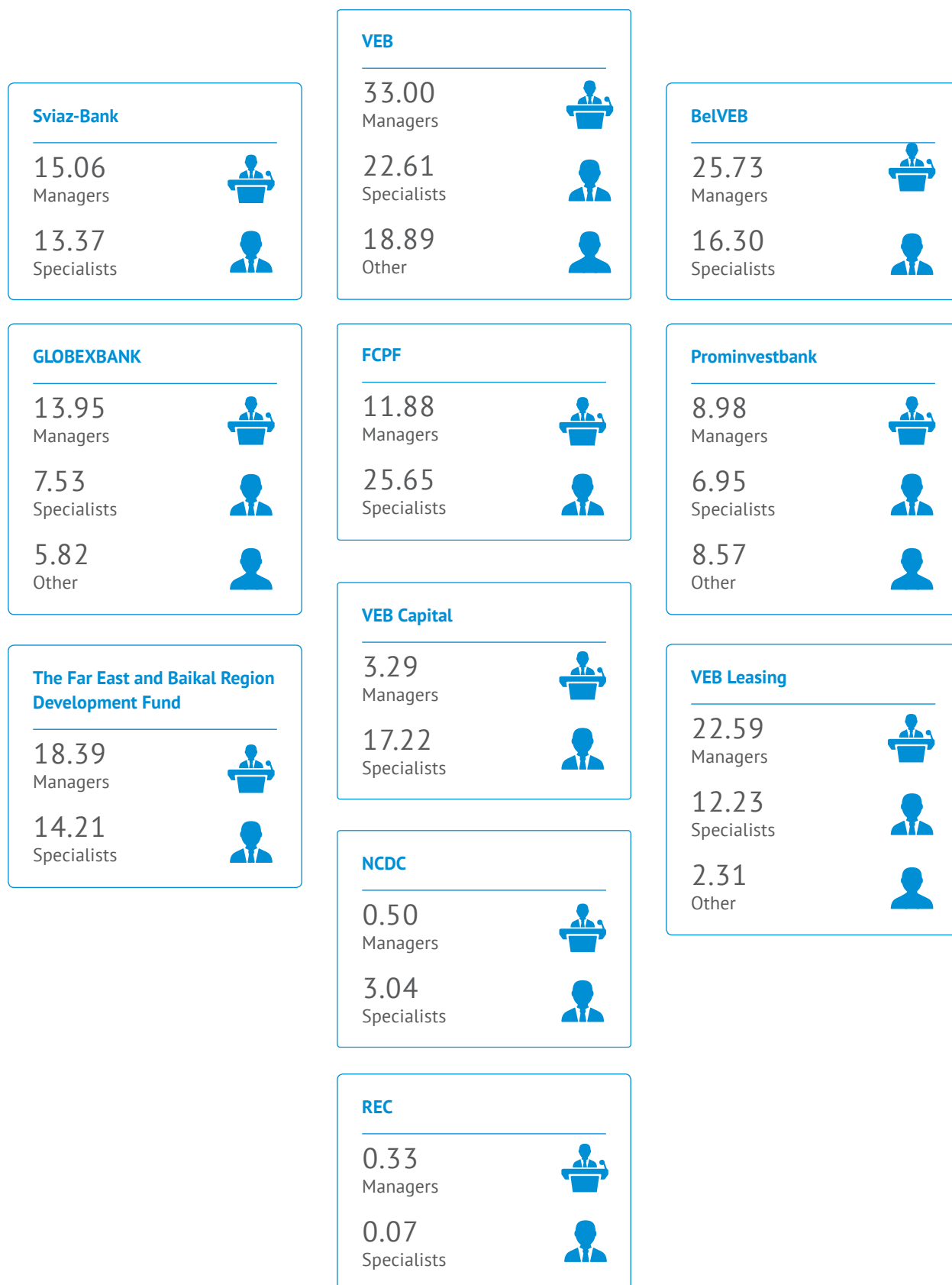
In 2016, 11,525 employees of VEB Group, i.e. 85% of the Group's total headcount, participated in corporate training programmes

Corporate training programmes implemented at VEB Group include compulsory courses on the core business lines of financial institutions as specified in the laws and enhanced training programmes.¹³ In 2016, 1,657 employees of VEB Group took training courses on the development of personal competences, 468 employees – computer skills courses, and 78 employees – foreign language courses. In addition, the Bank reimbursed five of its employees for their higher education costs.

In 2016, 1,747 employees participated in VEB's corporate training programmes. The Bank's personnel training costs were reduced by more than half compared to 2015 and equaled RUB 7.2 bn. When developing its corporate training programme, VEB paid special attention to increasing its efficiency giving priority to courses and trainings designed to enhance professional and personal competences of the Bank's employees required to participate in the implementation of VEB 2.0 Strategy. The efficiency of VEB's training events was assessed, in particular, based on the employee questionnaire survey following the completion of such events. In 2016, Sviaz-Bank, VEB Leasing, BelVEB and Prominvestbank also conducted regular questionnaire surveys of the employees who underwent training.

13. Data on the number of VEB Group's employees who underwent training in 2016 and the average quantity of training hours per employee with a breakdown by employee category and gender are given in Appendix No. 6.

Average training hours per VEB Group employee by category



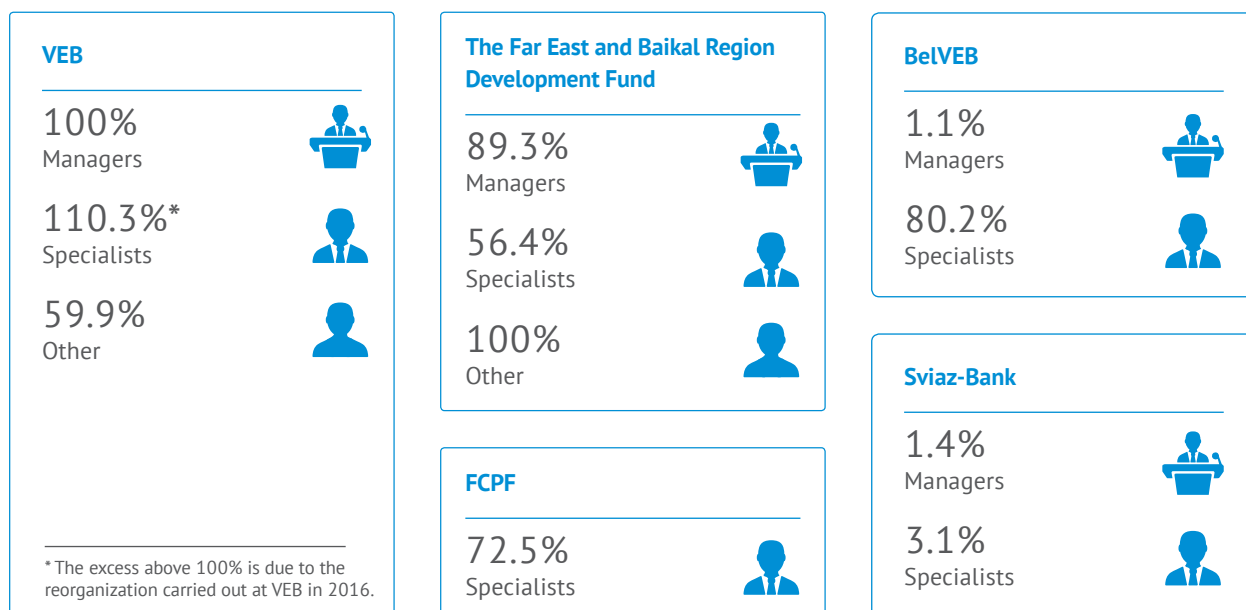
REMUNERATION AND INCENTIVES

In 2016, 3,593 of VEB Group employees, i.e. 26.5% of the Group's total headcount, were subject to official personal performance appraisal¹⁴

In 2016, the salary level across VEB Group was in line with the market average for the financial sector. During the year, VEB was taking comprehensive preparatory measures for switching to a new remuneration and incentive system approved by Vnesheconombank Supervisory Board in March 2017. Simultaneously, the Vnesheconombank Remuneration and Benefits Policy was amended to include, in particular, additional increase in annual bonuses for high-performing employees.








To provide intangible incentives to employees who have made a significant contribution to VEB Group development, in 2016, the top achievers received corporate merit badges and memorable gifts. Twenty VEB employees and one employee of the Group subsidiary were awarded VEB 2.0 Leader commemorative tokens. Eighty-one VEB employees and forty-four employees of the Group subsidiaries received letters of gratitude from Vnesheconombank Chairman. Vnesheconombank For Excellence lapel badges were awarded to eight VEB employees. One VEB employee's name was recorded in Vnesheconombank Book of Honor.














VEB Group employees performance appraisal 2016 by category



14. Data on the VEB Group employees who were subject to performance appraisal are given in Appendix No. 8.

Social programmes for VEB Group employees in 2016

VOLUNTARY HEALTH INSURANCE		FITNESS	
<p>Over 7.4 thou. people including employees' families and retirees - members of Vnesheconombank Council of Long-Service Employees insured</p>		<p>Over 2.5 thou. employees used subsidized fitness cards and other programmes</p>	
MOTHER AND CHILD WELFARE		TRAVEL INSURANCE, PERSONAL PROPERTY AND VEHICLE INSURANCE	
<ul style="list-style-type: none"> Over 1.5 thou. employees with kids received financial aid 127 employees of VEB recurred to such programmes as Prenatal care, Obstetrics and Insurance for Children 0 to 5 Years 		<p>Over 1.5 thou. insurance certificates issued</p>	
RECREATION AND HEALTH RESORTS		FINANCIAL AID	
<p>Over 1.3 thou. people including employees' families, and retirees – members of Vnesheconombank Council of Long-Service Employees took part in programmes</p>		<p>About 3 thou. employees received financial aid to a total of RUB 196.7 mn</p>	
NON-GOVERNMENT PENSION PROGRAMMES		<ul style="list-style-type: none"> 1,759 persons participate in the personified pension programme; 85 retirees are paid retirement allowances 447 retirees - members of Vnesheconombank Council of Long-Service Employees receive allowances under the pay-as-you-go pension programme 685 BelVEB employees participate in the supplementary pension insurance programme 	

VEB	Sviaz-Bank	VEB Leasing	The Far East and Baikal Region Development Fund
			
GLOBEXBANK	Prominvestbank	FCPF	BelVEB
			
REC	VEB CAPITAL	VEB Engineering	
			
VEB Innovations Fund	North Caucasus Development Corporation		
			

OCCUPATIONAL SAFETY

As a responsible employer, VEB strives to create safe and comfortable working conditions for its employees. To ensure adequate nutrition for its employees, in 2016 a new corporate canteen for 200 guests was opened in VEB main building

VEB Group has been engaging in its activities aimed at preventing occupational injuries and diseases in strict compliance with the legal requirements. In 2016, the Group's entities gave their employees induction and regular health and fire-safety briefings, as well as emergency trainings. Furthermore, VEB, BelVEB and GLOBEXBANK organized specialized training for their corporate drivers.

In 2016, over 8,000 of the Group employees underwent OHS training of various types. VEB, Sviaz-Bank, VEB Leasing, REC and FCPF also assessed the labour conditions at 1,037 workplaces. In addition, following complaints from employees, VEB analyzed temperature in workplaces and installed ten new air conditioners. No occupational injuries or diseases were registered in VEB Group in 2016¹⁵.

15. Data on lost working days and workplace absence at VEB Group by gender are given in Appendix No.9.

2.4

NEW QUALITY OF CUSTOMER SERVICE

PARTNERSHIP is one of VEB's corporate values underlying VEB customer relations. These are based on in-depth knowledge of business and customer needs, and on joint decision-making required for successful delivery of VEB-funded projects

VALUE PROPOSITION FOR CUSTOMERS

- Financing cost allowing for delivery of projects that are significant to the national economy but lack market financing
- Long-term financing (as a rule, for a term of 5 to 15 years)
- Financing at early project stages
- Mezzanine financing
- Export and internal guarantees, export credit insurance
- Assistance in project business model assessment and refinement
- Assistance in pre-project work and project preparation
- Selection of best financing instruments, guarantees and export support from VEB
- Assistance in selection of government support programmes
- Assistance in deal structuring and raising co-finance
- Project support: project management including IT platform for project management, financial control over projects being delivered

Transition to a qualitatively new level of customer relations is a prerequisite to successful pursuing VEB 2.0 Strategy. In 2016, VEB started to introduce a new customer service model aimed at better adjusting its products and processes to customer needs. Primarily, it translates into reducing project review periods and response time, cutting red tape, and enhancing communication transparency, as well as incorporating cutting-edge digital technologies to create a common information environment for the Bank and its customers.

As part of its strategy, VEB will develop new competences with a focus on the customer needs and provide its customers with project life-cycle support. Drawing on its expertise in industry analysis, preparation of project documents, engineering, public private partnership, export support and other business lines, VEB is well equipped to provide its customers with a full range of project-related services: from investment and project consulting to accessing foreign markets. Close interaction at all project implementation stages will lay the foundation for long-term partnership relations between the Bank and its customers.

Central to VEB new customer service model is the ongoing customer feedback, which allows the Bank to better understand and focus on the customer needs. The process was set in motion by the VEB customer survey held in the first half of 2016 with the partici-

pation of ninety companies. In addition, VEB organized several sessions and focus groups with its customers. VEB used the customer feedback to develop its new investment process and introduce mechanisms to enhance the customer service quality.

Improving customer service: problems and solutions

PROBLEMS

- Lengthy project review period
- Red tape and non-transparent processes
- Lack of close liaison mechanisms with VEB employees
- Paperwork-heavy processes and inadequate IT solutions

SOLUTIONS

Performance in 2016

- Key Customer Relations Group established
- A test version of Digital Customer Office developed

High-potential areas

- A new investment process is being implemented to reduce project review period by half – to 120 days
- A corporate investment unit is being launched to ensure flexible project management based on the Agile technology
- Automated customer liaison services are being introduced to draw on blockchain technology
- A one-stop shop for customers is being created

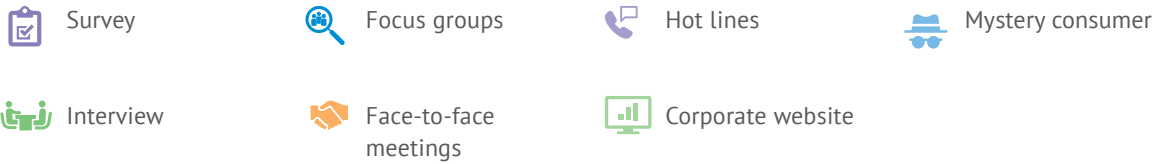
VEB Group entities engaging mainly in retail and SME business have had their own mechanisms in place to assess customer satisfaction and feedback. In 2016, the Group entities handled over 20,000 customer applications and complaints, of which 97% accounted for the complaints lodged by retail customers against the Group commercial

banks¹⁶. Following the complaint review, the subsidiary banks introduced supplementary services for customers, cured failures in technical support systems and took disciplinary actions against the guilty employees. In addition, the Group's subsidiary banks held regular training sessions for front office employees to improve the customer service.

16. Data on the number of applications and complaints by customer category and VEB Group's entity are given in Appendix No. 12.

VEB Group customer satisfaction mechanism in 2016

Customer satisfaction assessment levels



VEB

Corporate customers



SVIAZ-BANK

Corporate customers



BelVEB

Corporate customers and SMEs



GLOBEXBANK

Corporate customers and SMEs



Retail customers



REC

Corporate customers, SMEs, retail customers



Retail customers and SMEs



Retail customers



VEB ENGINEERING

Corporate customers



PROMINVESTBANK

Corporate customers and SMEs



3

INVESTMENT IN DEVELOPMENT

3.1 VEB Investment Performance	52
3.2 Support for Innovations.....	58
3.3 Environmentally Important Projects	63
3.4 Support for Exports	66

3.1

VEB INVESTMENT PERFORMANCE

The Boguchanskaya HPP construction project delivered with VEB financial backing won ADFIAP Infrastructure Development Award 2016

In 2016, despite the liquidity squeeze witnessed at the beginning of the year, VEB continued its operations in key investment areas, with the projects financed totaling some RUB 100 bn. VEB paid special attention to the last mile projects that had already been financed by the Bank by 80-85%. In 2016, the Bank's portfolio comprised over twenty such projects requiring about RUB 150 bn worth of investment to be commissioned. When completed, these projects will create more than 24,000 new jobs translating into approximately 0.3% of GDP growth and contributing to import substitution and Russia's non-resource exports.

At the same time, VEB made a decision to finance over 20 new projects designed to develop infrastructure, boost exports, enhance energy efficiency and promote efficient natural resources management and environmental protection. The Bank's new investment portfolio is built in compliance with its core business lines defined in VEB 2.0 Strategy.

All projects eligible for VEB financing were subject to an in-depth analysis and expert review including the assessment of their positive economic and social impacts, and their level of detail. In 2016, Vnesheconombank governing bodies reviewed 32 projects with 23 projects approved for financing, 2 projects sent for revision and fine-tuning, and 7 projects rejected.

Social and economic effects of VEB investment project in 2016: monitoring results

In 2016, 137 projects were subject to monitoring for social and economic effects

Investment project effects during VEB participation

RUB 551.3 bn
Benefits exceeding costs



over 57.3 thou.
New jobs



Investment project effects in 2016

RUB 191.7 bn
Benefits exceeding costs



about 4.8 thou.
New jobs



In 2016, VEB approved its Provisional Monitoring and Management Procedure for investment projects delivered with financial backing from Vnesheconombank. The Procedure provides for the efficiency monitoring of VEB investment projects based on their benefits exceeding costs, as well as social and economic effects, including the assessment of the social and economic impacts at the municipal, regional or federal levels.

VEB as a development institution: investment performance as of the end of 2016

PROJECTS COMPLETED

PROJECTS COMPLETED IN 2007 – 2016

114
Projects

RUB 770.68 bn
Total value

RUB 424.29 bn
VEB's commitment

RUB 52 bn
Benefits exceeding costs

27,529
New jobs

PROJECTS COMPLETED IN 2016

24
Projects

RUB 290.49 bn
Total value

RUB 129.31 bn
VEB's commitment

RUB 24 bn
Benefits exceeding costs

1,338
New jobs

PROJECTS FINANCED BY YEAR-END 2016

191
Projects

RUB 4,637.37 bn
Total value

RUB 2,366.98 bn
VEB's commitment

RUB 538 bn
Benefits exceeding costs

57,253
New jobs

PROJECTS APPROVED FOR FINANCING

PROJECTS APPROVED IN 2007-2016

371
Projects

RUB 6,414.92 bn
Total value

RUB 3,254.92 bn
VEB's commitment

RUB 1,619 bn
Expected benefits exceeding costs

166,768
Expected number of new jobs

PROJECTS APPROVED IN 2016

23
Projects

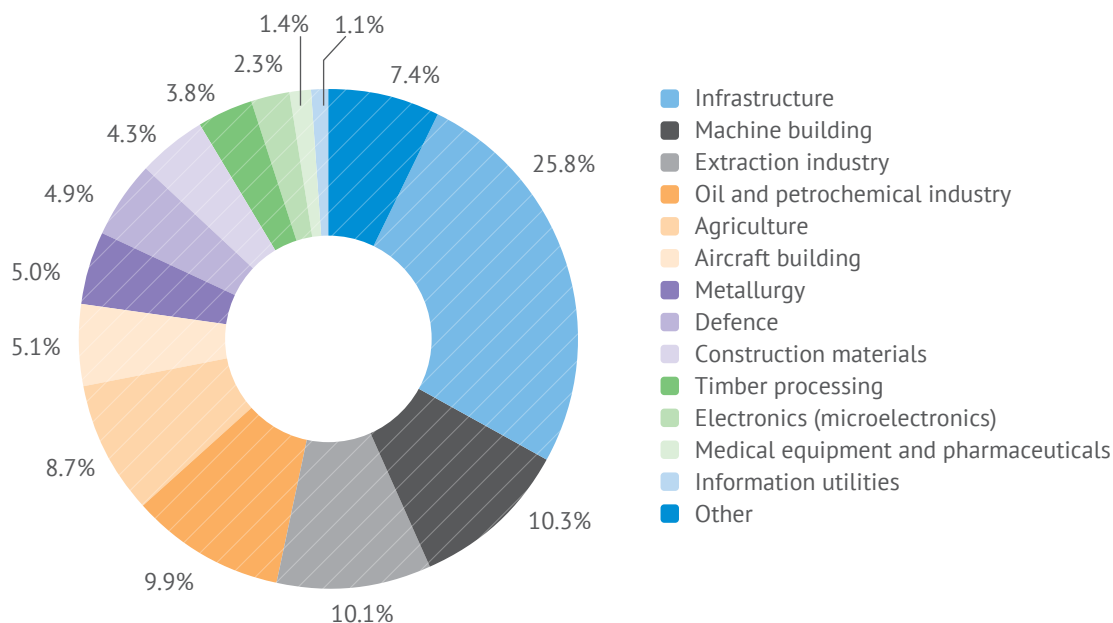
RUB 154.85 bn
Total value

RUB 93.36 bn
VEB's commitment

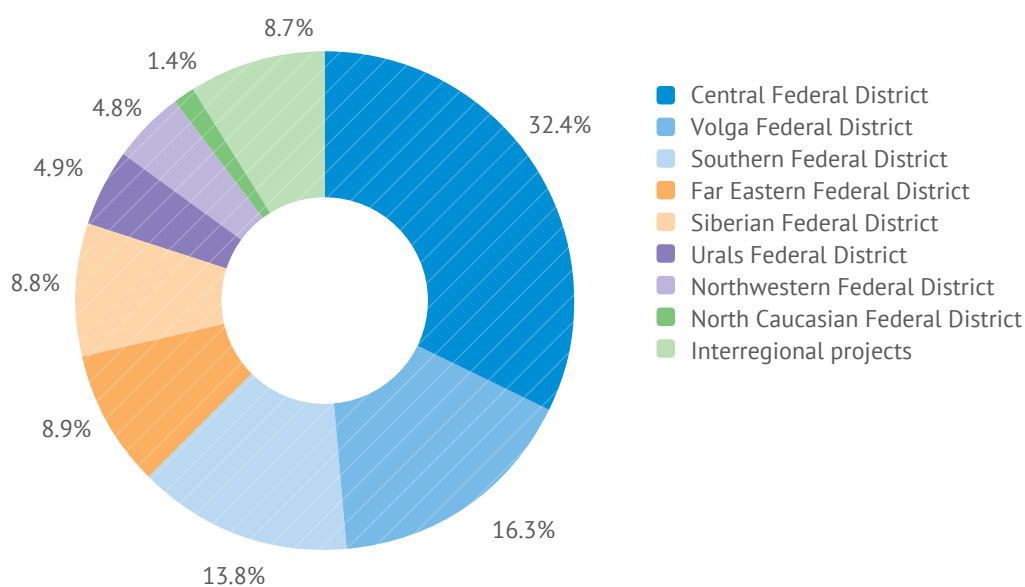
RUB 187 bn
Expected benefits exceeding costs

4,507
Expected number of new jobs

Sectoral breakdown of projects financed by VEB as of the end of 2016, by industry (% of VEB's commitment)



Regional breakdown of projects financed by VEB in the Russian Federation as of the end of 2016 (% of VEB's commitment)



SUCCESS STORIES



ARENA CSKA PROJECT IN MOSCOW



Project owner/borrower: JSC Professional Football Club CSKA

Total project value: RUB 16.35 bn

VEB's commitment: RUB 14.65 bn

Revenue generated by the project: RUB 2.65 bn (from operations of JSC Professional Football Club CSKA including project implementation over the VEB financing period)

Social impact: 170 jobs created

Project goal: Construction of Arena CSKA football stadium with an A class multi-use commercial facility in Moscow. The project will facilitate the enhancement of sports infrastructure for Moscow residents.

Arena CSKA, dubbed "VEB Arena", was commissioned in August 2016. The first official football match at the Arena with a capacity of 30,000 people was held in September 2016. The Arena comprises an A class multi-use commercial facility including offices and a hotel with a total area of over 63,000 m². Commercial operation of the facility will help considerably increase the rate of return and create a unique proposal on the office real estate market.



ORSK REFRIGERATOR PLANT LLC PRODUCTION SUPPORTED



Project owner/borrower: TPK Orsk Plants LLC (a wholly-owned subsidiary of VEB Capital)

Total project value: RUB 7 bn

VEB's commitment: RUB 0.92 bn

Social impact: 841 people are involved in production operations and management of the plant

Environmental impact: In cooperation with the United Nations Industrial Development Organisation (UNIDO) the Bank developed a plan of conversion for the use of cyclopentane

Project goal: Support for production operations of Orsk Refrigerator Plant LLC as part of rehabilitation project to

create a state-of-the-art processing line for production of household refrigerators and stoves. The project is aimed at establishing new asset groups using assets of bankrupt entities and launching of production operations.

In June 2014, in order to keep assets of bankrupt entities including those pledged to VEB and to prevent social issues in the region, the production of refrigerators and freezer chests under the iconic brand "Orsk" was resumed at TPK Orsk Plants LLC using production facilities leased from bankrupt entities. In September 2016, a household stove production shop was opened at the plant.

During 2016, TPK Orsk Plants LLC produced 77,702 refrigerators and 368 household stoves. As part of the project, a business plan for the overhaul of facilities used for the production of white household appliances was developed and an analysis of potential use of motor-driven compressor production equipment was conducted.



WESTERN HIGH-SPEED DIAMETER



Project owner/borrower: LLC Northern Capital Highway
Total project value: RUB 120.2 bn
VEB's commitment: RUB 25 bn
Revenue generated by the project: RUB 850.7 mn
Social impact: 64 jobs created

Project goal: Construction of the central section (11.6 km) of the Western High-Speed Diameter toll highway (46.6 km) in Saint Petersburg and operation of three of its sections (northern, central and southern). The project is implemented under a PPP agreement with the City of Saint Petersburg and its wholly-owned subsidiary JSC WHSD (term of the agreement: 30 years).

The opening ceremony was held in December 2016 in the presence of Russia's President Vladimir Putin. Commissioning of the central section of the Western High-Speed Diameter provided for transit traffic outside the historical center of Saint Petersburg and better mobility of residents of the Northwestern Region.



TIMBER PROCESSING COMPLEX IN THE BOGUCHANSKY DISTRICT OF THE KRASNOYARSK TERRITORY



Project owner/borrower: JSC Kraslesinvest (a special purpose vehicle established by VEB)
Total project value: RUB 17.74 bn
VEB's commitment: RUB 17.74 bn
Revenue generated by the project: RUB 2.13 bn
Social impact: 451 jobs created

Project goal: Development of a timber sawing facility with a capacity of 400,000 m³ of lumber per year and the production of fuel pellets, the related general-purpose infrastructure and logging infrastructure at the first project stage. The feasibility of developing cellulose production facilities at the second project stage is under consideration.

In 2016, as part of the project, the timber sawing facility was commissioned and exports of consumable goods were promoted, primarily to the People's Republic of China. Concurrently, a concept of core waste disposal was developed that envisions the construction of a production shop with a capacity of up to 105,000 tons of fuel pellets per year. The project also envisages the construction of a cellulose manufacturing facility at the premises of JSC Kraslesinvest with the design parameters of up to 75,000 tons of cellulose per year upon commissioning. The main focus of the project is on creating waste-free highly-remunerative production while increasing Kraslesinvest's capitalization, creating new jobs and scaling up the budget and non-budget revenues.

3.2

SUPPORT FOR INNOVATIONS

DEVELOPMENT is one of VEB's corporate values ensuring that the Bank creates advanced solutions for customers, implements projects aimed at transforming the national economy and thinks outside the box when selecting high potential investment projects

VEB 2.0 Strategy focuses on the Bank's heavy investments in the development of downstream industries and high-tech projects. As part of its operations in this area, the Bank will finance projects that promote the development of new technologies, including those conforming to the priorities of the State Council on Modernization and Technological Development of the Economy of Russia, projects under the National Technology Initiative (NTI) and projects for production of high-technology civilian products by defense industry manufacturers.

To support the NTI projects, VEB will deal with the following tasks:

- expert level support of the NTI projects that are eligible for repayable financing have a market potential at the incorporation stage, and are subject to availability of a product prototype, which can assist in developing a complete business model of a project and ensuring its readiness for VEB's financing;
- support to the seed accelerator for developing a business model and preparing projects for market launch and raising of funds;
- financial support to the launching and scaling of innovative manufacturing methods and services.

The interaction between the NTI and VEB Group will be ensured through the VEB Group subsidiary – VEB Innovations Fund – that will interact with the NTI Project Committee, NTI working groups and NTI Project Office. As part of expert appraisal of NTI projects, VEB will prepare expert opinions on feasibility of repayable financing or, if necessary, recommendations on follow-up reviews of the projects.

The NTI projects approved by the Interdepartmental Working Group on NTI Development and Implementation under the auspices of the Presidium of the Presidential Council for Economic Modernization and Innovations of Russia are eligible for the VEB Group support, including mid-term loans and equity investment by VEB Innovations Fund, investment loans, project finance, mezzanine financing (excluding short-term loans as part of project implementation), VEB's direct investment and independent bank guarantees.

In addition, VEB 2.0 Strategy envisions the Bank's investments in breakthrough technologies in areas where Russia holds a strong competitive position. These include the development of digital economy and industry 4.0, as well as blockchain-based digital platforms to be widely implemented in Russia due to availability of the required IT competences and inexpensive energy. One of VEB's potential investment priorities are neurotechnologies based on convergent technologies which could trigger a breakthrough for many industries.

As of the end of 2016, innovative projects accounted for 18.1% of VEB's loan portfolio

DEVELOPMENT BANK PROJECT PORTFOLIO

VEB is one of the few Russian financial institutions that invest long term money in the most complex projects aimed at the development of innovative enterprises specializing in high value added goods. VEB assesses the project's innovation level in accordance with Vnesheconombank's Regulations for Expert Appraisal of Investment Projects. In 2016, Vnesheconombank used the following assessment criteria:

- the project supports the release of products and/or services whose technical and economic parameters meet, or exceed, the global standards and which are exported or substitute imports in the domestic market;
- the project focuses on new production methods that ensure productivity enhancement in releasing marketable products and/or services;
- the project provides for the introduction of new technologies that are included in priority areas of R&D support in the Russian Federation and in the list of critical technologies of the Russian Federation.

VEB's innovate project portfolio as of the end of 2016

COMPLETED PROJECTS

PROJECTS COMPLETED IN 2007-2016

8
Projects

RUB 127.65 bn
Total value

RUB 41.04 bn
VEB's commitment

PROJECTS COMPLETED IN 2016

4
Projects

RUB 34.66 bn
Total value

RUB 20.32 bn
VEB's commitment

PROJECTS FINANCED AS OF THE END OF 2016

35
Projects

RUB 1,294.84 bn
Total value

RUB 579.33 bn
VEB's commitment

PROJECTS APPROVED FOR FINANCING

PROJECTS APPROVED IN 2007-2016

52
Projects

RUB 1,547.88 bn
Total value

RUB 672.58 bn
VEB's commitment

PROJECTS APPROVED IN 2016

1
Project

RUB 26.64 bn
Total value

RUB 14.61 bn
VEB's commitment

In 2016, VEB Innovations Fund started developing a new strategy aimed at enhancing its role as an innovation booster, which includes financing the NTI projects

VEB INNOVATIONS FUND

VEB Innovations Fund operates to support the development of innovative programmes of the Russian Government and an innovation infrastructure in Russia, as well as to introduce foreign advanced technologies in Russia and bring Russian innovations to the global market. The Fund was founded by Vnesheconombank in 2011 to invest in high-tech projects of Skolkovo Foundation. Over the period of its operation, the Fund has supported over 20 projects of all five clusters of Skolkovo Foundation including information, biomedical, energy efficiency, nuclear and space technologies.

VEB Innovations Fund's financing helps speed up the commercialization of innovative developments by Skolkovo Foundation's residents to contribute to their successful entry to the market. One of the priorities addressed by the Fund in 2016 was developing of its portfolio companies that are members of Skolkovo Foundation and assisting them in the commercialization of innovative technologies. As a result, over the year the Fund withdrew from 5 portfolio companies, with a return on investment amounting to RUB 76.35 mn.

VEB Innovations Fund project portfolio (projects to support Skolkovo Foundation's projects) as of the end of 2016

PROJECTS UNDERWAY

20
Projects

RUB 1,588.37 mn
Total project value

RUB 691.99 mn
Approved commitment of the Fund

PROJECTS COMPLETED

5
Projects

RUB 286.08 mn
Total project value

RUB 155.52 mn
Approved commitment of the Fund

OUTCOMES OF THE PROJECTS

Through implementation of Skolkovo Foundation's projects supported by VEB Innovations Fund over 500 new jobs were created and more than RUB 300 mn were paid in taxes

3.3

ENVIRONMENTALLY IMPORTANT PROJECTS

In accordance with VEB 2.0 Strategy, VEB will select projects taking into account energy efficiency increase from their implementation and will raise long inexpensive tied financing for such projects

As a national development institution, VEB pays particular attention to studying the international practice of green financing as the green financing market is growing rapidly across the world. An important step towards VEB's greener investment portfolio was setting energy efficiency criteria for the development bank's projects in accordance with the evaluation procedure developed in 2016. The procedure was prepared in accordance with the recommendations of the International Financial Corporation (IFC) and best practices of international financial institutions.

VEB started implementing the new evaluation procedure in 2017 as part of introducing the provisional rules for management of energy efficient projects that are expected to be integrated into VEB's investment process. VEB will build a portfolio of high potential energy efficiency projects and identify the available sources of their financing.

In 2017, in order to raise co-financing for energy efficiency projects, VEB plans to interact more actively with international financial institutions, primarily, the New Development Bank, Eurasian Development Bank and Asian Infrastructure Investment Bank. At the same time, the Bank will work out a possibility of supporting VEB's energy efficiency projects using funds provided under the Government's energy efficiency programmes and other sources.

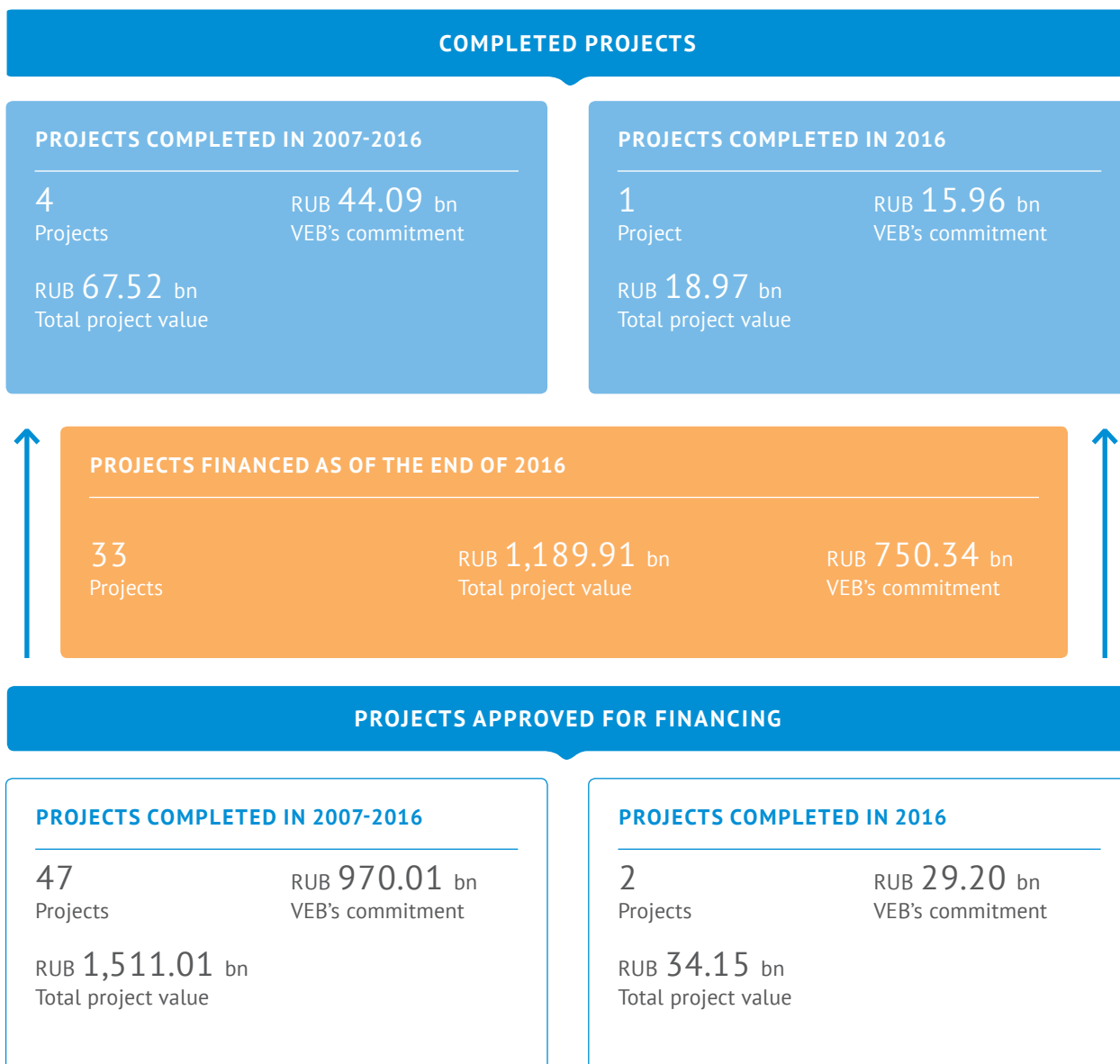
As of the end of 2016, environmental
stewardship and energy efficiency projects
accounted for 18.4% of VEB's loan portfolio

DEVELOPMENT BANK PROJECT PORTFOLIO

VEB conducts environmental impact assessment of the financed projects based on opinions of competent authorities concerning the projects' compliance with environmental laws and on the information provided by the borrower concerning the efforts taken to reduce the environmental impact. A project appraisal is conducted to confirm that it is an environmental stewardship or energy efficiency project.

VEB's projects undergo an independent environmental impact assessment when it is demanded by the requirements of the project country or is a condition for participation of an international co-investor. VEB can request from a borrower an additional confirmation of an efficient use of natural resources based on similar average industry indicators and an involvement of independent experts to assess the projects that are not subject to an environmental impact assessment.

VEB's portfolio of environmental stewardship and energy efficiency projects as of the end of 2016



ENVIRONMENTALLY IMPORTANT PROJECTS OF SUBSIDIARY BANKS

BelVEB is actively involved in the Belarus Sustainable Energy Finance Facility (BelSEFF). The programme focuses on energy efficiency and renewable energy projects backed by the EBRD funds. In 2016, BelVEB issued loans to Byelorussian private companies for a total of EUR 2.5 mn and conducted environmental impact assessment of five investment projects financed using the EBRD funds.

Prominvestbank's credit policy is targeted at the development of alternative energy sources from renewable resources. The bank finances the projects of Activ Solar Group of Companies aimed at developing the solar energy sector and of Wind Parks of Ukraine that are involved in wind power engineering. As of the end of 2016, Prominvestbank's loans to alternative energy projects for a total of RUB 16.26 bn accounted for 14.5% of its loan portfolio.

3.4

SUPPORT FOR EXPORTS

As of the end of 2016, VEB's support for exports amounted to RUB 874.31 bn. The total value of VEB's export support loan portfolio amounted to RUB 67.73 bn, export guarantee portfolio including EXIAR's guarantee programmes – to RUB 806.58 bn.

Support to Russian non-commodity exports is one of VEB's key activities specified in its new development strategy. VEB plays a leading role in ensuring efficient operation of the government system for supporting the national high-tech exports to give a competitive edge to Russian products on global markets. VEB's efforts contribute to geographical diversification of Russian exports and better access of Russian products to new markets, while maintaining market presence in the countries that are traditional trading partners of the Russian Federation. VEB's priority regions for promoting Russian exports include the CIS states, Southeast Asia, Latin America and Africa.

VEB's exports support operations are governed by the principles and regulations of Russian and international laws, including laws on combating bribery of foreign public officials in international business transactions. The Bank also puts a focus on optimizing internal business processes, expanding the product range and increasing export potential.

VEB's support for export in 2016

IN 2016 VEB GRANTED

19

Exports loans for a total of RUB 15.8 bn

87

Guarantees for a total of RUB 247.3 bn

MAJOR EXPORT PROJECTS

- Financing the supplies of 3 Sukhoi Superjet aircraft to the Republic of Ireland
- Financing an export contract of Metrovagonmash OJSC for modernization of 222 Budapest subway cars
- Financing an export contract for the acquisition of energy equipment by a Russian manufacturer to reconstruct the Grodno CHP-2 in the Republic of Belarus.

In 2016, REC provided support to over 500 exporters for a total of USD 8.9 bn. REC's customer satisfaction rate equaled 82 points, thus exceeding the target value

RUSSIAN EXPORT CENTRE

Russian Export Centre (REC), a specialized VEB Group's entity, is a conductor of the national policy to support Russian non-commodity exports. In 2016, REC finalized a comprehensive system of financial and non-financial instruments for export support. The functional consolidation of REC and its subsidiaries, Russian Agency for Export Credit and Investment Insurance (EXIAR) and Russian Export - Import Bank (Eximbank of Russia) helped ensure efficient operation of the system.

REC's key strategic goal is to create the national export support system. REC works both with large businesses and SMEs and provides financial and non-financial support to exporters on a one-stop-shop basis. REC closely cooperates with Russian foreign trade ministries and agencies.

In accordance with the resolution of the Russian Government adopted in October 2016 following a meeting of the Russian President's Council for Strategic Development and Priority Projects, REC acts as a coordinator for the new comprehensive programme of support for Russian exporters. The programme provides for the implementation of three priority projects falling into the International Cooperation and Export category, which aim to support industry and agriculture and develop an action framework for the promotion of international cooperation and exports. The projects will result in increased non-commodity non-energy exports and the growing number of Russian exporters.

REC's strategic initiatives

EXPORT INFRASTRUCTURE DEVELOPMENT

- Creating a perfect export regulatory environment and infrastructure for Russian exporters

DEVELOPING DEMAND FOR RUSSIAN GOODS AND SERVICES

- Cooperation with existing and potential consumers of Russian exports and promotion of Russia's image abroad

REC's INSTITUTIONAL DEVELOPMENT

- Internal organizational changes aimed at achieving high service quality and greater efficiency of REC as a development institution and ensuring its financial stability

MAINTAINING AND INCREASING RUSSIAN NON-COMMODITY EXPORTS

- Direct support to exporters and Russian investors abroad, assistance in the implementation of non-commodity export projects

EXPORT CULTURE DEVELOPMENT

- Enhancing financial literacy and developing export culture to expand the group of potential Russian exporters with particular focus on SMEs

The functional consolidation of REC and its subsidiaries, EXIAR and Eximbank of Russia, completed in 2016, allowed to enhance the efficiency, transparency and convenience of services to be provided by REC Group's entities, as well as to implement uniform governance and strategic planning principles across the Group, eliminate overlapping of functions and optimize resources.

In 2016, as part of creating a comprehensive governance system, REC Group set up a common front office, introduced a common CRM system, a standardized business process for handling of applications and a common risk assessment approach. In addition, over the year the Group took massive efforts to implement advanced remote service tools, which resulted in the development of over 15 new online services and launching of the first version of the customer online account.

REC Group's export efforts in 2016

FINANCIAL PERFORMANCE

REC Group's total export credit and insurance support equals USD 8.9 bn

EXIAR

Insurance support for export transactions

Exports supported in 2016 equaled **USD 8.7 bn**
(excluding Yamal SPG project)

Insurance support under Yamal SPG project equals
USD 4.1 bn

EXIMBANK OF RUSSIA

Loan and guarantee support for export transactions

Exports supported in 2016 equaled **USD 0.88 bn**

As of the end of 2016, the loan portfolio equaled
USD 39.24 bn

NON-FINANCIAL PERFORMANCE

- In 2016, REC provided non-financial support to over 600 export projects
- Mostly, the services were related to project appraisal and searching for an international partner, as well as representing exporters' interests before intergovernmental commissions

- In 2016, REC received and processed over 3,000 applications from exporters and buyers of Russian products
- The applications were mainly related to support for export supplies and promotion of goods and services to external markets

REC'S EDUCATIONAL PROJECT

In June 2016, REC started its Educational Project designed to help export startups

INTRAMURAL STUDY

- 8 training courses were developed covering theory and practice with elements of networking
- 45 qualified training specialists completed the courses
- Educational programmes are held in 13 Russian regions
- In 2016, 1,182 students took the courses

ONLINE TRAININGS

- 8 training courses were developed in the form of webinars with test questions and teaching aids
- 3,400 students took the courses in 2016

ENVIRONMENTAL AND SOCIAL APPRAISAL OF PROJECTS

- EXIAR operates in accordance with the Regulations for Appraisal of Environmental and Social Impacts of Export Loans and Investments based on OECD's recommendations
- In 2016, EXIAR appraised 86 projects
- Efforts are being taken to eliminate the risks of identified potential adverse environmental impact
- In 2016, EXIAR held a workshop called Checking OECD's Line involving 25 REC Group's employees
- In the near future, the requirements for environmental and social appraisal of loans and investments are expected to be put in place in all REC Group's entities

RUSSIAN AND BELARUSIAN ECONOMIC COOPERATION

In accordance with the resolution of the Prime Minister of the Republic of Belarus, VEB Group's subsidiary bank – BelVEB – was appointed as the coordinator of the Project Office for Exports Development established in 2016

An important step towards expanding economic cooperation between the Russian Federation and the Republic of Belarus was signing the Memorandum of Intent (MOI) to create a common Integration Development Platform. The Memorandum was signed in December 2016 between the Government of the Republic of Belarus, the Development Bank of the Republic of Belarus, Vnesheconombank, EXIMBANK of Russia and BelVEB (VEB Group's subsidiary bank operating in the Republic of Belarus).

Cooperation under the MOI will be promoted by a special working group for the creation of the Integration Development Platform together with the Project Office for Exports Development, that will include the Council of Ministers of the Republic of Belarus, the National Bank of the Republic of Belarus, the Development Bank of the Republic of Belarus, the Committee of the Common State, EXIMGARANT of Belarus and BelVEB.

The platform will help create a financial infrastructure for supporting export projects and projects of high integration potential implemented in Russia, in Belarus and in third countries. It will ensure a solid base for developing the national economies of both countries, promoting an increase in mutual commodity turnover and cooperation in trade and investments. The parties intend to pay particular attention to expanding production cooperation and creating a synergy to promote products by Russian and Belarusian manufacturers in third countries' markets. In addition, the MOI intends to assess the feasibility of integrating the blockchain technology to be tested in pilot Russian and Belarusian trade financing transactions.

In December 2016, as part of the arrangements made, VEB, the Development Bank of the Republic of Belarus and BelVEB signed an agreement on cooperation with LLC Ulyanovsk Automobile Plant. The purpose of the agreement is to establish a long-term partnership in the supply of products by Russian car manufacturers to the Republic of Belarus.

The next step toward stronger Russian and Belarusian economic integration was signing the Memorandum of Cooperation between VEB, BelVEB and OJSC BELAZ in 2016. The Memorandum provides for the acquisition of high-technology Russian products by the Belarusian automobile group of companies, as well as exports of quarry and other machinery manufactured by OJSC BELAZ and Russian enterprises on a cooperation basis to third countries.

4

VEB GROUP IN RUSSIAN REGIONS

4.1 Regional Development.....	72
4.2 Support for Single-Industry Towns.....	78

4.1

REGIONAL DEVELOPMENT

Supporting regional development is one of VEB 2.0 Strategy's priorities to be addressed by the Bank by providing finance to the infrastructure and manufacturing industry in Russian regions

In 2016, VEB started developing and implementing a new regional relationship model aimed to enhance the efficiency and transparency of the procedure for selecting investment projects financed by the Bank. The new model was designed to directly link the regions' business ideas to VEB's funds triggering an active development of economies in Russian regions. An official announcement of VEB's transitioning to the new model was made at the Sochi International Investment Forum 2016 where memorandums of cooperation were signed between the Bank and seven Russian regions: Ivanovo, Orenburg, Kaluga, Tula and Yaroslavl Regions as well as the Krasnoyarsk Territory and the Chechen Republic.

VEB is implementing its new regional relationship model in partnership with the Agency for Strategic Initiatives (ASI) as part of the agreement on cooperation executed in 2017. The key component of the new model will be VEB's institute of certified managers that will get involved in proactive search for, and initial selection of, high-potential regional projects in VEB 2.0 Strategy's priority areas. To ensure high speed and efficiency when reviewing regional projects, interaction of certified managers, project initiators and VEB will be ensured in online mode using the Development Project Factory platform.

VEB started creating a pool of certified managers across regions in 2017. Candidates were selected using the ASI method including the Agency's specialized platform LEADER-ID. When selecting, the Bank gave preference to candidates with a wide contact base and understanding of the economic situation in the region, as well as with good project financing instrument skills. Later on, as part of their partnership with VEB, regional managers will get a chance to expand their business connections with government officials and businessmen. The best contenders will be offered to join the VEB 2.0 candidate pool and the Bank's team.

As part of scaling-up the new regional relationship model to cover the entire Russia, by the end of 2017 VEB plans to train, assess and certify up to 3 managers in each Russian region. Once established, the institute of certified managers will contribute to the creation of a wide VEB's project selection funnel

and reduction in the periods of their review. Certified managers will also be charged with supporting projects financed by VEB throughout their entire life cycle including the use of government support to implement such projects, thus creating the required conditions to improve the project economy.

VEB's new regional relationship model

NEW MODEL'S TARGETS

- Expanding VEB's regional project selection funnel
- Proactive search for projects
- Speeding up the process of submitting and reviewing of project applications
- Improving the project economy through aggregation of regional government support measures

Basic components of the new model

INSTITUTE OF CERTIFIED MANAGERS

Tasks

- Proactive search for and development of a flow of regional projects
- Notifying the market of VEB and ASI's new initiative
- Assisting in execution of project applications from initiators
- Express appraisal of projects in accordance with VEB's requirements
- Assisting a project initiator in execution of a package of documents pursuant to VEB's standards
- Interacting with a project initiator, ASI's representatives and other stakeholders at different stages of the project's life cycle

DEVELOPMENT PROJECT FACTORY

Online platform

- Selecting applications based on VEB's industry financing priorities
- Studying the feasibility of investments in a project based on its key financial indicators
- Tracking changes in statuses of applications and reviewing other statistics in a user-friendly graphic form
- Conducting express appraisal of projects
- Providing consultancy support to customers by certified managers
- Consolidating information on available government support measures for projects

INTERACTION WITH ASI AND PROJECT OFFICES BY GOVERNORS IN REGIONS

Tasks

- Selecting certified managers based on ASI's Open Selection method using LEADER-ID platform
- Interacting with a certified manager and generating investment proposals
- Determining and approving measures of regional government support to a project
- Assessing the efficiency of regional support measures under the National Investment Climate Rating of Russian regions
- Expert appraisal of a project by ASI's regional working groups

In 2016, the Fund started financing two priority projects implemented at the instruction of Russian President Vladimir Putin: building the Nizhneleninskoe – Tongjiang bridge over the Amur River and constructing residential houses for employees of the shipbuilding cluster Zvezda

THE FAR EAST AND BAIKAL REGION DEVELOPMENT FUND

The Fund focuses on developing the Far Eastern Federal District and the Baikal Region and engages in investment projects that conform to the government policy and yield a social and economic multiplier effect. The Fund operates as a catalyst for the investment process in the region attracting foreign investments to the Far East and providing support to regional authorities in preparing and structuring of projects, in particular, PPP projects. The Fund's priority is cooperation with leading companies and financial organizations of the Asia-Pacific Region (primarily, China, Japan and Republic of Korea).

In 2016, the Fund launched the Voskhod investment system that is an online platform designed to attract investments to dynamically developing companies and projects of the Far Eastern Region, including those implemented in the Territories of Accelerated Social and Economic Development (TAD) and the Free Port of Vladivostok. The platform offers the Far Eastern issuers a quick and easy way to attract investments to their projects and investors – a safe access to negotiating deals on projects that have undergone preliminary expert appraisal and government verification. The first placement of exchange-traded bonds through the Voskhod system occurred in September 2016. The bonds belonged to Aviaterminal, a subsidiary of LLC Khabarovsk Airport, with the amount of borrowings standing at RUB 100 mn. In addition, in December 2016 JSCB Almazergienbank JSC (AEB) ranking 137th among Russian banks in terms of assets attracted RUB 500 mn using the Voskhod system.

In 2016, to develop small and medium businesses in the Far East, the Fund in cooperation with the leading Russian commercial banks started implementing the Available Loan for SME programme. Under the programme, the Fund offers financing to partner banks, thus reducing the interest rate for the end SME borrowers by 4-6% compared to average market indicators and increasing the loan terms to 3-10 years. The programme resulted in almost a 1.5 decrease in the interest rate for the Far Eastern SMEs in 2016, thus causing higher employment growth.

Project portfolio of the far East and Baikal Region Development Fund as of the end of 2016

APPROVED AND HIGH-POTENTIAL PROJECTS OF THE FUND

- Russia's Government approved the financing with the Fund's money of 13 projects for a total of RUB 191.5 bn, with the Fund's commitment standing at RUB 26.7 bn.
- 10 projects for a total of RUB 161.4 bn, with the Fund's commitment standing at RUB 26.0 bn, are at high readiness for the Fund's approved financing

PROJECTS APPROVED IN 2016

6

Projects

RUB 107.92 bn
Total project value

RUB 13.24 bn
Fund's commitment

Expected project outcomes

Above
4,100
Jobs created

RUB 33.13 bn
Taxes generated

RUB 221.46 bn
GRP increase

FINANCED PROJECTS

6

Projects

RUB 51.10 bn
Total project value

RUB 13.12 bn
Fund's commitment

Expected project outcomes

Above
1,300
Jobs created

RUB 35.22 bn
Taxes generated

RUB 122.50 bn
GRP increase

In 2016, NCDC developed a concept for creating an innovative medical cluster in the Caucasian Mineral Waters. The project requires investments of RUB 162.1 bn, with NCDC's commitment standing at RUB 40 bn

NORTH CAUCASUS DEVELOPMENT CORPORATION

North Caucasus Development Corporation (NCDC) operates to develop the investment environment in the North Caucasian Federal District (NCFD) by attracting investors and participating in manufacturing and infrastructure projects. The Corporation's strategic priorities include the implementation of a government programme aimed at developing the North Caucasian Federal District, attracting investments to the region and creating new jobs. As a regional development institution, NCDC acts as an intermediary between project initiators

and investors that provides advisory services for project procurement and a project co-financier.

In 2016, NCDC conducted a search for potential investors for financing of new and existing projects of the Corporation. Its main result was signing a set of important agreements with foreign investors aimed to develop an innovative medical cluster in the Caucasian Mineral Waters and, on the whole, in the North Caucasian Federal District. The agreements were signed at the St. Petersburg International Economic Forum and the Sochi International Investment Forum 2016.

To improve the region's image and draw more interest from the business community, in 2016 NCDC updated the NCFD website set up in 2011 at the instruction of the Government Commission on Social and Economic Development of the North Caucasian Federal District. Over the year, the website was uploaded with information concerning 31 projects with a high level of project preparation that have a considerable need for investments.

NCDC's project portfolio as of the end of 2016

NCDC'S INVESTMENT PORTFOLIO

- The portfolio consists of 3 projects for a total of RUB 13.9 bn, with NCDC's commitment standing at RUB 4.2 bn
- After the projects reach their full capacity, over 400 jobs are expected to be created, with annual tax receipts exceeding RUB 900 mn

PROJECTS COMPLETED IN 2016

2

Projects

RUB 16.39 bn

Total project value

RUB 0.86 bn

NCDC's commitment

In 2016, FCPF developed a new strategy aimed at enhancing its role as a consultant, a source of high-quality projects eligible for VEB's financing and an institution for development of the PPP market and infrastructure

FEDERAL CENTRE FOR PROJECT FINANCE

In 2016, the Federal Centre for Project Finance (FCPF) continued preparing regional and urban development projects for their subsequent implementation with non-government investments. FCPF offers investment advice to public authorities on matters related to project development, makes repayable investments and attracts investors to financing of the project pre-procurement stage, as well as undertakes studies of regional and urban development and distributes good practices.

FCPF's regional and urban development projects include those related to the development of social, transportation, utility and energy infrastructure, public management infrastructure, as well as projects for integrated territorial development covering the public infrastructure development and economic or social territorial development. FCPF tries to keep a tighter focus on the budget, social, economic and environmental impact of the projects. In 2016, in accordance with FCPF's order on appraising social and economic effects of projects, FCPF appraised all the projects approved for financing.

FCPF's regional and urban development projects as of the end of 2016

NEW AND COMPLETED PROJECTS IN 2016

- FCPF started preparing 10 new projects, with FCPF's commitment standing at RUB 0.8 bn
- Preparatory work for 6 projects was finished
- 3 projects participated in bidding procedures

PERFORMANCE INDICATORS

- The ratio of FCPF's funds to investments in project preparation equaled
30%
- The planned yield on FCPF's participation portfolio equals
23%

PROJECTS APPROVED FOR FCPF'S PARTICIPATION

- 40 projects approved for participation, with FCPF's commitment standing at RUB 6.45 bn
- Anticipated creation of over 139,000 new jobs; tax receipts totaling RUB 1,044.43 bn

4.2

SUPPORT FOR SINGLE-INDUSTRY TOWNS

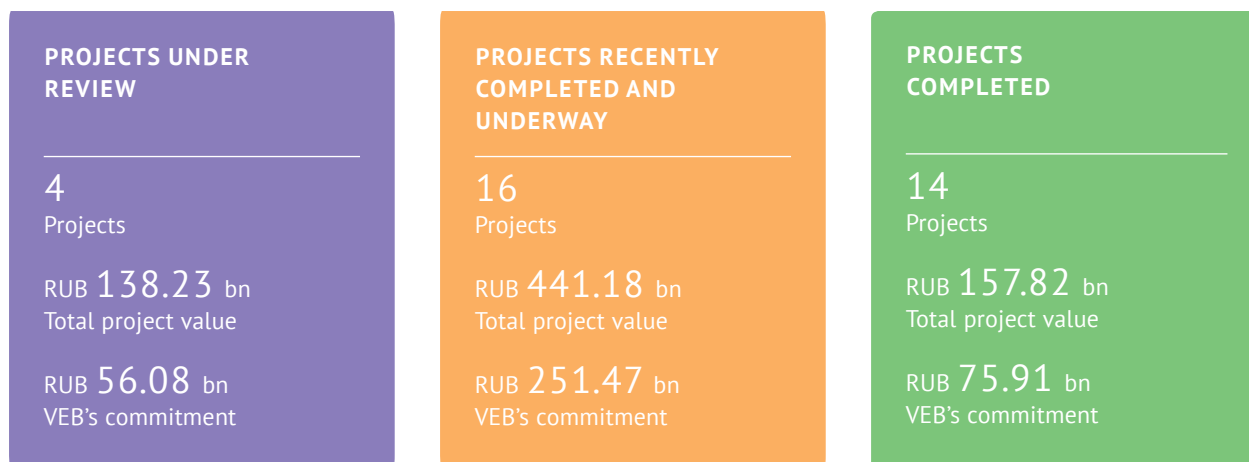
Support for projects that help create jobs in single-industry towns is one of the priority areas of the development bank's investment activities identified as part of the VEB 2.0 Strategy

VEB's investment projects in single-industry towns (monotowns) are aimed at the financial recovery and upgrade of backbone enterprises, as well as the diversification of economy, thus quelling the social unrest and bridging the gap in the income level and living standards. Tasks of stabilizing the social and economic situation in monotowns are also addressed by the Monotown Development Fund that was established by VEB in 2014. The Fund's priorities cover the creation of new jobs in monotowns and raising of investments.

In 2016, VEB continued coordinating the activities of the Working Group for Modernization of Single-Industry Towns under the auspices of the Government Commission on Economic Development and Integration. Over the year, the Working Group carried out an analysis of events and investment projects implemented in 319 monotowns with the most challenging social and economic situation. The Working Group also made a list of 39 monotowns selected for potential support by the Monotown Development Fund, thus increasing the total number of monotowns where the Fund can operate up to 64.

In 2016, to make monotowns more attractive for investors, VEB performed an analysis of information on the condition of over 500 industrial sites in 175 monotowns across 45 Russian regions. The presentation materials for 192 industrial sites in 76 monotowns that enjoy developed infrastructure and a favourable business environment are available on VEB's web-site¹⁷.

VEB's portfolio of monotown projects as of the end of 2016



EXPECTED EFFECTS OF THE PROJECTS

Implementation of the projects from VEB's portfolio is expected to create **over 12,000 new jobs**.

Irina Makieva, Deputy Chairman of Vnesheconombank, was appointed as Manager of the Integrated Monotown Development Programme approved in 2016 by the Russian President's Council for Strategic Development and Priority Projects

INTEGRATED MONOTOWN DEVELOPMENT PROGRAMME

The Integrated Monotown Development Programme was designed with VEB's direct involvement as a priority project from the list of main areas of strategic development of the Russian Federation up to 2018 and for the period up to 2025 approved by the Russian President's Council for Strategic Development and Priority Projects in July 2016.

The Programme aims to reduce the dependence of monotowns on backbone enterprises and envisions the creation of 230,000 new jobs in monotowns by the end of 2018. The programme is expected to result in the reduction of the number of monotowns by 18. In addition, the programme provides for the implementation of Five Steps to Urban Land Development events designed to improve the quality of the urban environment in all Russian monotowns.

VEB and the Monotown Development Fund will play a leading role in the implementation of the Programme, with the Fund's following objectives to be accomplished by the end of 2018:

- creation of 13,100 new jobs that are not related to the activities of backbone enterprises;
- raising RUB 62.8 bn worth of investments to the economy of monotowns.

In 2016, the Monotown Development Fund outperformed all the targets set in agreements on federal budgetary subsidies, including the number of jobs created in monotowns, which equaled 1,700 jobs, and the amount of investments attracted to the economy of monotowns standing at RUB 10.7 bn.

PERFORMANCE OF THE MONOTOWN DEVELOPMENT FUND

In 2016, the Monotown Development Fund started acting as a project office to coordinate the projects aimed at stabilizing the social and economic situation in monotowns. This approach expected to be scaled up across Russia was put to test in 11 monotowns. As part of step-by-step deployment of activities of the project office, line managers were appointed for 172 monotowns, whose area of engagement includes the support for preparation and implementation of monotown development programmes.

To organize teams that will manage the monotown development programmes, in 2016 the Fund held a series of training events arranged jointly with the Moscow School of Management Skolkovo and the Russian Presidential Academy of National Economy and Public Administration. 86 management teams completed training. Following its results, 432 representatives of government authorities and the business community that will be directly involved in monotown development programmes were successfully accredited.

Preparing and implementing projects of the Monotown Development Fund

Development of infrastructure to launch investment projects in monotowns

- Since its launching, the Fund has entered into **57 master agreements** with Russian regions on cooperation in the development of 64 monotowns
- The Fund committed to co-finance the expenses of Russian regions associated with infrastructure facilities required to implement investment projects in **18 monotowns**
- The amount of obligations assumed by the Fund to co-finance infrastructure projects in monotowns equaled RUB 8.65 bn, including **RUB 3.69 bn** transferred as of the end of 2016
- **Over 18,000 new jobs** are expected to be created and **RUB 84.6 bn** of investments are expected to be raised in monotowns eligible for the Fund's co-financing

The Fund's investment projects in monotowns

- The Fund started financing **2 projects** in monotowns for a total of RUB 5.53 bn, with the Fund's commitment standing at **RUB 1.9 bn**:
 - Development of the Kama Industrial Park "Master" in Naberezhnye Chelny (the Republic of Tatarstan)
 - Building of an oil extracting plant at Mayachny settlement of the Kumertau Municipal District (the Republic of Bashkortostan)
- **3 projects** in monotowns for a total of RUB 5.98 bn, with the Fund's commitment standing at **RUB 0.62 bn**, are under the Fund's consideration

5

FINANCIAL INSTITUTION ENGAGEMENT

5.1 Raising Investments	83
5.2 International Relations	87

5.1

RAISING INVESTMENTS

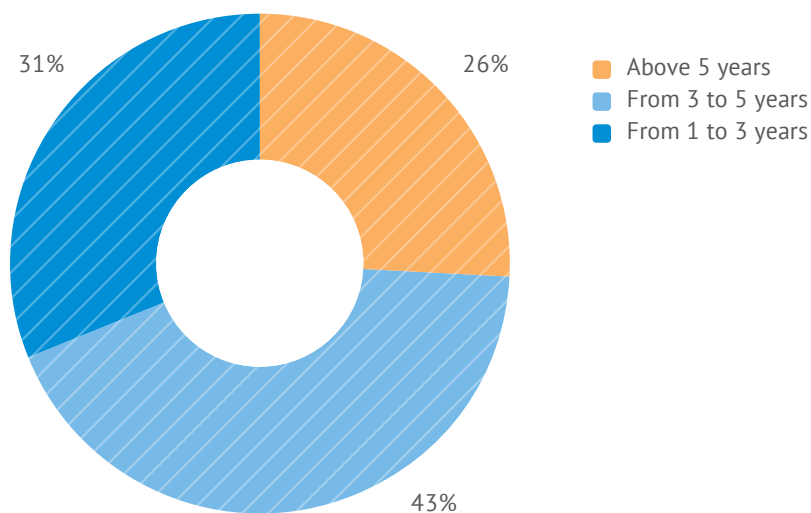
The first untied syndicated loan obtained by VEB from a club of Chinese banks and amounting to up to CNY 10 bn was an important milestone of 2016 evidencing that VEB has one more international source of financing in one of the world's reserve currencies

In 2016, VEB built its resource base mostly by placing new bonds and refinancing previously issued bonds on the internal debt market and by borrowing loans from Chinese investors. At the same time, VEB continued its efforts in expanding its borrowing abilities on capital markets of the Middle East and the Southeast Asia that are new to the Bank.

In 2016, VEB carried out a historical public transaction on the Russian securities market for placement of USD-denominated bonds with settlements upon placement conducted in roubles. The foreign currency bond issue was placed at the minimum premium compared to the global market. Moreover, a moderately aggressive pricing policy and improved media coverage of the Bank's activities contributed to reduction of the average yield spread of VEB's rouble-denominated bonds to federal loan bonds for a term of 2.5 years from 220 to 120 basis points.

An important event of 2016 contributing to VEB's expanded investment abilities was depositing of funds by the National Wealth Fund (NWF) for the first time with Vnesheconombank to finance projects implemented by the real economy.

Breakdown of borrowings by VEB in 2016 by maturity



Borrowing agreements entered into in 2016

EXTERNAL MARKET

New borrowings

CNY 6 bn
Loans from international banks

CNY 10 bn
Syndicated loans

INTERNAL MARKET

New borrowings

RUB 30.6 bn
NWF's deposits

EUR 9.095 mn
Loans from Russian banks

RUB 54.575 bn
Domestic rouble bonds

USD 600 mn
Domestic currency bonds

Refinancing

RUB 89 bn
Domestic rouble bonds

USD 500 mn
Domestic currency bonds

Funds raised by VEB in 2016

A CNY 10 bn untied syndicated loan agreement with a club of Chinese banks with a 3 year tenor and an option of a 3 year extension

Loan funds can be allocated to finance a wide range of VEB's investment or export projects including important projects for cooperation between Russia and China in trade and economy

A CNY 6 bn framework agreement with the China Development Bank (CDB) with a 15 year tenor

The agreement provides for co-financing of energy, energy efficiency and infrastructure projects, cross-border projects with China, sustainable development and cooperation projects in the Far East

Bilateral cooperation agreement with the Japan Bank for International Cooperation (JBIC)

The agreement provides for joint financing of projects implemented in Russia with a focus on the Eastern Siberia and Far East regions; industry priorities include developing of infrastructure, energy and energy efficiency, as well as downstream industry in the area of petro-chemistry, timber processing and machine building

Trilateral cooperation agreement with the Japan Bank for International Cooperation (JBIC) and CJSC Nakhodka Fertilizer Plant

In accordance with the agreement, VEB will act as a coordinator and manager of financing for a project on the construction of a fertilizer plant in Nakhodka and will provide support to searching for investors in the equity of CJSC Nakhodka Fertilizer Plant

Agreements with the Federal Treasury on depositing of NWF's funds with VEB

NWF's funds will be allocated to finance a project for modernizing subway cars in Budapest for the amount of RUB 3 bn and a project for acquiring and leasing of cars of the Moscow Metro for the amount of RUB 27.6 bn

PARTNERSHIP BANKING

To expand its borrowing capabilities in the Middle East markets that are new to VEB, in 2016 VEB paid particular attention to analyzing the prospects of using partnership financial instruments in its activities. The most important event of 2016 in this area was signing of the Memorandum of Understanding between VEB and the Islamic Development Bank Group – the leading, systemically important institution on the Islamic finance market representing 57 countries of the Organization of Islamic Cooperation. The Memorandum provides for joint financing of investment projects and exchanging experience in partnership banking.

In addition, VEB participates in the Bank of Russia's Working Group on Partnership Banking. The main task of the Working Group is to work out proposals on improving Russian laws to ensure effective use of partner's (Islamic) funds on the national level. In 2016, the Working Group approved a roadmap on partnership banking development for a period of 2016-2017.

SYNDICATION

In 2016, VEB started putting in place the syndicated loan mechanism with involvement of Russian commercial banks to allow VEB to raise additional resources to finance its investment projects. To ensure an effective implementation of the mechanism, VEB initiated the introduction of appropriate changes to Russian laws. Such changes provide for a legislative recognition of the terms "syndicated loan", "pledge manager" and "sub-participation agreement". In addition, VEB is considering the use of interest rate subsidies and improvement of the reservation mode for syndicates.

5.2

INTERNATIONAL RELATIONS

In 2016, VEB continued developing cooperation with the global financial community, with the aim both to attract foreign investment for implementing large-scale projects in Russia and exchange experience and best practice with leading development institutions

VEB engages in major international unions, clubs and associations of financial institutions operating across the globe. By participating in major international forums, VEB is actively involved in discussing the prospects of cooperation with its international partners and working out concerted positions on matters directly related to VEB's functions as a national development institution.

In 2016, VEB particularly focused on stronger relationships with financial institutions from Asian-Pacific and Middle Eastern countries. The Bank also continued its cooperation with partners as part of multilateral international forums including the BRICS Interbank Cooperation Mechanism (BRICS ICM), the Interbank Association of the Shanghai Cooperation Organization, the club of development institutions of D20 countries, the International Development Finance Club, the Long-Term Investors Club, the Northeast Asian EXIM Banks Association as part of the Extended Tumangan Initiative, etc. Through participating in these forums representing a wide group of development institutions, VEB can exchange best practices in development financing, find ways for mutually beneficial cooperation and promote Russia's national interests internationally.

A positive outcome after 2016 was continued constructive cooperation between VEB and the New Development Bank (NDB) founded by Brazil, Russia, India, China and South Africa to ensure joint financing of long-term infrastructure projects in BRICS and other emerging economies. In 2016, as part of its selection of projects for joint financing, the NDB was presented with several investment projects of VEB that received preliminary positive assessment.

Further on, VEB considers it to be a priority to raise co-financing from international investors to support VEB's investment projects in the Russian Far East and sustainable development projects including energy efficiency projects. At the same time, VEB will continue its cooperation with major development institutions to exchange experience and work out green financing standards.

Results of VEB's cooperation with international financial institutions in 2016

BRICS Interbank Cooperation Mechanism

- In October 2016, VEB's delegation led by Vnesheconombank's Chairman Sergey Gorkov participated in BRICS Summit events in Goa (India)
- Negotiations resulted in signing the Memorandum of Cooperation between BRICS ICM banks and the New Development Bank and making a decision on establishing two more BRICS ICM's working groups: on rating agency and on financial studies

New Development Bank (NDB)

- In July 2016, VEB participated in the first annual meeting of the NDB in Shanghai (China)
- As a result of Joint efforts of VEB and the NDB led to signing a confidentiality agreement as part of exchanging information on projects. The banks continue their cooperation in selecting projects for potential co-financing. In 2016, VEB also assisted the NDB with the issuance of its bonds in the Russian market

Meeting of G20 development institutions (Development 20, D20)

- In May 2016, VEB participated in the fourth meeting of heads of development institutions of G20 countries (D20) and a conference on promoting innovative, invigorated, interconnected and inclusive global economy held in Beijing (China)
- As part of the meeting, VEB signed cooperation agreements with the Development Bank of Southern Africa (DBSA) and the Export-Import Bank of India. The agreements aim to enforce cooperation in financing projects in industrial, transportation and energy infrastructure, as well as energy efficiency and sustainable development

The Northeast Asian EXIM Banks Association

- In 2016, VEB became the Chairman of the Association. In April 2016, VEB took part in the Advisory Committee of the Extended Tumanan Initiative (ETI) and a meeting of the banks of the association held in Seoul (Republic of Korea).
- As part of the above events, VEB and other members of the association signed a supplement to the Framework Agreement setting out an operational mechanism for interbank cooperation on projects. The mechanism developed at VEB's initiative streamlines interaction of the Association's members for syndicated lending under projects including projects in Russia

Long-Term Investors Club (LTIC)

- In May 2016, VEB took part in the annual LTIC's meeting held on the sidelines of D20 events in Beijing (China)
- The agenda included discussion of main areas of activities of the Club and its managing bodies, as well as presentation of a joint action plan of the association

International Development Finance Club (IDFC)

- In 2016, VEB participated in all benchmark events of the IDFC and arranged an IDFC sherpa meeting held in Moscow in September 2016
- At the meeting representatives of IDFC banks discussed high-potential areas of cooperation including green financing and support to the UN in implementation of the Sustainability Goals. Following the meeting IDFC sherpas adopted a decision to establish a new working group of the Club on project structuring and preparation to be coordinated by VEB

Interbank Association of the Shanghai Cooperation Organization (SCO IBA)

- In June 2016 VEB took part in a meeting of the SCO IBA Council in Uzbekistan
- Participants of the meeting signed a decision to assign the status of a SCO IBA's partner bank to the Development Bank of Mongolia; heads of SCO IBA's banks discussed key issues of multilateral cooperation including joint financing of investment projects

6

RESPONSIBLE BUSINESS PRACTICES

6.1 Anti-Corruption Procedures	90
6.2 Procurement	93
6.3 Green Office	95
6.4 Investment of Pension Savings	99

6.1

ANTI-CORRUPTION PROCEDURES

INTEGRITY is one of VEB's corporate values demanding that all of the Bank's employees comply with the principles of business ethics and ensure that their work is transparent and leaves no space for corruption

Vnesheconombank works with enormous financial resources entrusted to it by the government and investors. To maintain the level of trust, VEB and VEB Group's entities implement on a daily basis a range of measures aimed at enhancing the efficiency of anti-corruption mechanisms. VEB Group's anti-corruption activities are closely governed by Russian anti-corruption laws.

VEB's employees' activities and practices are regulated by principles and rules of business conduct established by Russian laws Vnesheconombank's internal regulations including the Code of Ethics and Business Conduct for Vnesheconombank's employees. VEB's employees are obliged to avoid any actions connected with personal, property or other interests that may impede the discharge of their job duties.

To ensure compliance with anti-corruption laws, all candidates applying for a job with Vnesheconombank are required to undergo training in business conduct and to complete a questionnaire on restrictions and prohibitions applicable to their jobs.

VEB continually works to identify conditions favourable to corruption and takes efforts to eliminate them. For example, in 2016, to prevent a conflict of interest, VEB implemented a set of actions to identify and resolve situations where employees were directly subordinate and/or reporting to their close relatives.

In 2016, VEB analyzed the functionality of its subdivisions and potential corruption risks. As a result, the Bank revised the list of positions requiring the Bank's employees to report their income, expenses, property and property-related obligations.

In 2016, VEB's Commission for Compliance with Conduct Rules and Settlement of Conflicts of Interest held three meetings at which the following issues¹⁸ were discussed:

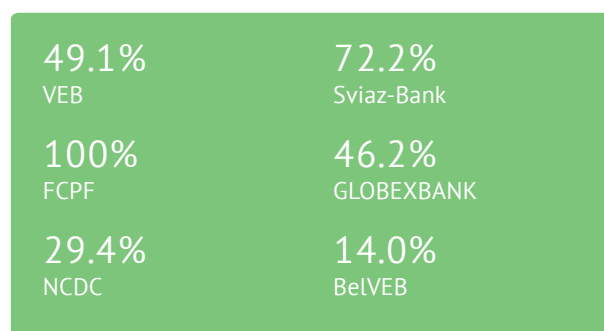
- anti-corruption measures;
- employee's responsibility to declare a personal interest in any business of their authority that results or may result in a conflict of interest;
- statements of inability for objective reasons to inform the employer of the financial position of the employee's spouses or minors;
- findings of reviews to check whether expenses of VEB's employees and their spouses match their incomes, as well as materials confirming the reliability and completeness of the provided data and compliance with the business conduct requirements.

In 2016, anti-corruption trainings were attended by more than 2,200 employees of VEB Group¹⁹. Among them were 1,790 VEB's employees including members of Vnesheconombank's Management Board who

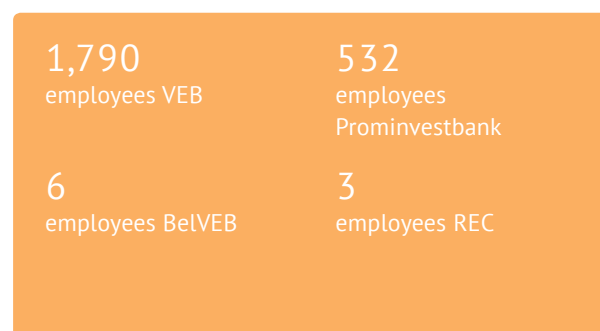
completed an e-course on Anti-Corruption Restrictions, Prohibitions and Responsibilities. VEB's employees responsible for anti-corruption compliance were also trained under a professional programme on Anti-Corruption Measures in State Corporations hosted by the Global Nuclear and Physical Security Institute of State Corporation Rosatom.

Over 2016, VEB took an active part in anti-corruption events organized by the Administration of the Russian President, Russia's Government, Russia's Ministry of Labour and the Russian Union of Industrialists and Entrepreneurs. VEB also participated in the Interdepartmental Task Force on Enhancing Efficiency of Anti-Corruption Measures in Subsidiaries of State Corporations established at State Corporation Rosatom.

Subdivisions analysed for exposure to corruption risks



Number of employees who received training on anti-corruption



18. Information about meetings of the Commission for Compliance with Conduct Rules and Settlement of Conflicts of Interest and Decisions adopted by the Commission is available on VEB's official web-site: <http://www.veb.ru/about/anticorruption/comis>.

19. Appendix 7 shows data on the number and share of VEB Group's employees who were trained on anti-corruption policies and procedures broken down by employee category.

Identifying events of abuse of position: preventing and responding

VEB

- 220 checks were performed to assess reliability and completeness of data on incomes, property and property-related obligations provided by candidates for vacancies with Vnesheconombank and by Vnesheconombank's employees, as well as compliance with business conduct requirements
- A set of actions were put in place to control expenses of 6 VEB's employees and their spouses who made transactions for an amount exceeding their income for the last three years
- In 2016 there were no events of abuse of position revealed at Vnesheconombank

GLOBEXBANK

- Bank account fraud was detected. Three bank clerks were found guilty and fired. The customers were reimbursed for the damage in full. An application to initiate criminal proceedings was filed
- Internal investigations were conducted on five reports by the Bank's employees of potential conflicts of interest. Four of them were settled on an individual basis, one is under consideration

VEB LEASING

- An internal investigation was launched after incidents of corruption were reported. The employees found guilty faced disciplinary action

6.2

PROCUREMENT

In 2016, VEB was for the second time rated as a bank with the highest Guaranteed Transparency as part of the National Procurement Transparency Rating among customers whose operations are governed by Federal Law No. 223-FZ

VEB and the Group's entities conduct procurement in strict compliance with Federal Law No. 223-FZ "On Procurement of Goods and Services by Certain Types of Legal Entities" of 18 July 2011²⁰. VEB Group's procurement policy is underpinned by principles of transparency, non-discrimination and fair competition, targeted and cost-effective spending, cost-saving practices and equal access for all procurement participants unhindered by non-measurable requirements.

To implement the government policy on SME development, VEB and most of the Group's entities take actions to improve access for SMEs to procurement such as excluding the requirement to SMEs to provide bid collaterals, undertaking to pay for the purchased products within ten business days and other measures creating favourable conditions for participation of SMEs in procurement. Moreover, VEB and some of the Group's entities approved a list of products that are to be purchased specifically from SMEs. In 2016, VEB met all requirements established by Russia's Government in terms of procurements from SMEs.

Share of SMEs in VEB's total procurements



20. Except for VEB Innovations Fund that is not covered by Federal Law No. 223-FZ, and BelVEB and Prominvestbank that conduct procurement operations in accordance with national laws of those countries where they operate.

In 2016, to enable greater procurement transparency, VEB significantly increased the proportion of competitive bidding procedures in total procurements. All procurement processes were conducted electronically using the software and hardware of the Unified Electronic Bidding Platform (www.roseltorg.ru). In 2016, more active use of competitive bidding procedures helped VEB save RUB 88.7m.

Share of competitive bidding procedures in VEB's total procurements



KEY CHANGES IN VEB GROUP'S PROCUREMENT

- **GLOBEXBANK** amended its procurement committee procedures to eliminate any potential conflict of interest.
- **REC** approved the revised regulations for procurement of goods, work and services that, among other things, allow setting environmental requirements for procured products.
- **VEB Leasing** collaborated with SME Development Corporation to monitor the compliance of the procurement plan with the requirements of Russian laws.
- **VEB Capital** approved a list of goods, work and services to be purchased exclusively from SMEs.
- **BelVEB** approved a procurement procedure conforming to the new requirements of the Tax Code of the Republic of Belarus, anti-corruption laws and other national regulations.

6.3

GREEN OFFICE

In 2016, VEB won the Green Office – 2016 Award for the Most Effective Waste Disposal System. The Award is sponsored by the Moscow Department for Environmental Management and Protection

As part of their current activities and administrative operations, VEB and the Group's entities challenge themselves to reduce the adverse environmental impact. VEB Group operates based on the green office principles aimed at reducing excessive resource consumption and streamlining its waste disposal system. In 2016, VEB Group continued its efforts to put in place a set of measures for energy saving, efficient consumption of paper and IT components, water and heat, as well as reduction of greenhouse gas emissions by corporate vehicles. At the same time, the Group is implementing initiatives aimed to raise environmental awareness among its employees including events organized by VEB and VEB Capital to collect used batteries for recycling.

VEB GROUP'S ADMINISTRATIVE PERFORMANCE IN 2016

- **VEB** managed to reduce the mileage of corporate vehicles by 36% thanks to the use of advanced means of communication, reduced number of business trips and streamlined itineraries. At the same time, VEB implemented a programme for disposal of old corporate vehicles. As a result, 100% of the Bank's fleet now meets Euro IV or higher standards. Thanks to utilization of expired archive documents,

record volumes of waste paper were sent for reprocessing. At the same time, the new corporate canteen in VEB's main building caused higher energy and water consumption.

- **GLOBEXBANK** reduced the consumption of energy, IT components and other resources through staff optimization. The consumption of cartridges was reduced through re-using, the consumption of heat – through controlled supply of heat and air ventilation of offices, and the consumption of bottled water – through installation of water machines.
- **BelVEB** reduced energy consumption through optimization of equipment operation modes and implementation of energy saving measures and cut fuel consumption of corporate vehicles by setting lower mileage limits and reducing the number of business trips. Meanwhile, the paper consumption went up as the Bank used its own resources to print most of materials instead of purchasing print products.
- **Prominvestbank** achieved an unprecedented reduction in administrative expenses to the absolute minimum of the last 8 years. Staff optimization, reduced scope of activity and austerity measures resulted in a considerable decrease in the Bank's consumption of all resources. The Bank also introduced stricter limits on the use of corporate vehicles and decreased the number of managers entitled to use corporate vehicles.
- **VEB Leasing** managed to reduce paper and cartridge consumption by more actively embracing electronic document flow.
- **VEB Engineering** decreased fuel consumption thanks to less frequent business trips with eventual complete abandonment of corporate vehicle leasing.

- **The Far East and Baikal Region Development Fund** saw an increase in paper and energy consumption due to more active investment operations, while streamlining business trip itineraries helped decrease fuel consumption by corporate vehicles.
- **NCDC** saw an increase in paper and energy consumption, number of business trips and corporate car fleet due to opening of an office in Moscow at the end of 2015.
- **FCPF** saw a rise in the consumption of paper, cartridges, other resources, and fuel by corporate vehicles due to increased scope of activities.

Environmental management of VEB Group's general and administrative activities

Resource	Amount of resources purchased in 2016	Resource management approaches	Waste management approaches	Amount of waste created in 2016 and other environmental factors
INVENTORIES				
Fluorescent lamps	9,414 lamps	<p>Taking into account environmental properties of products (availability of conformity certificates) when organizing procurement for repair and replacement of lighting equipment</p> <p>Optimizing the quantity of lighting equipment based on the actual headcount</p> <p>Increasing the share of energy efficient and the environmentally safest lamps (mostly LED)</p>	Transfer Hazard Grade 1 waste to a specialized entity for neutralization or to the landlord to decide on the method of disposal	12,441 units of mercury-containing waste
Computer equipment and parts	2,691 units	<p>Taking into account environmental parameters of products in procurement procedures</p> <p>Introducing electronic document flow</p>	Transfer Hazard Grade 3 waste to a specialized entity for disposal or to the landlord to decide on the method of disposal	2,484.52 tonnes of MSW 2,094 equipment units 2,409 cartridges
Cartridges	13,338 units	<p>Transferring expired archive documents to recycling</p> <p>Streamlining the use of office resources (putting equipment on saving operation mode, sharing copying equipment, setting paper use limits, etc.)</p> <p>Informing employees of the need to save resources in their office work</p>	Transfer of paper waste for recycling	198.69 tonnes of paper waste
Paper	A4 – 600.20 tonnes A3 – 4.24 tonnes			

Resource	Amount of resources purchased in 2016	Resource management approaches	Waste management approaches	Amount of waste created in 2016 and other environmental factors
ENERGY				
Electricity	130,988 GJ	Using high energy saving class equipment	Reduce CO ₂ emissions by cutting down electricity and heat consumption	19,575 tonnes of CO ₂ equivalent
Heat	122,824 GJ	Developing energy saving and energy efficiency measures Running an energy survey of buildings Optimizing equipment operating modes Informing employees of the need to save resources in their office work		
WATER				
Bottled drinking water	1,265.306 thou. litres	Taking into account environmental parameters of bottled water (availability of conformity certificates) in procurement procedures	Sign utility services agreements	Under the agreements, water disposal should be equal to water consumption
Utility water	196.864 thou. cu m	Running scheduled preventive maintenance and routine maintenance of sanitary equipment and engineering water supply and disposal systems Refitting sanitary equipment with devices to cut water consumption		
CORPORATE VEHICLES				
Fuel	Petrol: 2,066.9 thou. litres Diesel fuel: 512.0 thou. litres	Using high quality fuel Reducing total mileage by streamlining corporate itineraries Reducing the number of business trips by using remote communication channels Setting monthly mileage limits for corporate vehicles Reducing the number of idle hours of cars	Monitor toxicity of exhaust gases as part of corporate car maintenance	6,272.8 tonnes of CO ₂ equivalent
Repair and replacement of corporate cars	19 cars	Replacing outdated corporate cars with high environmental class cars (at least Euro IV) Regularly undergoing maintenance only in specialized organizations Including the cost of parts and expendables in maintenance agreements Providing for disposal of all waste in maintenance agreements	Monitor quality of parts and expendables as part of corporate car maintenance	91 decommissioned cars

6.4

INVESTMENT OF PENSION SAVINGS

Acting as the government trust manager of pension savings, VEB had under its management RUB 1,968 bn worth of 50 mn future retirees' savings as of the end of 2016

VEB has been acting as the state trust management company (STMC) since 2003. As such, VEB invests pension savings seeking to ensure their increase with minimum risk and the interests of the insured being its absolute priority. STMC manages two portfolios: the Extended Investment Portfolio (EIP) and the government securities investment portfolio (GSIP), which allows VEB to more efficiently invest retail deposits in various financial instruments.

In 2012, the Payout Reserve of the Pension Fund of Russia (PFR) intended to be used for payouts of accumulative age pensions was also placed under trust management of VEB. Acting as the government trust manager of payout reserve (STMC PR), VEB builds two investment portfolios: the Payout Reserve Investment Portfolio (PRIP) and the Fixed Term Investment Portfolio (FTIP). PRIP and FTIP investment instruments are identical to STMC's Extended Investment Portfolio.

In 2016, Vnesheconombank repaid to the PFR a portion of pension savings in EIP in compliance with the applications submitted by retail customers in 2015 for transferring their funds to a non-government pension fund or for selecting an investment portfolio of the managing company. As a result, STMC's share in the total pension savings dropped from 53.33% as of the beginning of the year to 47.54% as of the end of the year.

Pension savings investment instruments

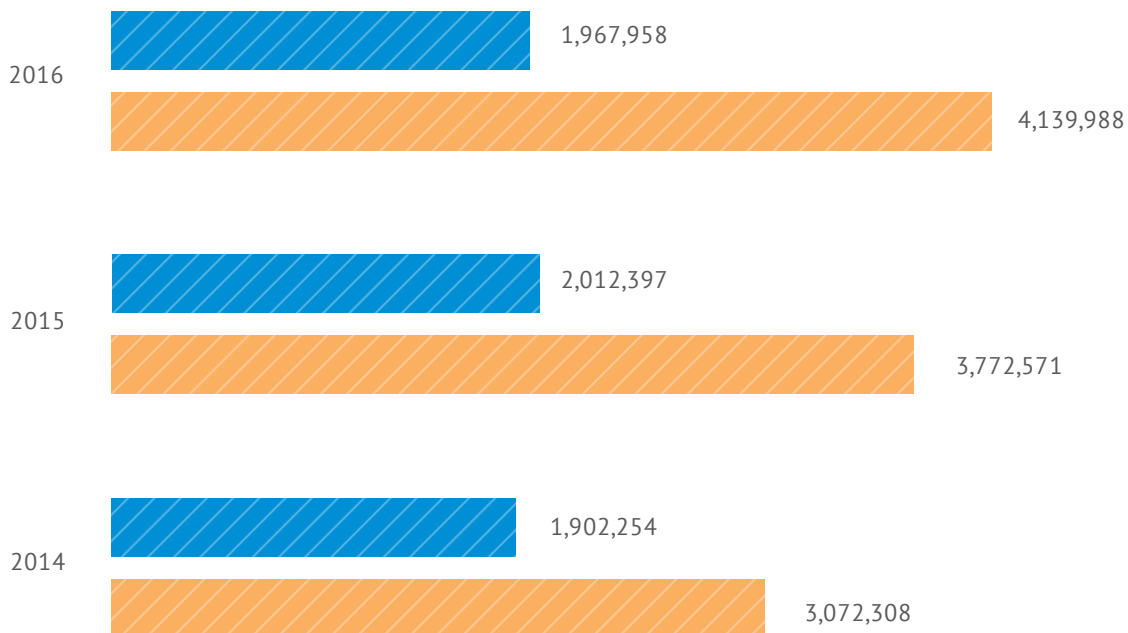
EXTENDED INVESTMENT PORTFOLIO

- Government securities of the Russian Federation
- Bonds issued by Russian regions
- Bonds issued by Russian companies, including those secured with a government guarantee
- Mortgage-backed securities
- Bonds issued by international financial organizations
- Deposits in Russian rubles and other currencies
- Cash in Russian rubles and other currencies placed on accounts with credit organizations

GOVERNMENT SECURITIES INVESTMENT PORTFOLIO

- Government securities of the Russian Federation
- Bonds issued by Russian companies secured with a government guarantee
- Cash in Russian rubles and other currencies placed on accounts with credit organizations

Performance by pension savings managed by STMC (RUB mn)



- Pension savings managed by STMC
- Total amount of pension savings

At year-end 2016, the ROI of STMC and STMC PR portfolios varied from 10.53% to 12.20%, which is twice as much as the inflation rate of 5.40%

RETURN ON INVESTMENT OF PENSION SAVINGS

In 2016, the return on investment of pension funds was procured through reinvesting available funds of STMC's portfolios in high-yield non-government bonds of Russian issuers and marketable floating-coupon federal bonds and through placing idle funds in deposits with commercial banks.

The total share of bonds by Russian issuers, mortgage-backed bonds, bonds of international financial organizations and bonds issued by Russian regions in the EIP grew from 40.22% as of the beginning of 2016 to 41.25% as of the end of 2016. The share of GSIP funds invested in bonds by Russian issuers (bonds secured with a government guarantee of the Russian Federation) increased from 41.10% as of the beginning of 2016 to 43.10% as of the end of 2016. In 2016, about RUB 70 bn were allocated to buy bonds of Russian infrastructure and manufacturing companies. In 2016, eight deposit auctions were held resulting in RUB 491.79 bn being deposited with credit organizations including three deposit auctions to reserve funds to be repaid to the PFR in March 2017, resulting in RUB 240.59 bn being deposited with credit organizations.

INVESTMENT OF PENSION SAVINGS IN 2016

EXTENDED INVESTMENT PORTFOLIO (EIP)

10.53%
Portfolio ROI

RUB 1,939.7 bn
Portfolio value for 2016

GOVERNMENT SECURITIES INVESTMENT PORTFOLIO (GSIP)

12.20%
Portfolio ROI

RUB 28,773.5 mn
Value of the portfolio for 2016

PAYMENT RESERVE INVESTMENT PORTFOLIO (PRIP)

11.10%
Portfolio ROI

RUB 7,307.0 mn
Portfolio value for 2016

FIXED-TERM INVESTMENT PORTFOLIO (FTIP)

11.24%
Portfolio ROI

RUB 1,888.6 mn
Portfolio value for 2016



INVESTING IN COMMUNITIES

7.1 Volunteering and Sponsorship.....	103
7.2 Development Award	106
7.3 Promoting Financial Literacy	109
7.4 Socially Important Products and Services of Subsidiary Banks.....	111

7.1

VOLUNTEERING AND SPONSORSHIP

In October 2016, VEB launched “Dream Has No Age!” corporate voluntary project to provide aid to almost a thousand of patients in three homes for the elderly

In 2016, VEB Group launched its new voluntary project “Dream Has No Age!” that has become an essential part of its corporate life. VEB Group’s volunteers have become the patrons of the patients at three care homes in the Tula, Tver and Moscow regions. Volunteers collect donations, medical supplies and care products for the patients, as well as rehabilitation facilities, the essentials and holiday gifts. During their regular visits to the sponsored care homes, volunteers put a special emphasis on in-person communication with the elderly.

DREAM HAS NO AGE! 2016 Results

CARE HOMES UNDER PATRONAGE

- Care home for the senior and disabled in Dubna (Tula Region)
- Care home for the senior and disabled in Vyshniy Volochek (Tver Region)
- Nursing care unit at the Ostashevo hospital (Moscow Region)

PROJECT RESULTS

- Patients’ requirement for medical and care supplies, as well as rehabilitation facilities satisfied in full for QIV, 2016
- Funds for the repair of the care home in Vyshniy Volochek collected
- New Year’s gifts for all patients at three homes collected
- VEB Group’s volunteers visited all sponsored care homes and organized a New Year’s party at the Vyshniy Volochek care home

Continuing a well-established tradition, VEB Group's volunteers in 2016 actively participated in blood donation initiatives. Over 100 employees of VEB and the Group's entities participated in 3 two-day corporate initiatives. As a result, over 150 litres of blood were donated to the Dmitry Rogachev National Research Center of Pediatric Hematology, Oncology and Immunology.

In June 2016, VEB's volunteers held an aid event for disabled children at the Kuntsevsky Family Education

Center. VEB's employees raised money to buy medical and care supplies, rehabilitation facilities, and orthotics for children.

In April 2016, VEB organized a volunteer initiative to raise funds to restore the Annunciation to the Blessed Virgin Mary Church in the Yaroslavl Region. Donations collected were applied towards the emergency response and recovery operations inside the XVII-century church.

VOLUNTEER INITIATIVES AT VEB GROUP ENTITIES

- **Sviaz-Bank** in cooperation with the Downside Up Foundation undertook The Farther into the Woods volunteer initiative. The initiative provided for therapeutic educational sessions as special New Year's gifts for children with Down's syndrome. By clicking a special link, volunteers made their donations turning on the lights on online New Year's trees. The funds collected by Sviaz-Bank's volunteers helped "light up" 5 New Year's trees.
- **GLOBEXBANK** implemented the initiative "Give a New Year Gift to a Child!" organized in collaboration with the Romashka Children's Cancer Foundation. The bank's volunteers raised money to buy New Year gifts for the little patients at the kidney transplantation department of the Russian Children's Clinical Hospital.
- **VEB Leasing** held "Let's Help Veronika Enjoy Her Childhood" event to raise funds for a 9 year-old girl in need of a sophisticated medical examination only available at a German hospital. VEB Leasing's volunteers also participated in the Charity Shop event to collect clothes and other things for charitable purposes.
- **FCPF**, on New Year's Eve, held a volunteer event to collect funds for mentally disabled children at the Kirov Orphan Home.

CHARITY AND SPONSORSHIP

In 2016, VEB Group allocated
RUB 171.6 mn for charity projects and
RUB 121.9 mn for sponsorship projects

In March 2016, VEB Supervisory Board adopted a decision to suspend VEB charity and sponsorship activities. The decision will remain in force to the end of 2017 due to the need to stabilize VEB operations as a development institution and will be reconsidered as soon as VEB gains positive momentum.

In 2016, VEB provided selective support for specific projects whose financing was approved by VEB Supervisory Board at the beginning of the year, i.e. the suspension on the charity and sponsorship activities was imposed. The most prominent of those projects was the XX St. Petersburg International Economic Forum officially sponsored by Vnesheconombank.

However, a number of VEB Group entities pursued their own initiatives to promote charity and sponsorship projects. In 2016, the largest donations were made by the Group's commercial banks: Sviaz-Bank, BelVEB and Prominvestbank, as well as NCDC and VEB Leasing. Sponsorship projects were implemented by the Far East and Baikal Region Development Fund, REC, FCPF, and Sviaz-Bank.

VEB Group charity activities in 2016

- Social development
- Science, education, arts and culture
- Environmental projects
- Tourism development
- Healthcare and social support
- Aid to children
- High-performance sports
- Support to the Russian Orthodox Church

CHARITABLE PROJECTS OF VEB GROUP ENTITIES IN 2016

- **BelVEB** continued to support the five-year programme of the Belarus National Library for facsimile edition of books by Francysk Skaryna, the first Byelorussian and East Slavic printer, and provided support to the Minsk International Christmas Opera Forum and the folk festival Kamyanița.
- **Prominvestbank** supported the charity project headlined “Give a Child a Dream” designed for children without parental support and disadvantaged children, as well as the Kiev Institute of Banking and the Russian and Ukrainian Gymnasium of Humanities.
- **NCDC financed** a social survey on the reconstruction of the Aukhovskiy District in the Republic of Dagestan and prevention of interethnic tensions and helped organize presentations of the interregional tourist route “The Silk Road” and the Visit Caucasus Social Projects Foundation.
- **VEB Leasing** donated furniture and equipment of the company’s regional divisions dissolved as part of the efforts to streamline the corporate organizational structure.

VEB Group sponsorship activities in 2016

- Forums, conferences, trade exhibitions
- Science, education, arts and culture
- High-performance sport

SPONSORSHIP PROJECTS OF VEB GROUP ENTITIES IN 2016

- **The Far East and Baikal Region Development Fund** facilitated the Far East Street exhibition held in conjunction with the Eastern Economic Forum.
- **FCPF** supported the IV International Conference “ORGZDRAV-2016. Efficient Management of Health Organizations.”
- **REC** promoted the Russian academic competition for students and graduates “Master’s Magic. Connecting Science and Practice” organized by the Financial University under the Government of the Russian Federation.

7.2

DEVELOPMENT AWARD

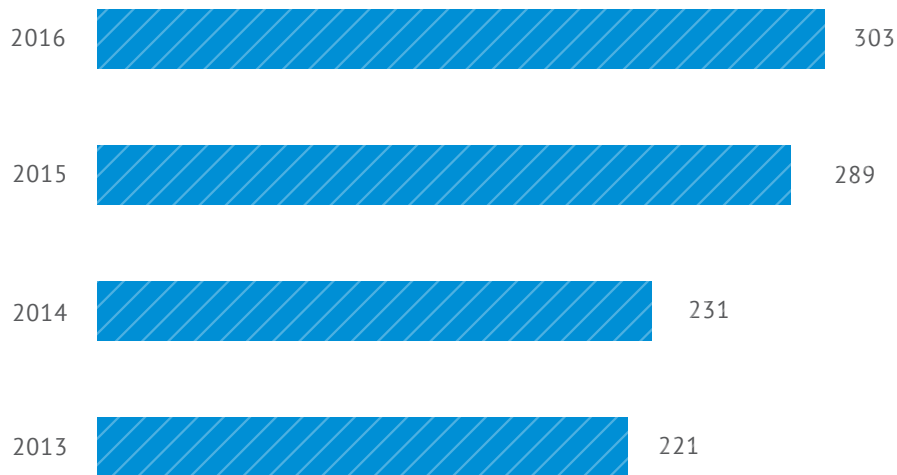
In 2016, VEB held its fourth Development Award event designed to promote best practices in efficient project management and foster favourable investment climate in Russia

The annual Development Award started by VEB in 2012 recognizes excellence among Russian companies operating in various industries. The Award marks the achievements in major national investment programmes and projects that have created significant social and economic impacts and contributed to Russia's growth. Eligible for participation in the Award are both projects financed by VEB and other projects meeting the criteria.

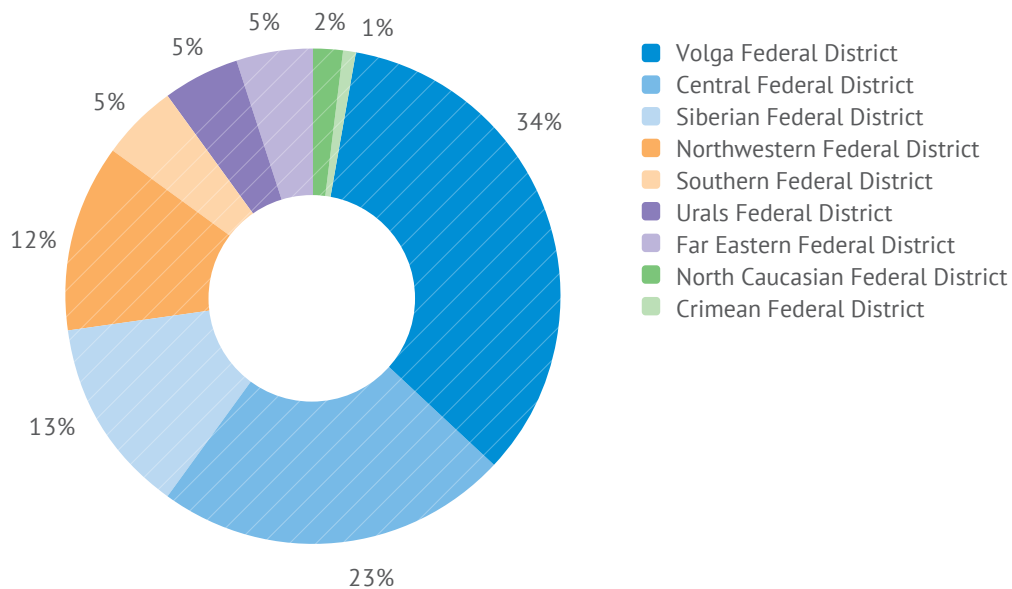
The year 2016 saw a record number of applications, which is evidence of increasing interest in the Award from the business community. The Award Committee consisting of leading Russian experts selected 30 finalist projects out of 303 applications from 62 regions to compete for the first prize in eight categories. The assessment took into account, primarily, such criteria as innovations, export or import-substitution, as well as social, economic and environmental impacts of the projects.

The awarding ceremony took place in June 2016 as part of the 20th Anniversary Saint Petersburg International Economic Forum. The winners received awards from Sergey Ivanov, Head of the Administration of the Russian President, and Sergey Gorkov, Chairman of Vnesheconombank. VEB's award initiative introduced the business community to the best business practices of Russia. The highlight of the Award 2016 became a high share of innovative projects demonstrating a potential for further dynamic growth of Russia's economy.

Number of applications for participation in the Award in 2013-2016



Regional breakdown of applications for the Award in 2016



Development Award 2016 results

BEST SME PROJECT

Number of applications:

77

Winning project:

Active pharmaceutical ingredients research and production complex

Winning company:

CJSC Medical and Biological Research and Production Complex Cytomed (St. Petersburg)

BEST INDUSTRY PROJECT

Number of applications:

69

Winning project:

Construction of plant for production of socially significant pharmaceuticals and active pharmaceutical substances

Winning company:

LLC Germopharm (St. Petersburg)

BEST ENVIRONMENTAL AND GREEN TECHNOLOGY PROJECT

Number of applications:

46

Winning project:

Electrically independent complex for mixed waste disposal through anaerobic conversion to biomethane with production of multipurpose microbiological specimen as a by-product

Winning company:

LLC Kompleksnye Sistemy Utilizatsii (Integrated Disposal Systems) (Orenburg Region)

BEST PROJECT FOR INTEGRATED DEVELOPMENT OF TERRITORIES

Number of applications:

33

Winning project:

Tourist cluster Belokurikha-2

Winning company:

JSC Belokurikha Resort (Altai Territory)

BEST INNOVATION/HIGH-TECH PROJECT

Number of applications:

32

Winning project:

Three Factors: Production of recombinant coagulation medications for hemophilia

Winning company:

CJSC GENERIUM (Vladimir Region)

BEST INFRASTRUCTURE PROJECT

Number of applications:

29

Winning project:

Development of infrastructure facilities for the Lipetsk Special Economic Industrial Zone (Lipetsk Region)

Winning company:

OJSC Lipetsk Special Economic Industrial Zone (Lipetsk Region)

BEST EXPORT PROJECT

Number of applications:

10

Winning project:

Development of technology and expansion of production of sapphire and sapphire wafers for sale to global manufacturers of LED, smart phones and other commercial products

Winning company:

JSC Monocrystal (Stavropol Territory)

BEST FOREIGN INVESTMENT PROJECT

Number of applications:

7

Winning project:

Construction of the advanced grain processing facility to produce amino acids in Volgodonsk

Winning company:

LLC DonBioTech (Rostov Region)

7.3

PROMOTING FINANCIAL LITERACY

In 2016, along with the efforts to promote financial literacy, VEB and the Group's entities gave a special focus to the youth at financial universities

In 2016, VEB organized practical training and internships for 75 students and launched a pilot programme for targeted work placement for Chinese-speaking students. Following the admission interviews and tests, three students of the Financial University under the Government of the Russian Federation out of ten candidates were elected for internship. During their 4-month work at the Bank, the students conducted the analysis of the banking regulations in the PRC and Chinese mass media publications on financial and economic relations with Russia and collected reference materials for the meetings of SCO IBA and BRICS business councils.

Student training and work placement with VEB Group in 2016

VEB	SVIAZ-BANK	BELVEB	FCPF
Training: 71 students Work placement: 4 students	Training: 133 students	Training and work placement: 191 students and 17 pupils	Training: 14 students

In 2016, VEB Group pursued its educational initiatives in close cooperation with Russia's top financial universities. In particular, FCPF has long-established relations with the Public-Private Partnership department at the Financial University under the Government of the Russian Federation. During the reporting year, FCPF took an active part in research and educational work of the department aimed at unlocking the HR potential of the PPP project market.

In November 2016, as part of the Made In Russia International Export Forum, REC and the Plekhanov Russian University of Economics entered into a

cooperation agreement that provides devising a master degree programme. VEB Innovations Fund set up advanced training courses for students of Moscow top financial universities.

In 2016, as part of the global campaign for financial literacy of children and youth, BelVEB arranged for educational sessions, trivia games, lectures and presentations for students and pupils from more than 40 educational institutions across the Republic of Belarus. The discussions focused on the upcoming redenomination of the Belorussian ruble and benefits of advanced electronic payment instruments and remote banking.

VEB Group initiatives for increasing financial literacy of customers and partners

REC

- Made In Russia International Export Forum including a master class on basic export operations
- Educational Programme for export startups with 3,400 correspondence students and 1,182 full-time students from 13 Russian regions
- REC Exports Educational Project master classes as part of the Far East "Business Forum Business in the Far East: Development Strategy" and the International Conference "Foreign Trade as a Driver for Efficient Development of Small and Medium Enterprises in Russian Regions"

FCPF

- "Public-Private Partnership Project Management in Russian Regions" advanced training programme for PPP project market participants under the auspices of the Public-Private Partnership Department at the Financial University under the Government of the Russian Federation

VEB LEASING

- A series of seminars "Benefits Of Leasing" for Ulyanovsk Automobile Plant (UAZ) employees

GLOBEXBANK

- Two meetings with the Bank's retail customers to raise their retail product awareness
- A meeting with developers and retail agencies on the Bank's mortgage programmes
- A press breakfast with leading mass media to discuss mortgage lending development

BELVEB

- Meetings with the staff of over 70 enterprises of the Republic of Belarus to promote advanced payment instruments and remote banking
- Financial Literacy Day for senior citizens and presentation of the Bank's new products and services for the retired employees of BelVEB

7.4

SOCIALLY IMPORTANT PRODUCTS AND SERVICES OF SUBSIDIARY BANKS

In their relations with retail customers, VEB Group subsidiary banks—Sviaz-Bank, GLOBEXBANK, BelVEB and Prominvestbank—seek to increase affordability of their services for various groups of customers, reduce the debt load on customers, and offer socially important lending products

VEB Group universal commercial banks engage in retail banking with their primary focus on the customer. The banks actively develop their remote service facilities, in particular, online banking, mobile banking, call centers, live support, etc. It helps make the services of the Group banks more available for disabled people and more user-friendly for other customer groups. Where practicable, the Group banks install wheelchair ramps at their outlets and offices and offer their customers advice and information materials on available financial services in English.

In 2016, all commercial banks of VEB Group offered their financially distressed retail customers options for reducing their debt load. To this end, the banks employed the following mechanisms:

- restructuring of principal payments;
- restructuring of interest payments;
- conversion of loans into national currencies;
- waiving penalties for default on loan agreements;
- writing down or off outstanding loans, etc.

Among VEB Group commercial banks, Sviaz-Bank as a Russian major operator of the Military Mortgage Programme, has the most prominent role to play in terms of socially important products. In 2016, the Military Mortgage loans at the special interest rate of 11.25-12% p.a. accounted for 60.28% of Sviz-Bank retail loan portfolio. The loans for affordable housing at the new homes market at the subsidized interest rate of no more than 12% p.a. reached 3.47%.

Socially important lending products

MILITARY MORTGAGE

In 2016, Sviaz-Bank issued 5,920 loans totaling RUB 12.74 bn under the Military Mortgage programme

AFFORDABLE HOUSING LOANS

In 2016, Sviaz-Bank issued 476 affordable housing loans totaling RUB 1.06 bn

SUBSIDIZED LOANS

In 2016, GLOBEXBANK issued 2,190 loans totaling RUB 5.03 bn at the subsidized and partially state-funded interest rate

Reducing customers' debt load

Over 2016, Sviaz-Bank undertook the following initiatives:

- No Debt New Year with debt repaid for 1,230 customers
- No Debt Vacation with debt repaid for 808 customers
- Repayment, Not Penalties with penalty debt repaid for 988 customers

In November 2016, Sviaz-Bank launched "Refinancing" – a new loan programme to refinance the current debt with Sviaz-Bank or other commercial banks on more favourable terms and conditions, with 418 customers benefiting from the programme

Since November 2016, 4,075 customers of BelVEB took an option of a lower interest rate offered by the bank subject to no overdue debts

APPENDICES

APPENDIX 1

INDEX OF GRI DISCLOSURES IN THE REPORT PREPARED IN LINE WITH GRI G4 GUIDELINES (“CORE” DISCLOSURE LEVEL), THE G4 SECTOR DISCLOSURES FOR THE FINANCIAL SERVICES SECTOR AND PRINCIPLES OF THE UN GLOBAL COMPACT²¹

GRI G4 disclosures	Principles of the UN Global Compact	Section of the Report/comments	Report page
GENERAL STANDARD DISCLOSURES			
Strategy and Analysis			
G4-1 Statement from the most senior decision-maker of the organisation		Address by Chairman of Vnesheconombank	2–3
G4-2 Description of key impacts, risks and opportunities	Principles 1–10	1.2 VEB’s Key Performance Results 1.4 VEB Group: Results and Outlook 2.2 Risk Management	12–13, 22–24, 35–38
Organisational profile			
G4-3 Name of the organisation		About the Report Appendix 16	5, 140
G4-4 Primary brands, products and/or services		1.2 VEB’s Key Performance Results 1.4 VEB Group: Results and Outlook	12–13, 23–24
G4-5 Location of organisation’s headquarters		Appendix 16	140
G4-6 Number of countries where the organisation operates		1.4 VEB Group: Results and Outlook Issuer’s Quarterly Report for 1Q 2017 http://www.veb.ru/ifi/rep/ejo (p. 37-38)	23–24
G4-7 Nature of ownership and legal form		About the Report	5, 140
G4-8 Markets served		1.2 VEB’s Key Performance Results 1.4 VEB Group: Results and Outlook 4.1 Regional Development 5.2 International Relations	12–13, 23–24, 72–77, 87–88
G4-9 Scale of the organisation		1.2 VEB’s Key Performance Results 1.4 VEB Group: Results and Outlook 2.3 New HR Policy 3. Investing to Drive Development 5.1 Raising Investments 6.4 Investment of Pension Savings Appendix 10	12–13, 23–24, 42, 51–70, 83–86, 99–101, 129
G4-10 Total number of employees by employment contract, staff and non-staff workforce, gender, employment type, etc.	Principle 6	2.3 New HR Policy Appendix 3 Number of employees by temporary or full-time employment is not specified as VEB Group does not keep a comprehensive record	42, 123
G4-11 Percentage of employees covered by collective bargaining agreements	Principles 1, 3	As at 31.12.2016, collective bargaining agreements were signed with all employees of Vnesheconombank, BelVEB and Prominvestbank. The percentage of VEB Group’s employees covered by collective bargaining agreements is 44%	114
G4-12 Supply chain	Principle 10	5.1 Raising Investments 6.2 Procurement	83–86, 93–94

21. The ten principles of the UN Global Compact are given in Appendix No. 2.

GRI G4 disclosures	Principles of the UN Global Compact	Section of the Report/comments	Report page
G4-13 Significant changes during the reporting period regarding size, structure, ownership or supply chain		About the Report	5
G4-14 Precautionary principle	Principle 7	2.2 Risk Management 6.3 Green Office VEB does not directly apply the Precautionary principle. However, in making its investment decisions the Bank conducts a comprehensive expert review of projects, including assessment of potential environmental impact thereof	35, 95–96, 115
G4-15 Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or which it endorses		1.5 Promoting Sustainability Principles 5.2 International Relations	25–27, 87–88
G4-16 Memberships of associations and/or national or international advocacy organisations		1.5 Promoting Sustainability Principles 5.2 International Relations Issuer's Quarterly Report for 1Q 2017 http://www.veb.ru/ifi/rep/ejo (p. 43-45)	25–27, 87–88
Identified Material Aspects and Boundaries			
G4-17 All entities included in the organisation's consolidated financial statements		About the Report Consolidated Financial Statements http://www.veb.ru/ifi/rep/msfo/ (p. 21)	5
G4-18 Process for defining the report content and the Aspect Boundaries; implementation of the reporting principles for defining the report content		About the Report	6–7
G4-19 List of all the material Aspects identified in the process for defining report content		About the Report	8–9
G4-20 Description of the Aspect Boundary within the organisation for each material Aspect		The aspects disclosed are material for VEB Group unless otherwise specified. Such aspects as Energy, Water, Emissions, Discharges and Waste are calculated for large office premises that are owned or are leased by the Group's entities. Small leased premises are not included in the calculation if the cost of resources is not calculated separately when assessing the lease fee. Information on BelVEB and VEB Leasing's regional offices is also not included in the calculation as VEB Group does not keep a comprehensive record	115
G4-21 Description of the Aspect Boundary outside the organisation for each material Aspect		Outside VEB Group, the Indirect Economic Impacts Aspect is disclosed	115
G4-22 Effect of any restatements of information provided in previous reports and the reasons for such restatements		There are no restatements of information provided in VEB Group's Non-Financial Report 2015	115
G4-23 Significant changes from previous reporting periods in the Scope and Aspect Boundaries		About the Report There are no changes in the list of Aspects provided in VEB Group's Non-Financial Report 2015	4–7, 115

GRI G4 disclosures	Principles of the UN Global Compact	Section of the Report/comments	Report page
Stakeholder Engagement			
G4-24 List of stakeholders		About the Report	7
G4-25 Basis for identification and selection of stakeholders to engage with		About the Report	7
G4-26 Approach to stakeholder engagement		About the Report 1.5 Promoting Sustainability Principles 2.3 New HR Policy 2.4 New Quality of Customer Service 4.2 Support for Single-Industry Towns 5.1 Raising Investments 5.2 International Relations 7.4 Socially Important Products and Services Made Available by VEB Subsidiary Banks	6-7, 25-27, 40, 49-50, 78-81, 83-86, 87-88, 111-112
G4-27 Key topics and concerns raised through stakeholder engagement		About the Report	6-7
Report Profile			
G4-28 Reporting period		01 January – 31 December 2016	116
G4-29 Date of most recent previous sustainability report		VEB Group's Non-Financial Report 2015 was published in October 2016	116
G4-30 Reporting cycle		VEB Group publishes its non-financial reports on an annual basis	116
G4-31 Contact point for questions regarding the report or its contents		Appendix 16	140
G4-32 GRI Content Index		Appendix 1	113-121
G4-33 Assurance		Appendix 13 Appendix 14 Appendix 15	131, 132-134, 135-139
Corporate Governance			
G4-34 Governance structure of the organisation, including committees of the highest governance body		2.1 Corporate Governance	29-34
Ethics and Integrity			
G4-56 Organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Principles 1, 2, 6, 10	2.3 New HR Policy 6.1 Anti-Corruption Procedures	39, 90
SPECIFIC STANDARD DISCLOSURES			
CATEGORY: ECONOMIC			
EC-DMA Disclosure of management approach	Principle 10	1.3 VEB 2.0 Strategy 3.1 VEB Investment Performance 4.1 Regional Development 4.2 Support for Single-Industry Towns 7. Investing in Communities	16-18, 52-55, 72-77, 78-81, 102-112

GRI G4 disclosures	Principles of the UN Global Compact	Section of the Report/comments	Report page
Aspect: Economic Performance			
G4-EC1 Direct economic value generated and distributed	Principle 10	Appendix 10 7.1 Volunteering and Sponsorship Vnesheconombank's Annual Report 2016 http://www.veb.ru/ifi/rep/annual/ Annual reports of VEB Group's entities published on their official websites	129, 103–105
G4-EC3 Coverage of the organisation's benefit plan obligations	Principle 6	2.3 New HR Policy For more information about Vnesheconombank's benefit plans, see Vnesheconombank's Sustainability Report 2009 http://www.veb.ru/about/kso/rep/#rep (p. 79-80)	46
G4-EC4 Financial assistance received from government	Principle 10	Appendix 11 Consolidated financial statements http://www.veb.ru/ifi/rep/msfo/ (p. 10)	129
Aspect: Market Presence			
G4-EC5 Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Principles 1, 6	Wages at VEB Group are not conditional upon the employee's gender. In the Report, the breakdown by country is used as a breakdown by significant location of operation of VEB Group. Ratios of entry level wage compared to local minimum wage in Russia (excluding subsidiaries to be removed from the Group), Belarus and Ukraine are 1.6, 1.74 and 1.0, respectively	117
Aspect: Indirect Economic Impacts			
G4-EC7 Development and impact of infrastructure investments and services supported	Principle 10	1.2 VEB's Key Performance Results 3. Investing to Drive Development 4. VEB Group in Russia's Regions 7.1 Volunteering and Sponsorship 7.2 Development Award	12–13, 51–70, 71–81, 103–105, 111–112
G4-EC8 Significant indirect economic impacts, including the extent of impacts	Principle 10	3. Investment in Development 4. VEB Group in Russian Regions 5.1 Raising Investments 7.3 Increasing the Financial Literacy 7.4 Socially Important Products and Services Made Available by VEB Subsidiary Banks	51–70, 71–81, 83–86, 109–110, 111–112
CATEGORY: ENVIRONMENTAL			
EN-DMA Disclosure of management approach	Principles 7, 8, 9	6.3 Green Office	95–98
Aspect: Materials			
G4-EN1 Materials used by weight or volume	Principles 7, 8, 9	6.3 Green Office To calculate paper weight, the following ratios were applied: A4 - 2.495 kg, A3 - 4.99 kg	97
Aspect: Energy			
G4-EN3 Energy consumption within the organisation	Principle 8	6.3 Green Office In line with GRI Guidelines, quantitative data were converted from kW-h and Gcal into GJ using ratios 0.0036 and 4.1868, respectively	98
Aspect: Water			
G4-EN8 Total water withdrawal by source	Principle 8	6.3 Green Office	98

GRI G4 disclosures	Principles of the UN Global Compact	Section of the Report/comments	Report page
Aspect: Emissions			
G4-EN15 Direct greenhouse gas emissions	Principles 7, 8, 9	6.3 Green Office Emissions from corporate vehicles were calculated in line with the methodology "Safeguarding the Ozone Layer and the Global Climate System: Issues Related to Hydrofluorocarbons and Perfluorocarbons"	98
G4-EN16 Direct greenhouse gas emissions		6.3 Green Office The equivalent of CO ₂ emissions from electricity consumption was calculated in line with the guidelines of the European Bank for Reconstruction and Development	98
Aspect: Effluents and Waste			
G4-EN23 Total weight of waste by type and disposal method	Principles 7, 8, 9	6.3 Green Office	97–98
Aspect: Compliance			
G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Principle 8	No significant fines and non-financial sanctions for non-compliance with environmental laws and regulations were identified in 2016	118
Aspect: Transport			
G4-EN30 Significant environmental impacts of transporting products, other goods and materials for the organisation's operations, as well as transporting members of the workforce	Principles 7, 8, 9	6.3 Green Office	98
Aspect: Overall			
G4-EN31 Total environmental protection expenditures and investments	Principles 7, 8, 9	In 2016, VEB Group's environmental costs came at RUB 10.14 mn, including RUB 2.63 mn of fines for adverse environmental impact	118
CATEGORY: SOCIAL			
Sub-category: Labour Practices and Decent Work			
LA-DMA Disclosure of management approach	Principles 1–6	1.3 VEB 2.0 Strategy 2.3 New HR Policy	21, 39
Aspect: Employment			
G4-LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	Principle 6	2.3 New HR Policy Appendix 4	42, 124
G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Principle 6	2.3 New HR Policy Social benefits are offered by VEB Group to all staff employees after the probation period	46, 118
G4-LA3 Return to work and retention rates after parental leave, by gender	Principle 6	Appendix 5	125
Aspect: Labour/ Management Relations			
G4-LA4 Minimum notice periods regarding operational changes, including those specified in collective agreements	Principles 1, 3, 6	In line with the Russian Labour Code, the notice period at Vnesheconombank and the Group's entities operating in Russia is at least two months. At BelVEB and Prominvestbank, the notice period determined in collective bargaining agreements is at least three and two months, respectively.	118

GRI G4 disclosures	Principles of the UN Global Compact	Section of the Report/comments	Report page
Aspect: Occupational Health and Safety			
G4-LA6 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, as well as total number of work-related fatalities, by region and by gender	Principle 1	2.3 New HR Policy Appendix 9 In its relations with contractors, VEB Group is not liable for health and safety of contractors' personnel in the work place	47, 128, 119
Aspect: Training and Education			
G4-LA9 Average hours of training per year per employee by gender and by employee category	Principle 6	2.3 New HR Policy Appendix 6	43–44, 126
G4-LA10 Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Principle 6	2.3 New HR Policy	43–44
G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Principles 2, 6	2.3 New HR Policy Appendix 8	45, 127
Aspect: Labour Practices Grievance Mechanisms			
G4-LA16 Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	Principles 1, 2, 6, 10	In 2016, VEB Group registered 6 grievances about labour practices from its employees and 11 individual labour disputes. All grievances and labour disputes were resolved in line with Russian labour laws	119
Sub-category: Human Rights			
HR-DMA Disclosure of management approach	Principles 1–6, 10	2.3 New HR Policy 2.4 New Quality of Customer Service	39–40, 48–50
Aspect: Non-discrimination			
G4-HR3 Total number of incidents of discrimination and corrective actions taken	Principles 1, 2, 6	All employees of VEB Group are guaranteed equal rights and opportunities regardless of their gender, religious and political beliefs, ethnic origin and age. No cases of discrimination were identified at VEB Group in 2016	119
Aspect: Human Rights Grievance Mechanisms			
G4-HR12 Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	Principles 1, 2, 6, 10	No cases of grievances about human rights impacts were registered at VEB Group in 2016	119
Sub-category: Society			
SO-DMA Disclosure of management approach	Principles 1, 2	4.1 Regional Development 6.1 Anti-Corruption Procedures	72–73, 90–92
Aspect: Local Communities			
G4-SO1 Percentage of operations with implemented local community engagement, impact assessments and development programmes	Principles 1, 2	4. VEB Group in Russia's Regions	71–77

GRI G4 disclosures	Principles of the UN Global Compact	Section of the Report/comments	Report page
Aspect: Anti-corruption			
G4-SO3 Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Principle 10	6.1 Anti-Corruption Procedures	91
G4-SO4 Communication and training on anti-corruption policies and procedures	Principle 10	6.1 Anti-Corruption Procedures Appendix 7 VEB Group does not train business partners on anti-corruption policies and procedures	90–92, 127, 120
G4-SO5 Confirmed incidents of corruption and actions taken	Principle 10	6.1 Anti-Corruption Procedures	92
Aspect: Compliance			
G4-SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Principles 1, 2, 10	In 2016, fines were imposed on Prominvestbank (RUB 10.07 mn), Sviaz-Bank (RUB 0.98 mn), NCDC (RUB 0.35 mn) and Globexbank (RUB 0.12 mn). The breaches identified were related to incompliance with tax and labour laws, default on the terms of agreements with counterparties, AML / CFT requirements. The fines were paid, and the entities took all necessary steps to address the breaches	120
Aspect: Grievance Mechanisms for Impacts on Society			
G4-SO11 Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms	Principles 1, 2, 10	No grievances about projects financed by VEB Group were filed by local residents in 2016	120
Sub-category: Product Responsibility			
PR-DMA Disclosure of management approach	Principles 1, 2, 10	2.4 New Quality of Customer Service	48–50
Aspect: Product and Service Labeling			
G4-PR5 Results of surveys measuring customer satisfaction	Principles 1, 2	2.4 New Quality of Customer Service	49–50
Aspect: Customer Privacy			
G4-PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Principles 1, 2, 6, 10	No cases of grievances about loss of customer data were registered at VEB Group in 2016	120
FS FINANCIAL SERVICES SECTOR SUPPLEMENT			
FS-DMA Disclosure of management approach	Principles 1, 2, 6–9	1.3 VEB 2.0 Strategy 2.4 New Quality of Customer Service 3.1 VEB Investment Performance 7.4 Socially Important Products and Services Made Available by VEB Subsidiary Banks	16–21, 48–50, 52–57, 111–112
Aspect: Portfolio			
G4-FS6 Percentage of the portfolio for business lines by specific region, size and sector		1.2 VEB's Key Performance Results 1.4 VEB Group: Results and Outlook 3 Investment in Development 4. VEB Group in Russian Regions	12–13, 22–24, 51–70, 71–81

GRI G4 disclosures	Principles of the UN Global Compact	Section of the Report/comments	Report page
G4-FS7 Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose		3. Investment in Development 4. VEB Group in Russian Regions 6.4 Investment of Pension Savings 7.4 Socially Important Products and Services Made Available by VEB Subsidiary Banks	51–70, 71–81, 99–101, 111–112
G4-FS8 Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	Principle 8	3.3 Environmentally Important Projects	63–65

APPENDIX 2

PRINCIPLES OF THE UN GLOBAL COMPACT

Human Rights

Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights

Principle 2. Businesses should make sure that they are not complicit in human rights abuses

Labour

Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

Principle 4. Businesses should uphold the elimination of all forms of forced and compulsory labour

Principle 5. Businesses should uphold the effective abolition of child labour

Principle 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation

Environment

Principle 7. Businesses should support precautionary approach to environmental challenges

Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility

Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery

APPENDIX 3

BREAKDOWN OF VEB GROUP'S PERSONNEL BY EMPLOYMENT CONTRACT, EMPLOYEE CATEGORY AND GENDER

Item	RUSSIA						THE REPUBLIC OF BELARUS		UKRAINE		TOTAL FOR VEB GROUP	
	VEB		VEB Group's entities in Russia		TOTAL for VEB Group in Russia		male	female	male	female	male	female
	male	female	male	female	male	female						
Breakdown of actual headcount by type of agreement and gender												
Total headcount of the entity, including:	837	1,074	2,396	5,151	3,233	6,225	700	1,619	579	1,190	4,512	9,034
Employed under an indefinite term agreement	810	1,050	2,296	4,641	3,106	5,691	0	2	575	1,162	3,681	6,855
Employed under a fixed term agreement	27	24	100	510	127	534	700	1,617	4	28	831	2,179
Breakdown of actual headcount by employee category and gender												
Total headcount of the entity, including:	837	1,074	2,396	5,151	3,233	6,225	700	1,619	579	1,190	4,512	9,034
Executives	495	529	580	677	1,075	1,206	211	237	138	183	1,424	1,626
Specialists	288	462	1,722	4,438	2,010	4,900	424	1,381	344	940	2,778	7,221
Other categories	54	83	94	36	148	119	65	1	97	67	310	187
Non-staff workforce	18	6	34	149	52	155	4	5	104	102	160	262

APPENDIX 4

TOTAL HEADCOUNT AND TURNOVER AT VEB GROUP IN 2016 BROKEN DOWN BY GENDER AND AGE

Item	RUSSIA			THE REPUBLIC OF BELARUS	UKRAINE	TOTAL FOR VEB GROUP
	VEB	VEB Group's entities in Russia	TOTAL for VEB Group in Russia			
Total number of new hires in 2016						
Total, including:	270	1,997	2,267	115	189	2,571
Men	163	724	887	49	61	997
up to 30	29	295	324	26	20	370
from 31 to 50	116	373	489	21	33	543
above 50	18	56	74	2	8	84
Women	107	1,273	1,380	66	128	1,574
up to 30	38	663	701	29	82	812
from 31 to 50	61	545	606	37	37	680
above 50	8	65	73	0	9	82
Percentage of new hires in 2016						
Total, including:	14%	26%	24%	5%	11%	19%
Men	19%	30%	27%	7%	11%	22%
up to 30	20%	52%	45%	17%	28%	39%
from 31 to 50	23%	26%	25%	5%	9%	20%
above 50	9%	14%	13%	2%	5%	10%
Women	10%	25%	22%	4%	11%	17%
up to 30	21%	37%	35%	7%	32%	31%
from 31 to 50	9%	19%	17%	4%	5%	13%
above 50	4%	14%	11%	5%	4%	8%
Total number of dismissals in 2016						
Total, including:	428	2,099	2,527	180	791	3,498
Men	240	724	964	76	258	1,298
up to 30	35	269	304	19	49	372
from 31 to 50	111	352	463	33	163	659
above 50	94	103	197	24	46	267
Women	188	1,375	1,563	104	533	2,200
up to 30	35	587	622	31	140	793
from 31 to 50	88	670	758	51	314	1,123
above 50	65	118	183	22	79	284
Personnel turnover ratio in 2016						
Total, including:	22%	28%	27%	8%	45%	26%
Men	29%	30%	30%	11%	45%	29%
up to 30	24%	47%	42%	13%	68%	40%
from 31 to 50	22%	24%	24%	8%	47%	24%
above 50	48%	26%	33%	18%	29%	30%
Women	18%	26%	25%	6%	45%	24%
up to 30	19%	33%	31%	8%	55%	30%
from 31 to 50	12%	23%	21%	5%	43%	21%
above 50	35%	25%	28%	13%	37%	27%

APPENDIX 5

BREAKDOWN OF EMPLOYEES RETURNED FROM A MATERNITY AND/OR PARENTAL LEAVE IN 2016 AND EMPLOYEES WHO STAYED WITH THE EMPLOYER AFTER THEIR RETURN FROM A MATERNITY AND/OR PARENTAL LEAVE, BY GENDER

Item	VEB		VEB Group's entities		VEB Group	
	male	female	male	female	male	female
Total number of employees who took a maternity / parental leave in 2016	7	42	3	536	10	578
Total number of employees who stayed with the employer after their return from a maternity / parental leave in 2016	4	26	1	289	5	315
Total number of employees who were to return to the employer in 2016 after a maternity / parental leave	1	14	0	463	1	477
Ratio of return by employees after a maternity / parental leave in 2016 (%)	400	185.7	0	62.4	500	66
Total number of employees who returned to the employer after a maternity / parental leave in 2015 and stayed with the employer as at 31.12.2016, (i. e. who worked for more than one year after their return from a maternity / parental leave)	0	36	0	176	0	212
Total number of employees who stayed with the employer after their return from a maternity / parental leave in 2015	1	38	0	271	1	309
Retention ratio of employees after a maternity / parental leave in 2016 (%)	0	94.7	0	64.9	0	68.6

APPENDIX 6

TOTAL NUMBER OF VEB GROUP'S EMPLOYEES WHO RECEIVED TRAINING IN 2016 AND AVERAGE NUMBER OF TRAINING HOURS PER EMPLOYEE, BY GENDER AND EMPLOYEE CATEGORY

Entity	Gender	Number of employees received training in 2016			Average number of training hours per employee		
		Executives	Specialists	Other categories	Executives	Specialists	Other categories
VEB	male	454	260	54	34.56	18.56	17.98
	female	490	415	74	31.54	25.14	19.48
Globexbank	male	110	359	6	16.57	10.89	3.80
	female	175	1,174	1	12.35	6.47	25.60
Sviaz-Bank	male	237	663	0	13.57	9.40	0
	female	342	2,157	0	16.08	14.68	0
BelVEB	male	194	409	0	24.26	17.60	0
	female	218	1,283	0	27.04	15.90	0
Prominvestbank	male	137	344	32	11.83	9.35	5.74
	female	176	735	47	6.84	6.06	12.67
VEB Leasing	male	141	349	3	24.89	15.73	3.59
	female	81	298	1	20.00	10.07	0.37
REC	male	0	1	0	0	0.13	0
	female	1	0	0	0.89	0	0
VEB Engineering	male	0	0	0	0	0	0
	female	0	0	0	0	0	0
VEB Capital	male	3	1	0	4.05	52.57	0
	female	4	3	0	1.91	1.75	0
FCPF	male	6	17	0	7.00	19.67	0
	female	6	36	0	27.33	29.50	0
NCDC	male	1	2	0	0.54	4.71	0
	female	0	1	0	0	1.30	0
The Far East and Baikal Region Development Fund	male	9	5	0	18.43	21.50	0
	female	3	7	0	18.29	10.12	0
VEB Innovations Fund	male	0	0	0	0	0	0
	female	0	0	0	0	0	0
TOTAL for VEB Group	male	1,307	2,407	108	13.67	10.31	3.11
	female	1,556	6,275	136	13.19	10.75	6.90

APPENDIX 7

TOTAL NUMBER AND SHARE OF VEB GROUP'S EMPLOYEES²² WHO WERE TRAINED ON ANTI-CORRUPTION POLICIES AND PROCEDURES BROKEN DOWN BY EMPLOYEE CATEGORY

Entity	Number of employees received training in 2016			Share of employees trained in 2016		
	Executives	Specialists	Other categories	Executives	Specialists	Other categories
VEB	971	748	71	94.8%	99.7%	52%
Globexbank	0	0	0	0%	0%	0%
Sviaz-Bank	0	0	0	0%	0%	0%
BelVEB	3	3	0	0.7%	0.2%	0%
Prominvestbank	65	454	13	20.2%	35.4%	8%
VEB Leasing	0	0	0	0%	0%	0%
REC	0	3	0	0%	2.7%	0%
VEB Engineering	0	0	0	0%	0%	0%
VEB Capital	0	0	0	0%	0%	0%
FCPF	0	0	0	0%	0%	0%
NCDC	0	0	0	0%	0%	0%
The Far East and Baikal Region Development Fund	0	0	0	0%	0%	0%
VEB Innovations Fund	0	0	0	0%	0%	0%
TOTAL for the VEB Group	1,039	1,208	84	34.1%	12.1%	16.9%

APPENDIX 8

BREAKDOWN OF VEB GROUP'S EMPLOYEES WHO COMPLETED PERFORMANCE APPRAISAL IN 2016 BY EMPLOYEE CATEGORY AND GENDER²³

Category	VEB ²⁴		VEB Group's entities		VEB Group	
	male	female	male	female	male	female
Executives	104%	96.2%	2.5%	1.4%	37.8%	32.2%
Specialists	113.2%	108.4%	16.1%	18.0%	26.2%	23.8%
Other categories	3.7%	96.4%	1.6%	0%	1.9%	42.8%

22. The data is given as a percentage of the actual headcount as at 31 December 2016.

23. The data is given as a percentage of the actual headcount as at 31 December 2016.

24. The excess above 100% is due to the renewal of Vnesheconombank's personnel in 2016.

APPENDIX 9

OCCUPATIONAL INJURY RATE, OCCUPATIONAL DISEASE RATE,²⁵ LOST DAY RATIO AND ABSENTEEISM RATIO AT VEB GROUP, BY GENDER

Entity	Gender	Total number of incidents involving injuries	Injury rate	Occupational disease rate	Lost day ratio	Absenteeism ratio
VEB	male	0	0	0	0	0.02
	female	0	0	0	0	0.03
Globexbank	male	0	0	0	0	0.02
	female	0	0	0	0	0.03
Sviaz-Bank	male	0	0	0	0	0.02
	female	0	0	0	0	0.04
BelVEB	male	0	0	0	0	0.02
	female	0	0	0	0	0.04
Prominvestbank	male	0	0	0	0	0.03
	female	0	0	0	0	0.05
VEB Leasing	male	0	0	0	0	0.02
	female	0	0	0	0	0.03
REC	male	0	0	0	0	0.01
	female	0	0	0	0	0.01
VEB Engineering	male	0	0	0	0	0
	female	0	0	0	0	0.01
VEB Capital	male	0	0	0	0	0
	female	0	0	0	0	0.01
FCPF	male	0	0	0	0	0.02
	female	0	0	0	0	0.04
NCDC	male	0	0	0	0	0
	female	0	0	0	0	0.01
The Far East and Baikal Region Development Fund	male	0	0	0	0	0
	female	0	0	0	0	0
VEB Innovations Fund	male	0	0	0	0	0
	female	0	0	0	0	0

25. The occupational injury rate, occupational disease rate, lost day ratio and absenteeism ratio are calculated in line with GRI Guidelines. The lost day ratio due to occupational injuries was calculated in calendar days from Day 1 of the employee's absence. The VEB Group does not keep records of minor injuries that only require first medical aid.

APPENDIX 10

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED AT VEB GROUP

Item	Values, RUB bn (under consolidated IFRS Statements)
Direct economic value generated	759.4
Interest income	316.8
Net commission fees	9.2
Non-interest income	433.4
Economic value distributed	(841.5)
Provision for impairment of interest-earning assets	(510.4)
Occupancy and equipment	(8.0)
Depreciation of property and equipment	(5.6)
Other operating expenses (less charitable contributions)	(53.6)
Charity	(0.2)
Payroll and other staff costs	(26.1)
Interest expenditures	(227.7)
Taxes other than profit tax	(2.8)
Profit tax expenditures	(7.1)
Economic value retained	(82.1)

APPENDIX 11

FINANCIAL SUPPORT BY VEB GROUP IN 2016

Entity	Financial support provided by Vnesheconombank to the Group's entities (RUB bn)	Financial support by Russian government authorities (RUB bn)
VEB		163.8 (capital contributions in the form of subsidies)
Globexbank	29.80	
Sviaz-Bank	15.98	0.25 (government subsidies) 0.02 (property tax relief)
Prominvestbank	60.40	
VEB Leasing	75.00	1.73 (government subsidies)
REC	45.80 (transfer to REC of shares owned by Vnesheconombank in EXIAR) 8.83 (funds of the federal budget allocated to REC through Vnesheconombank)	
VEB Engineering	0.14	
VEB Capital	44.00	
NCDC	2.07	
The Far East and Baikal Region Development Fund	2.91	

APPENDIX 12

NUMBER OF APPLICATIONS, INCLUDING COMPLAINTS FILED BY CUSTOMERS OR PARTNERS OF VEB GROUP IN 2016, THAT WERE HANDLED AND ADDRESSED THROUGH OFFICIAL FACILITIES

Entity	Entity employees	Legal entities (except for SME)	SME	Retail customers
Globexbank	6	22	11	119
Sviaz-Bank	5	38	22	7,718
BelVEB	0	5	0	236
Prominvestbank	0	185	4	5,347
VEB Leasing	1	0	239	0
TOTAL for VEB Group	12	250	276	13,420

APPENDIX 13

OPINION OF VNESHECONOMBANK'S INTERNAL CONTROL SERVICE BASED ON THE RESULTS OF THE AUDIT OF DATA INCLUDED IN VNESHECONOMBANK GROUP NON-FINANCIAL REPORT 2016

In accordance with the regulations of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", Vnesheconombank's Internal Control Service undertook an audit of the data included in Vnesheconombank Group Non-Financial Report 2016.

Our responsibility is to express an opinion on the reliability of the data provided in the Report based on our audit.

The audit was planned and performed to obtain reasonable assurance that the data provided in Vnesheconombank Group Non-Financial Report 2016 are reliable in all material respects. The audit was conducted using sampling techniques and involved collection and analysis of audit evidence confirming that the information contained in the Report is true. No attempt has been made to audit or verify forward-looking statements or statements expressing opinions, beliefs or intentions.

In its review, Vnesheconombank's Internal Control Service discovered no facts that would lead to a conclusion that the information provided in Vnesheconombank Group Non-Financial Report 2016 is not true.

Director of
Vnesheconombank's Internal Control Service



Yu.A. Loktionova

APPENDIX 14

STATEMENT BASED ON THE RESULTS OF THE EXTERNAL AUDITOR'S ASSURANCE OF VNESHECONOMBANK GROUP NON-FINANCIAL REPORT 2016

INTRODUCTION

This statement is intended for the management of State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)" (Vnesheconombank).

The subject of the assurance is Vnesheconombank Group Non-Financial Report 2016 (the "Report") including information on Vnesheconombank and 12 VEB Group companies within the report boundaries (VEB Group).

RESPONSIBILITY

Vnesheconombank's management bears full responsibility for the preparation and accuracy of the Report.

We are responsible for the verification of the Report within our engagement to Vnesheconombank only and accept no responsibility or liability to any third party.

SCOPE, CRITERIA AND LEVEL OF ASSURANCE

The report was assessed as to whether the disclosure was in compliance with the core option requirements of G4 Sustainability Reporting Guidelines (GRI G4), including the requirements of the G4 Sector Disclosures for the Financial Services Sector.

We planned and conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (limited level of assurance).

The selective verification of information in the Report performed under the above level of assurance does not claim to provide a high level of assurance. The work was based on the supporting materials provided by Vnesheconombank's management and employees, publicly available information and analytical methods of assurance. In relation to the quantitative information contained in the Report, the performed work shall not be deemed sufficient to identify all possible deficiencies and misrepresentations. However, the collected evidence is sufficient for expressing our conclusion in accordance with the above levels of assurance.

METHODOLOGY

As part of our engagement, we have performed the following:

- Interviewed Vnesheconombank Group's management and employees and obtained the relevant documentary evidence.
- Studied information available on Vnesheconombank's and Vnesheconombank Group's websites about activities in the context of sustainability.
- Studied the third party public statements regarding Vnesheconombank Group's impact on the economy, environment and society to verify whether the statements made in the Report are justified.
- Analysed non-financial statements of foreign companies operating in a similar market segment.
- Analysed the current system of internal audit of non-financial reporting in Vnesheconombank.
- Studied the existing processes of collection, processing, documenting, verification, analysis and selection of data to be included in the Report.

- Reviewed selective documents to verify whether the information on the efficiency of Vnesheconombank Group's existing sustainability management of its economic, environmental and social impacts is true.
- Analysed whether the disclosure is in compliance with the core option requirements of GRI G4 Guidelines, including the requirements of the G4 Sector Disclosures for the financial services sector.

LIMITATIONS

The extent of assurance is limited to 2016 data.

The reliability of the performance information contained in the Report was assessed for compliance against the criteria to be applied to prepare the Report 'in accordance' with GRI G4 Guidelines (core option) and the information referred to in the GRI Content Index. Quantitative indicators were assessed for compliance against the external and internal reporting documents provided to us.

No assurance is given in relation to forward-looking statements or statements expressing opinions, beliefs or intentions of Vnesheconombank and Vnesheconombank Group's entities to take any actions. No assurance is given in relation to statements which are based on expert opinions.

The assurance is provided only in relation to the Russian version of the Report in MS Word format which contains information to be published in hardcopy and on Vnesheconombank's website.

We were unable to provide assurance on whether the Report had been considered by Vnesheconombank's Management Board and approved by Vnesheconombank's order, since this assurance statement had been signed prior to the planned date of completion of the above procedures. We were also unable to provide assurance on whether the entity had obtained a statement of public assurance by RUIE Non-Financial Reporting Council, since this assurance statement had been signed prior to the planned date of completion of the above procedure.

CONCLUSIONS

The following conclusions are based on the assurance work performed within the limitations of the engagement specified above.

COMPLIANCE OF THE REPORT WITH GRI G4 GUIDELINES (CORE OPTION)

ANALYSIS OF COMPLIANCE WITH GRI G4 GUIDELINES REQUIREMENTS

In order to form an opinion on this issue, we have analysed the Report for compliance with the principles and standard disclosures required under the selected 'in accordance' option by GRI G4 Guidelines:

- General standard disclosures are reported mainly in compliance with GRI G4 requirements under the selected 'in accordance' option. Employees are not disclosed by the employment type, as required by standard disclosure G4-10 of the GRI Guidelines.
- As for material aspects, the Report discloses impacts making the aspects material, the main components of the management approach and for some material aspects evaluation of management approaches.
- All indicators required for the core option are reported in accordance with the guidance contained in GRI G4.

OVERALL CONCLUSION

- As a result and within the scope of our work, we identified no material non-compliance with the core option 'in accordance' requirements, including the requirements of the G4 Sector Disclosures for the Financial Services Sector. This conclusion has been made in view of the above analysis of compliance with GRI G4 Guidelines requirements.

RECOMMENDATIONS

1. It is advisable to disclose performance trends for GRI indicators and to report planned values for the reporting period and for the future.
2. Consider the possibility of defining the boundaries of the report for each material aspect depending on the significance of impacts of particular entities within the boundaries.
3. Disclose environmental impacts of projects apart from their social impacts.
4. Take into account the remarks provided in the above sections hereof.

STATEMENT OF COMPETENCE AND IMPARTIALITY

NP Consult LLC, an independent audit firm rendering professional assurance services is a licensed provider of assurance services in accordance with AA1000 Assurance Standard. NP Consult LLC is a member of Self-regulatory Organization of Auditors Association Sodruzhestvo and acts in accordance with the impartiality and other ethics requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants based on the fundamental principals of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. NP Consult LLC employs International Standard on Quality Control No. 1 and therefore maintains a comprehensive quality control system, including documented policies and procedures for compliance with the code of ethics, professional standards, statutory requirements and regulations.

NP Consult LLC hereby represents that this Opinion reflects the independent auditor's position in relation to the Report. Neither NP Consult LLC, nor its employees have any relationships with Vnesheconombank, its subsidiaries and dependent companies that could result in a conflict of interest with our assurance engagement.

General Director,
NP Consult
Limited Liability Company

Moscow, 29 September 2017



N.Yu. Khrenov

APPENDIX 15

CERTIFICATE OF PUBLIC ASSURANCE BY RUIE OF VEB GROUP'S NON-FINANCIAL REPORT 2016



OPINION OF THE RSPP COUNCIL ON NON-FINANCIAL REPORTING ON THE REVIEW OF VEB GROUP NON-FINANCIAL REPORT 2016 FOR THE PURPOSE OF PUBLIC ENDORSEMENT

The Council on Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs (the "Council"), established by the resolution of the Bureau of the RSPP Management Board (Resolution dated 28 June 2007), has reviewed at Vnesheconombank's initiative ("VEB", "Vnesheconombank", "Bank", "VEB Group") the VEB Group Non-Financial Report 2016 (the "Report").

The Bank requested RSPP to arrange public endorsement of the Report with the Council on Non-Financial Reporting. The Council provides an opinion regarding the value and completeness of the disclosed information about the Bank's activities in terms of the corporate responsibility principles contained in the Social Charter of Russian Business.

In the period from 11 October to 07 November 2017, the members of the Council reviewed the Bank's Report and prepared this Opinion in accordance with the Rules for Public Endorsement of Non-Financial Reports approved by the Council. The Council's members possess all required competencies in the field of corporate responsibility, sustainable development and non-financial reporting, act in compliance with ethical principles requiring independent and objective evaluation and express their personal opinions as experts, not the opinions of the organisations they represent.

The information disclosed in the Report was assessed against the criteria of completeness and relevance.

Information is deemed relevant if it reflects the VEB Group's activities in implementing corporate responsibility principles contained in the Social Charter of Russian Business (<http://pcnn.pф>).

Information is deemed complete if the Bank provides a comprehensive picture of its activities including values and baseline strategic objectives, governance systems and structures, achievements, key results and the stakeholder engagement system.

The use of international reporting principles is taken into account for the public endorsement purpose. However, confirmation as to the extent to which the Report complies with international reporting principles is beyond the scope of this Opinion.

Responsibility for the information and statements provided in the Report lies with Vnesheconombank. Accuracy of factual data in this Report is outside the scope of public endorsement.

This Opinion has been prepared for VEB Group which is entitled to publish it without amendment and use it in internal corporate communications and for the stakeholder engagement purposes.

FINDINGS

Having analysed this Report and the publicly available information published on the Bank's official website and after having a group discussion of the results of independent assessment performed by members of RSPP Council on Non-Financial Reporting, the Council confirms the following:

Vnesheconombank Group's Non-Financial Report 2016 contains significant information on responsible business practices in compliance with the principles of the Social Charter of Russian Business and discloses complete information on the Bank's strategic priorities, approaches to management and Vnesheconombank's performance in the reporting period.

The Bank's 2016 Report contains significant information covering the following aspects of responsible business practices:

Economic freedom and responsibility: The Report discloses the results of Vnesheconombank's activity as a leading national development institution and informs on the development of a new Strategy to 2021 over the reporting period. It covers the priorities that govern Vnesheconombank's activities, including facilitation to the development of an innovation-driven economy, high value-added manufacturing and high-technology projects. It is declared that the selection of investment projects is based on such criteria as sustainability impact and energy efficiency. The Report highlights the key facts and outcomes of the projects financed by the Bank, including projects in 2016. It covers the issues related to internal changes aimed at developing new competencies, introducing effective technologies and modernising the organisational structure and the corporate governance system. As follows from the Report, the Bank has been taking a set of measures to reorganise assets and improve management of VEB Group's subsidiaries. The Report describes the risk management system subject to the specifics of Vnesheconombank as a development institution. It is stated that Vnesheconombank participates in anti-bribery events and collaborates with public authorities on anti-corruption initiatives. The Report also outlines VEB's role in UN Global Compact Network Russia.

Business partnerships: The Report maps out the key stakeholders. It reflects relationships with Russian and foreign financial institutions and the results of Vnesheconombank's fundraising activities. The Report also describes the Bank's interactions with public authorities, professional associations and expert organisations aimed at raising awareness of the Russian financial sector regarding the use of green finance instruments. As for interaction with employees, the Bank approved new corporate values and updated HR policy aimed at unlocking the full potential of its employees. Moreover, a new customer servicing model has been introduced to increase the quality of products and processes and establish long-term partnership relationships. The Report contains information about Vnesheconombank's plans to render a full range of services to its customers, including advisory services for investments and projects, entry to new markets and use of customer satisfaction assessment tools. The Report also outlines the measures taken to improve the procurement procedure, develop interaction in the supply chain as well as to expand access for small- and medium-sized businesses to procurement. It reveals information about interactions with Russia's foreign trade partners as part of national high-tech export support as well as with financial institutions, international unions and associations.

Human rights: It is declared that all VEB Group's employees have equal rights and opportunities, discrimination is not acceptable on any grounds. Labour rights are observed through a range of measures including staff training and motivation, health safety measures and social programmes. No acts of discrimination or complaints on violations of human rights in VEB Group were recorded, even though some employees had to face redundancy. The Bank organised training courses helping them to upgrade their skills and find alternative employment.

Environmental protection: As follows from the Report, there are a number of projects in Vnesheconombank's investment portfolio which promote sustainable solutions, environmental protection and improvement of energy efficiency. It is stated that the Bank uses its own methodology for assessing projects for energy efficiency. Investment projects are also assessed against environmental impact based on opinions of authorised bodies and the borrower's information about measures of reducing adverse environmental effects. The Report provides examples of environmentally significant projects financed by subsidiary banks and projects related to development of renewable energy sources. It dwells on environmental management of Vnesheconombank Group's activities based on green office principles whose objective is to reduce excessive consumption of resources, including electricity, water, fuel for corporate vehicles, and to optimise the waste management system. It is reported that a set of measures was taken to improve the environmental culture among the Bank's employees.

Contribution to development of local communities: The Report states that VEB's new strategy sets support of the regional development as one of the Bank's priorities. The Bank has been developing and introducing a new

approach to working with regions aimed at increasing the effectiveness and transparency of the project selection procedure. According to the Report, the Bank entered into memorandums of cooperation with seven Russian regional municipalities and a partnership agreement with Agency for Strategic Initiatives. Support to single-industry towns is described as one of the Bank's top investment priorities. The Report gives a brief overview of VEB's projects in single-industry towns and the results of activities of the Single-Industry Town Development Fund. It is stated that the Bank and its subsidiaries have been implementing a number of corporate volunteer aid projects. According to the Report, VEB Group has been closely cooperating with Russian leading financial universities on a range of initiatives aimed at improving financial literacy in young people. The Report also outlines VEB Group's initiatives aimed at increasing financial literacy of its customers and partners.

FINAL PROVISIONS

In general, the 2016 Non-Financial Report presents an overview of the key milestones of the Bank's strategy at a new stage of VEB Group's development, the priorities connected with the objectives of modernising the Russian economy, investment management approaches and the measures to improve their effectiveness. It discloses VEB Group's key performance for the reporting period.

The 2016 Report is the eighth non-financial report of the Bank. The Report is prepared using the recommendations applied in international accounting practices (GRI 4 Guidelines, GRI Sector Supplement for financial services sector, AA 1000, UN GC), which ensures consistency of information with data from previous reporting periods and comparability with reports of other companies.

The Bank uses various forms of independent evaluation, review and affirmation of the Report (professional audit review and public endorsement) in accordance with best practice which proves a responsible attitude of the Bank to informing stakeholders and the quality of information disclosed.

RECOMMENDATIONS

Recognising the strengths of the 2016 Report, the Council suggests paying attention to certain aspects relating to relevance and completeness of disclosed information which are significant for the stakeholders and should be taken into account in future reporting cycles. It would be also advisable for the Bank to continue applying recommendations issued for the previous Reports to its future practice.

The Report provides detailed information about the new stage of development of VEB Group as a development institution, the new strategy and approaches to managing key economic and social impacts. For the purposes of improving the understanding of the new strategy, it is recommended that the next Report should set out in more detail the Bank's vision of corporate social responsibility and sustainable reporting, relevant management approaches subject to VEB's expertise in this sphere, its impact on the financial sector and the Bank's business partners. The Council believes it is important to describe the Bank's position on how sustainability principles are applied to its activities, to give a clearer picture of how they are implemented through investment and support of development projects backed by VEB and its subsidiaries.

Focus on the 2030 UN Agenda for Sustainable Development is a global trend for corporate and public sectors alike. National development institutions play an important role in facilitating the achievement of the Agenda 2030. In this context, it would be important to align the Bank's objectives and performance with the Sustainable Development Goals and to reflect the Bank's relevant priorities subject to its powers, opportunities and objectives set by the government. This information is in line with the current global agenda and is material for the stakeholders.

The Report provides quantitative indicators for various areas of activity of the Bank which are mainly limited to the reporting period. It is recommended that the Report should cover a broader period for the Bank's priority areas,

show actual reporting indicators against targets and provide information about focus areas for the next reporting period. This would allow the stakeholders to have a clear picture of the development trend and progress in implementation of Vnesheconombank Strategy to 2021.

The Report presents an updated risk management system and key risk minimisation measures. For the purpose of making the Report more informative, it is advisable to include not only processes, but also results achieved thanks to the relevant measures.

A closer look should be given to sustainable restructuring connected with material personnel changes and optimisations in VEB and its subsidiaries. For the purposes of improving the understanding of the relevant processes, it would be advisable to include – in addition to the information about the Bank's assistance to retired employees in upgrading their skills, finding alternative employment and other measures – some examples of particular measures, the number and titles of the employees who received such assistance.

Since the activity of Vnesheconombank as a development institution is highly significant for the Russian economy, it is recommended to pay more attention to the building of the Bank's investment portfolio and the expected outcomes of the key projects.

Information about project selection criteria, including criteria based on the sustainability principles, is relevant for stakeholders. It is recommended that the report should cover in more detail the projected impacts of the Bank's activity on the economy, society and environment by providing examples of particular projects as well as the instruments and the results of the Bank's control over the implementation of the projects.

Whereas the RSPP Council on Non-Financial Reporting gives a positive opinion on this Report, supports the Bank's commitment to responsible business principles and notes consistent development of its reporting process, the Council hereby affirms that VEB Group Non-Financial Report 2016 has received public endorsement.

Chairman of RSPP Council
on Non-Financial Reporting

F.T. Prokopov

Deputy Chairman of RSPP Council
on Non-Financial Reporting

E.N. Feoktistova



APPENDIX 16

CONTACT DETAILS

State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)".

Pr-t Akademika Sakharova, d. 9, Moscow, GSP-6, Russia, 107996

Tel.: +7 (495) 721-18-63

Fax: +7 (495) 721-92-91

www.veb.ru

Please send your proposals on improving the non-financial reporting practices of VEB Group, including comments on the contents of this Report and procedures for engaging with stakeholders in its drafting, to the following e-mail address: csr@veb.ru.

Your opinion matters to us.

