

Support to Small- and Medium-sized Enterprises

SMEs are the key economic growth driver in many developed countries. They also play an increasingly important role in the social and economic development of the Russian Federation. As a development institution, Vnesheconombank provides financial and guarantee support to SMEs operating in the non-trading sector of the economy. Among production industries, the priority is given to projects promoting innovations, modernisation and energy efficiency.

Support to SME by Vnesheconombank Group's Entities

As of late 2013, the amount of loans issued to SME under the SME financial support programme totalled RUB 96.1 bn.

The overall amount of loans issued to SME by SME Bank since the programme's launch exceeds RUB 397 bn.

As of late 2013, the average weighted rate for the portfolio of loans issued to SME by partner banks stood at 12.7%.

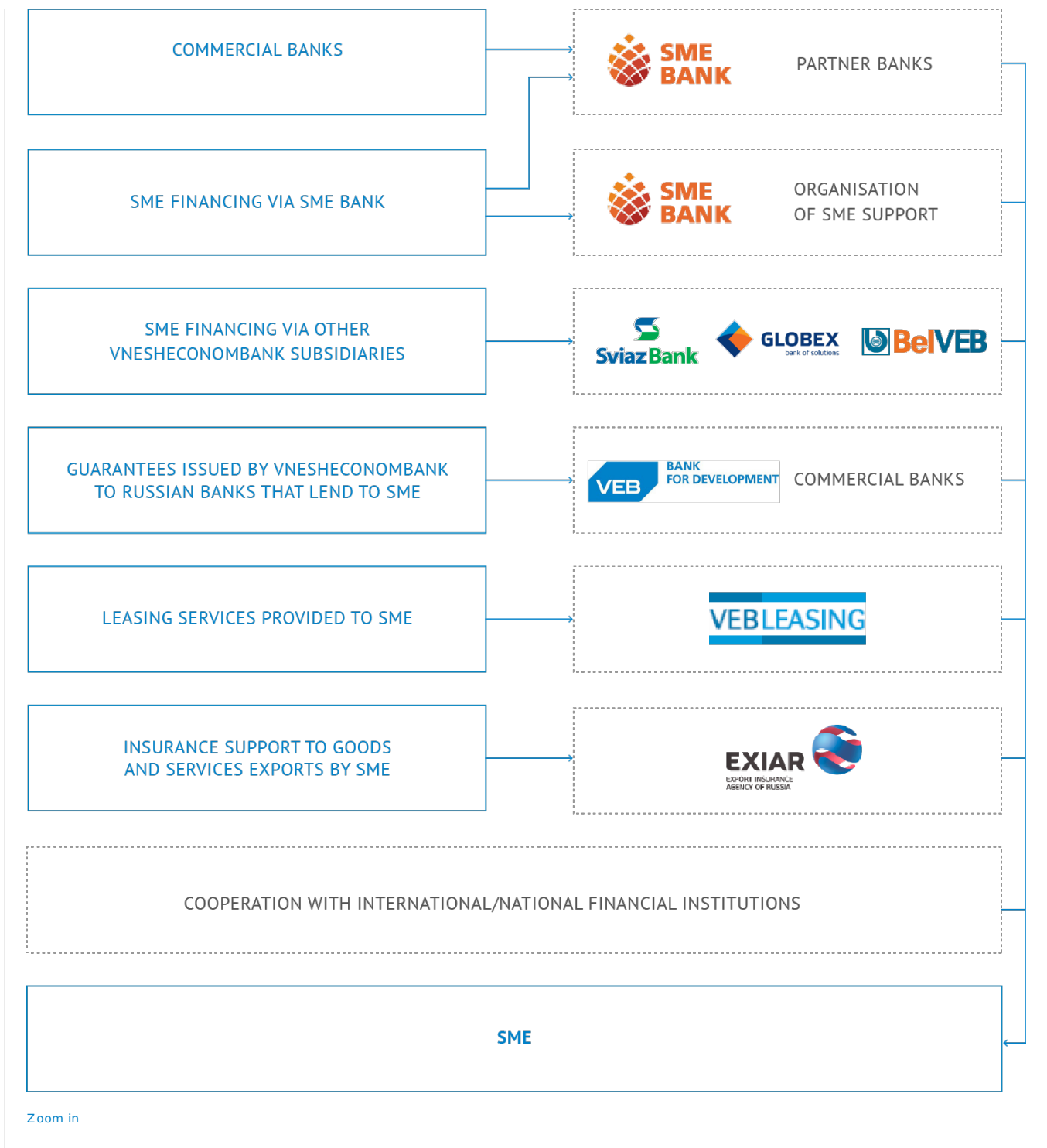
In 2013, support to SME was provided in a challenging macroeconomic context. Over the year, the amount of the portfolio of loans issued by banks to SME grew by only 14.8%, which is noticeably lower than in 2011 and 2012. The share of the SME segment in the bank loan market dropped by 0.5 percentage points to 16%. Non-price terms of lending to SME changed to the worse. To illustrate, Expert RA rating agency estimated that only about 15% of loans issued to SME in 2013 had maturities that exceeded 3 years (against 17% in 2012 and 19% in 2011).

Despite the Russian bank loan market going downhill, we were able to considerably build up our financial support to SME and bolster the development of new and emerging financing markets.

In 2013, Vnesheconombank successfully continued implementing the government programme of financial support to SME via its subsidiary SME Bank. Also in 2013, SME Bank became an operator of the sovereign guarantee-based mechanism of support to medium-sized enterprises.

Other subsidiary banks of the Group (GLOBEXBANK and Sviaz-Bank) also run their own SME lending programmes. Bank BelVEB, a foreign member of the Group, made a sizeable contribution to SME development in Belarus. The lease programme for SME is implemented by VEB-Leasing, while EXIAR is charged with support to exports of commodities and services by SME.

Mechanisms of financial support to SME involving Vnesheconombank Group



Support to SME by Vnesheconombank Group's Entities



- ✓ As of late 2013, SME Bank's loan portfolio in the SME segment stood at RUB 96 bn.
- ✓ Since the actual launch of the mechanism for guarantee support to exports by medium-sized enterprises in August 2013, SME Bank issued 9 bank guarantees for a total of more than RUB 1.06bn, thus ensuring an access for medium-sized enterprises to bank loans for a total exceeding RUB 2.2 bn.



- ✓ In 2013, Eximbank of Russia started providing its SME export support services. As of the year-end, the amount of export support provided to SME totalled RUB 1.5 bn.



- ✓ As of late 2013, the amount of export support provided by EXIAR to SME totalled USD 50 mn.
- ✓ In 2013, the Agency developed a specialised programme to insure export factoring for SME. Under the programme, the Agency signed a cooperation agreement and a framework insurance agreement with CJSC National Factoring Company, with the insurance capacity limit of RUB 1 bn.
- ✓ In 2013, the Agency developed the Programme for insurance of banks against non-payment risks under export support loan agreements with SME.



- ✓ As of late 2013, VEB-Leasing leased out vehicles, special machinery and equipment to 14.8 thousand SME.
- ✓ The amount of lease agreements with SME exceeded RUB 51.2 bn, while the number of agreements signed exceeded 24.6 thousand.



- ✓ As of late 2013, Sviaz-Bank serviced 590 SMEs, with the Bank's loan portfolio in the SME segment standing at RUB 9.3 bn and an average weighted rate of 12.1%.



- ✓ As of late 2013, GLOBEXBANK serviced 367 SMEs, with the Bank's loan portfolio in the SME segment standing at RUB 22.0 bn and an average weighted rate of 10.8%.



- ✓ As of late 2013, Bank BelVEB serviced 20.6 thousand SME, with the Bank's loan portfolio in the SME segment standing at RUB 15.5 bn.

[Zoom in](#)

SME financing via SME Bank

Under the Programme for Financial Support to Small and Medium-Sized Enterprises, SME Bank provides financing to SME via authorised partner banks and infrastructure organisations (lease, factoring, and microfinance firms). The Programme focuses on financing non-trading SME that implement innovation, modernisation and energy efficiency projects.

The strategic segments and implementation priorities of the Programme are defined in the Strategy of SME Bank for 2013 — 2015. Under this Strategy, the Bank is planning to lend RUB 106.2 bn to SME from strategic segments by late 2015.

Targeted breakdown under the Programme by SME support areas by late 2015

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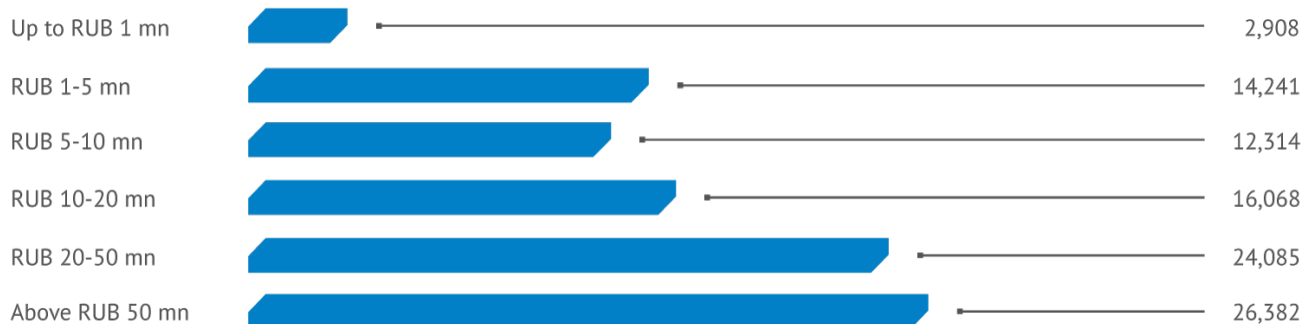
To implement the Programme for Financial Support to SME, Vnesheconombank increased the capital of SME Bank by a total of RUB 12.5 bn, including by increasing the subsidiary bank's authorised capital by RUB 542.0 mn in 2013. Vnesheconombank also provided SME Bank with long-term loans for a total RUB 41.847 bn, including a USD 87.0 mn tranche of KfW's loan extended in 2013.

Loans under the Programme are granted to SME for up to 7 years and in the amount of up to RUB 150 mn. The average weighted rate for the portfolio of loans issued by partner banks under the Bank's SME programme is 12.7%.

As of late 2013, the number of agreements signed between partner organisations and SME under the Programme exceeded 24 thousands. Over 64 thousand SME in total received the support throughout the term of the Programme.

Since its launch, the Programme involved more than 400 partner financial institutions, with 257 organisations being its members at present.

Programme breakdown by amount of loans issued to SME (RUB mn)



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Portfolio of loans to SMEs granted under the programme, by sector

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Support under the Programme is provided to SME in 82 Russian regions, including in 167 out of 342 single-industry towns. The Central and Volga Federal Districts lead the market in terms of support to SME.

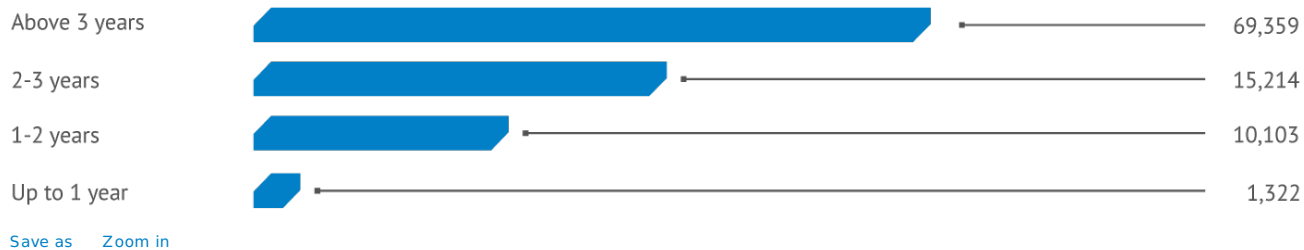
The following results were achieved by the end of 2013 in focus areas of support to SME under the Programme:

- ✓ loans to SME implementing innovative, modernisation and energy efficiency projects: RUB 57.6 bn;
- ✓ units acquired in private equity funds: RUB 0.5 bn;
- ✓ long-term loans to non-trading SME outside the innovative segment: RUB 8.9 bn;
- ✓ financing via leases, except railway and cars: over RUB 9.2 bn;
- ✓ support via factoring services for non-trading SME: RUB 2.0 bn;
- ✓ support via microfinance tools: RUB 3.9 bn.

Programme breakdown by Federal District

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Programme breakdown by SME loan maturity (RUB mn)



Success story



Renovation of the Heat Supply System in Bakal, Satkinskiy District, Chelyabinsk Region

*Winner of the Best SME Project category
of Development Award 2013*

Initiator: LLC Ural Energo Development

Total project value: RUB 311.7 mn

SME Bank's commitment: RUB 120 mn

The project provides for modernisation of the heat supply system in the town of Bakal, including installation of 4 highly efficient state-of-the-art block-modular boilers. The project is implemented under the Integrated Programme for Modernisation and Reforming of Public Utilities in the Chelyabinsk Region in 2011 — 2020 through PPP mechanisms.

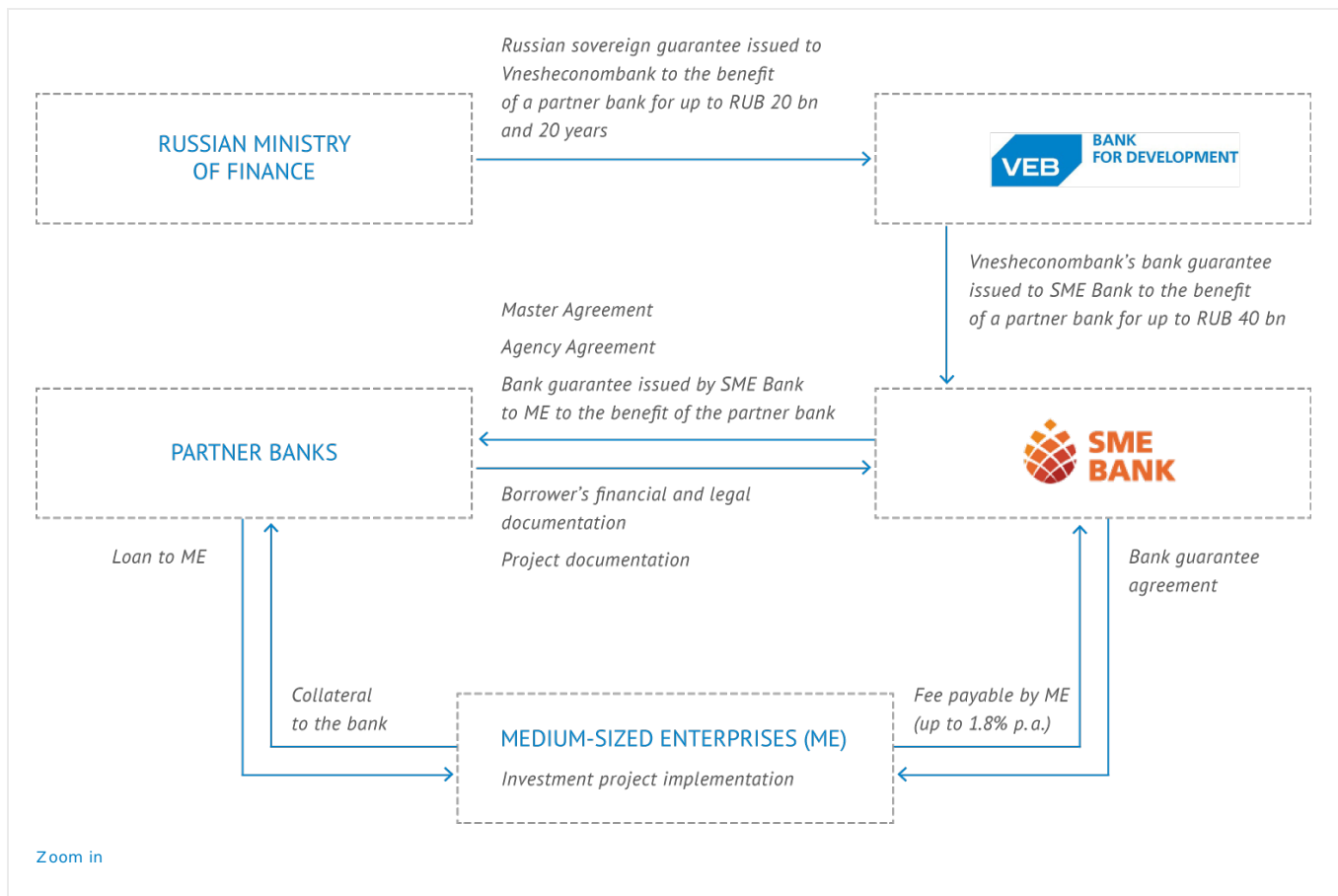
The economically viable resource-saving technologies applied in the project will notably raise the quality of public utility services while leading to a sizeable cost cutback. The annual savings on public funds formerly spent to maintain loss-making public utilities is planned to reach RUB 90 mn. Moreover, the project's implementation will improve the better environmental situation and enhance the investment case of local high-potential production facilities.

Guarantee-based mechanism of support to SME

Launched in 2013, the guarantee-based mechanism of support to medium businesses is another critical tool that seeks to improve access by medium-sized enterprises to financing. It was developed in line with the Executive Order "On Long-Term State Economic Policy" by the Russian President.

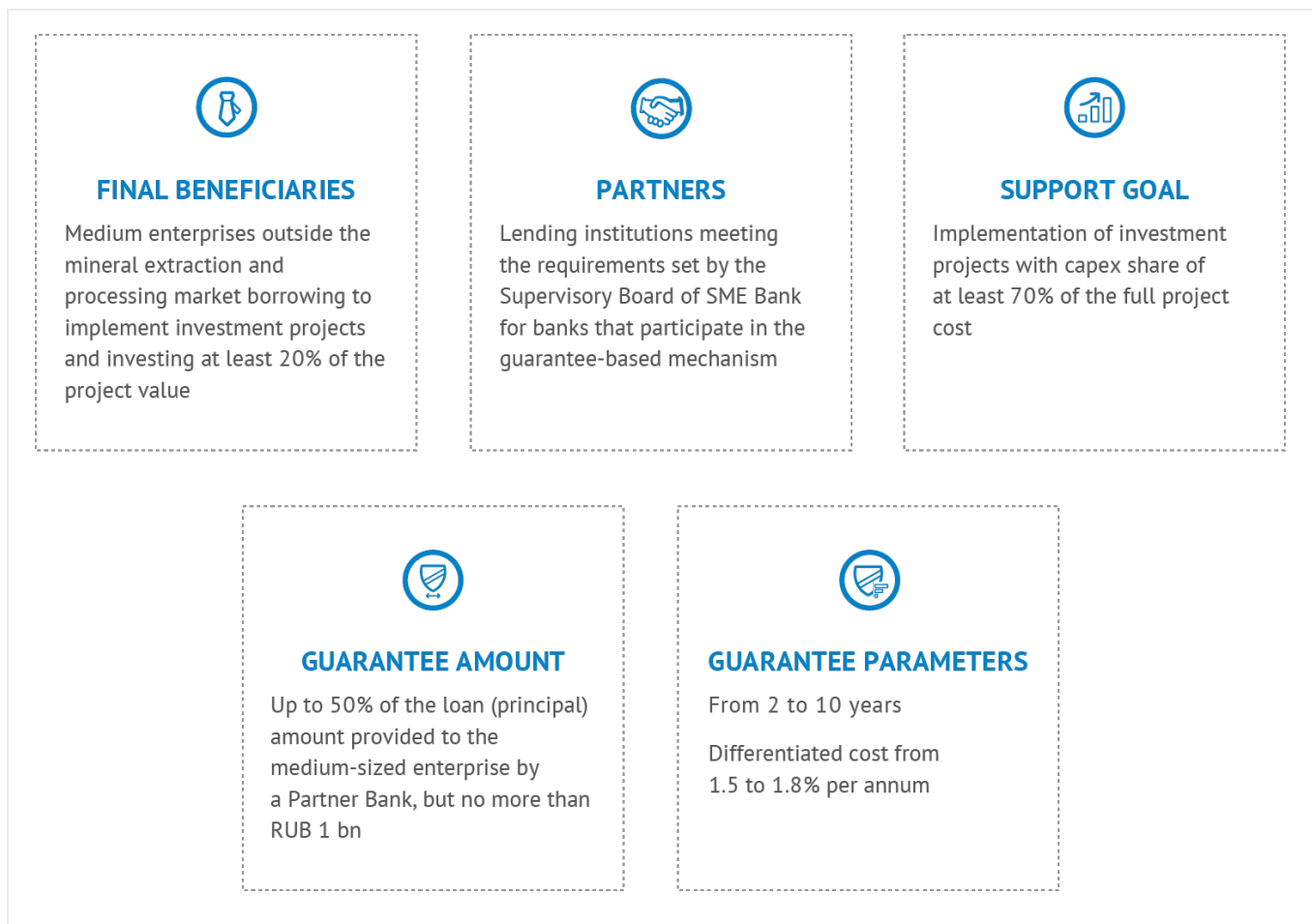
SME Bank is appointed as an operator of the sovereign guarantee-based mechanism of support to medium-sized enterprises. All liabilities of SME Bank under bank guarantees issued within the mechanism are secured with Vnesheconombank's bank guarantee for RUB 40 bn. In its turn, Vnesheconombank's bank guarantee is partially secured with a sovereign guarantee of the Russian Federation. The implementation of the guarantee-based mechanism of support to SME will help commercial banks issue loans to medium-sized enterprises for up to RUB 80 bn secured with a reliable guarantee.

Implementation of the guarantee-based mechanism of support to ME



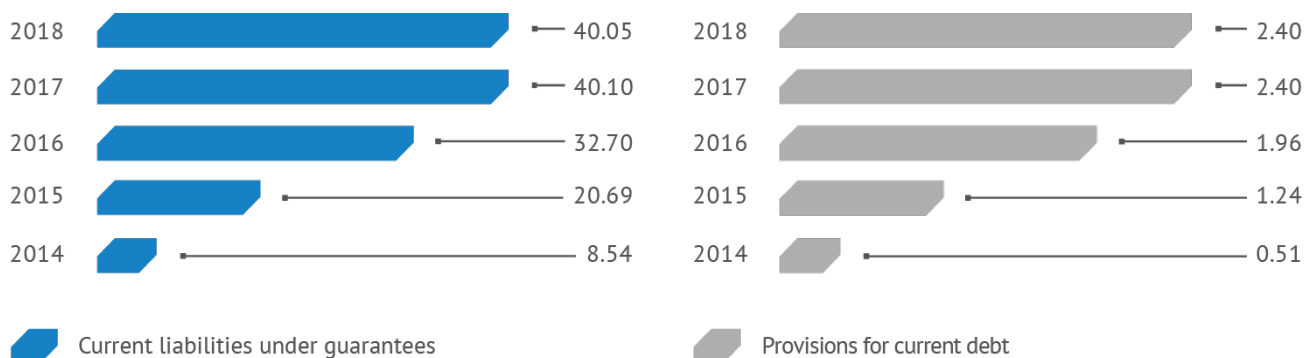
The guarantee-based mechanism aims to support medium enterprises other than those involved in the commodity and trading sectors. The cost of guarantee-backed projects will range from RUB 100 mn to RUB 2 bn. The enterprise must invest in the project at least 20% of its equity. The cost of guarantees will not exceed 1.8% per annum and will be within the range between 1.5 and 1.8%. For innovative projects, guarantees will be provided at the lowest interest rate.

Vnesheconombank is expected to intensify its efforts under the guarantee-based mechanism of support to medium-sized enterprises launched in 2013 and, as a result, bring its total loans to SME to the target amount of RUB 106.2 bn by late 2015.



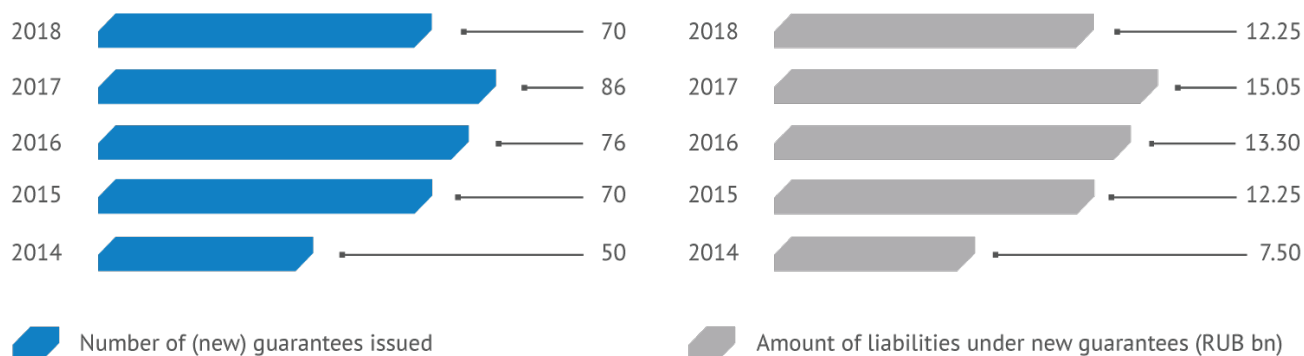
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Forecast performance by SME Bank in terms of current liabilities under the guarantee-based mechanism of support to medium-sized enterprises, 2014 – 2018 (RUB bn)



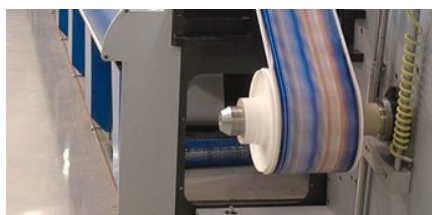
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Forecast number of guarantees issued by SME Bank under the guarantee-based mechanism of support to medium-sized enterprises, 2014 – 2018



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Success story



Expansion of Self-Adhesive Sticker (Label) Output

Initiator: LLC Isratek (Zhukovsky, Moscow Region)

Total project value: up to RUB 114 mn

The funds will be provided via Vozrozhdenie Bank.

SME Bank issued the first guarantee to Vozrozhdenie Bank for the recovery of a loan issued to LLC Isratek to implement an investment project for the expansion of the company's self-adhesive sticker output. The RUB 15 mn guarantee was issued for 5 years and 4 months. The share of the loan secured with SME Bank's guarantee is 16.5%, with the remaining amount secured with a pledge over the borrower's equipment.

The financing will be used to acquire new process equipment that will enable the company to increase its output by more than 30% over the year.

Relations with development institutions



In 2013, Vnesheconombank and the German development bank KfW continued working on the project for establishing the International Fund to Support Entrepreneurial Activity. The core objective of the Fund consists in providing long-term loans to banks that finance small- and medium-sized enterprises and direct investing in rapidly growing SMEs that implement non-trading projects with the financing volume ranging between RUB 150 mn and RUB 1 bn.

Vnesheconombank and KfW also cooperate in the scope of the Pilot Baltic Initiative developed under the auspices of the Russian and German Ministries of Foreign Affairs. As part of the Initiative, KfW provided Vnesheconombank with more than USD 110 mn to support non-trading SMEs of the North Western Federal District. The loans are issued via SME Bank and its partner banks that received about 80% of the allocated funds in 2013.

In 2013, within the framework of the Initiative, a special credit product, *Baltika-Innovatsii*, was developed, and 10 innovative SME projects were selected for potential financing for a total exceeding RUB 700 mn.

In 2013, the parties also continued cooperating under the agreement on the Germany-Russia SME financing initiative launched by Vnesheconombank and KfW in 2009. Pursuant to the agreement, KfW issues targeted 5-year loans to Russian commercial banks to finance small- and medium-sized enterprises against Vnesheconombank's guarantees. As of late 2013, the portfolio of guarantees issued under this initiative totalled USD 33.3 mn.
