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Lead analysts:

Irina Nosova, Associate Director
+7 (495) 139-0481
irina.nosova@acra-ratings.ru

Mikhail Polukhin, Associate Director
+7 (495) 139-0347
mikhail.polukhin@acra-ratings.ru

ACRA affirms AAA(RU) to VEB.RF, outlook Stable, and AAA(RU) to bond issues

ACRA has affirmed AAA(RU), outlook Stable, to State Development Corporation "VEB.RF" (hereinafter, VEB.RF) and AAA(RU) to bonds (ISIN RU000A100GY1, RU000A100BM7, RU000A1004U0, RU000A1003W8, RU000A1001V4, RU000A0ZZZP3, RU000A0JXU48, RU000A0JXU71, RU000A0ZYLH3, RU000A0ZYLJ9) issued by VEB.RF.

The credit rating of VEB.RF is at the level equivalent to financial obligations of the Government of the Russian Federation based on a very high probability of extraordinary support from the Government due to its very high systemic importance for the Russian economy and essential state influence on VEB.RF's creditworthiness. Standalone creditworthiness of VEB.RF does not constitute a factor affecting its credit rating.

VEB.RF is not a commercial bank, and it is regulated by Law No. 82-FZ dated May 17, 2007. Under the Memorandum on Financial Policies of VEB.RF No. 1510-r (hereinafter, Memorandum), approved by the Government Ordinance dated July 23, 2018, VEB.RF participates in the implementation of nationwide projects as well as investment, foreign trade, export support, advisory and financial projects set by the Memorandum, and also activities in the priority industries of the national economy.

ACRA expects that under a systemic economic stress scenario and/or in case of a material decline in VEB.RF's own creditworthiness, the Russian Government will provide VEB.RF with sufficient amount of extraordinary support in the form of equity capital or liquidity in order to satisfy creditor claims. The above is based on the following assumptions.

Key rating assessment factors

Very high systemic importance. VEB.RF is a development institution performing a unique function of financing strategically important investment projects according to its mandate as defined by the law, which commercial banks cannot perform due to higher risks and regulatory factor. VEB.RF's scope of activities is substantial for the Russian economy: its assets total approximately 20% of fiscal expenses in 2018. ACRA believes it is currently unlikely that VEB.RF's functions will be delegated to any other government institutions or private entities.

According to ACRA, a default scenario involving VEB.RF would be associated with very significant losses of budgetary funds for the state, both direct (RUB 588 bln placed in VEB.RF as of March 31, 2019), and indirect (e.g., via suspension of federal priority infrastructure projects). A VEB.RF default would also be associated with significant reputational losses for the Russian government as a result of decreased investor and creditor confidence in various industries of the public sector economy.

Very strong state influence on creditworthiness. VEB.RF was established in 2007 based on and in accordance with Federal law No. 82-FZ.

ACRA also notes the following factors exemplifying the strong ties between VEB.RF and the state: (1) Legislative immunity from established bankruptcy proceedings; (2) Readiness of the state to provide support through legally defined budgetary mechanisms (the amount of financial support provided by the state via property contributions and subsidies amounted to RUB 1.043 trln from 2007 to the first half of 2019). In 2018, the Government of Russia ordered to provide subsidies to VEB.RF worth up to RUB 600 bln through 2024 and developed an approach towards VEB.RF's capital increase worth up to RUB 300 bln, using a new mechanism for Russian legislation, i.e. approved capital (the rules of its provision are stipulated by the RF Government Ordinance No. 1611, dated December 21, 2018, On "VEB.RF's Authorized Capital").

VEB.RF's own creditworthiness level depends on government financing and efficient implementation of the new development strategy. According to ACRA, the key objectives of VEB.RF's team in the mid-term are as follows: (1) organizational optimization and operating efficiency increase; (2) restructuring the legacy portfolio of problem loans; (3) withdrawal of subsidiaries inconsistent with the strategic focus from VEB.RF's perimeter (including the expected transfer of Sviaz-Bank (ACRA rating — BBB+(RU), outlook "Developing") by the end of 2019); 4) participation in the implementation of the Russian President Executive Order, dated May 7, 2018, No. 204 On "National Goals and Strategic Objectives of the Russian Federation through 2024", including by providing financial and non-financial support to the strategically important projects aimed at the development of Russia.

ACRA believes that, considering the complication and complexity of the legacy portfolio of problem loans as well as slow rates of economic growth in Russia, any notable pay-offs from restructuring the portfolio are rather likely in the long-term. The efficiency of this work will primarily depend on the quality of investment process under development and efficacy of internal and external risk reduction mechanisms. Financial indicators of VEB.RF's activities in the period of strategy implementation will also depend on the amount of financing for "special" projects and on the extent to which the government will compensate for such projects.

ACRA notes that VEB.RF's financial indicators have stabilized. However, its financial profile is still generally weak. The level of problem loans (stage 3) remains high (29% of the total loan portfolio and net leasing investments as of December 31, 2018), while their reserve coverage is 74%. As of December 31, 2018, the capital adequacy ratio was 11.8%. Should VEB.RF's capital adequacy ratio fall down to 11% or below, the state, represented by the Ministry of Finance, will provide support through property contributions into VEB.RF's capital.

ACRA also notes a gradual improvement in VEB.RF's debt portfolio with a gradual decline in currency denominated debt. Considering the budgeted financing, highly probable additional financial support from the government and financial institution's own resources, ACRA expects no problems in performance of these obligations for the lack of any significant external shocks.

Key assumptions

- Sufficient amount of government support to pay creditors in the coming years;
- Development in line with the 2021 strategy approved in 2016.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A negative rating action may be prompted by:

- Significant decline in VEB.RF's systemic importance for the Russian economy.

Rating components

Standalone creditworthiness assessment (SCA): none.

Adjustments: none.

Support: on par with the Russian Federation.

Issue ratings

VEB.RF (ISIN RU000A100GY1); maturity date: June 22, 2023, issue volume: RUB 20 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A100BM7); maturity date: April 26, 2022, issue volume: RUB 20 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A1004U0); maturity date: February 25, 2021, issue volume: RUB 5 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A1003W8); maturity date: February 9, 2024, issue volume: RUB 5 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A1001V4); maturity date: January 19, 2024, issue volume: RUB 10 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0ZZZP3); maturity date: December 21, 2021, issue volume: RUB 10 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0ZYLJ9); maturity date: December 15, 2022, issue volume: RUB 30 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0ZYLH3); maturity date: June 18, 2020, issue volume: RUB 15 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0JXU71); maturity date: June 18, 2021, issue volume: RUB 30 bln — **AAA(RU)**.

VEB.RF (ISIN RU000A0JXU48); maturity date: December 15, 2022, issue volume: USD 550 mln — **AAA(RU)**.

Credit rating rationale. The above issues represent senior unsecured debt of VEB.RF. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them *pari passu* with other existing and future unsecured and unsubordinated debt obligations of VEB.RF. According to the ACRA methodology, the credit rating of the issues is equivalent to that of VEB.RF.

Regulatory disclosure

The credit ratings were assigned to VEB.RF and bonds (ISIN RU000A100GY1, RU000A100BM7, RU000A1004U0, RU000A1003W8, RU000A1001V4, RU000A0ZZZP3, RU000A0JXU48, RU000A0JXU71, RU000A0ZYLH3, RU000A0ZYLJ9) issued by VEB.RF under the national scale for the Russian Federation based on the Methodology for Analyzing Relationships Between Rated Entities and the State and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities. In order to determine specific factors of own creditworthiness, certain elements of the Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation were applied. To assign credit ratings to the above bond issues the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also applied.

For the first time, the credit rating of VEB.RF was published by ACRA on July 12, 2017. The credit ratings of the bonds issued by VEB.RF were first published by ACRA on June 28, 2019 (RU000A100GY1), April 29, 2019 (RU000A100BM7), February 27, 2019 (RU000A1004U0), February 14, 2019 (RU000A1003W8), January 25, 2019 (RU000A1001V4), December 24, 2018 (RU000A0ZZZP3), July 25, 2017 (RU000A0JXU48), July 25, 2017 (RU000A0JXU71), January 11, 2018 (RU000A0ZYLH3), and January 11, 2018 (RU000A0ZYLJ9) respectively. The credit rating and its outlook, as well as the credit ratings of the above bonds, are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on the data provided by VEB.RF, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements and management reporting of VEB.RF. The credit ratings are solicited, and VEB.RF participated in their assignment

No material discrepancies between the provided data and the data officially disclosed by VEB.RF in its financial statements have been discovered.

ACRA provided additional services to VEB.RF. No conflicts of interest were discovered in the course of credit rating assignment.

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75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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