



Ministry for the Development
of the Russian Far East



CHINESE-RUSSIAN BANKING COOPERATION OPPORTUNITIES

Largest Chinese and Russian banks | Attractive portfolio
and instruments | State support

Moscow, September 2018



FAR EAST INVESTMENT
AND EXPORT AGENCY

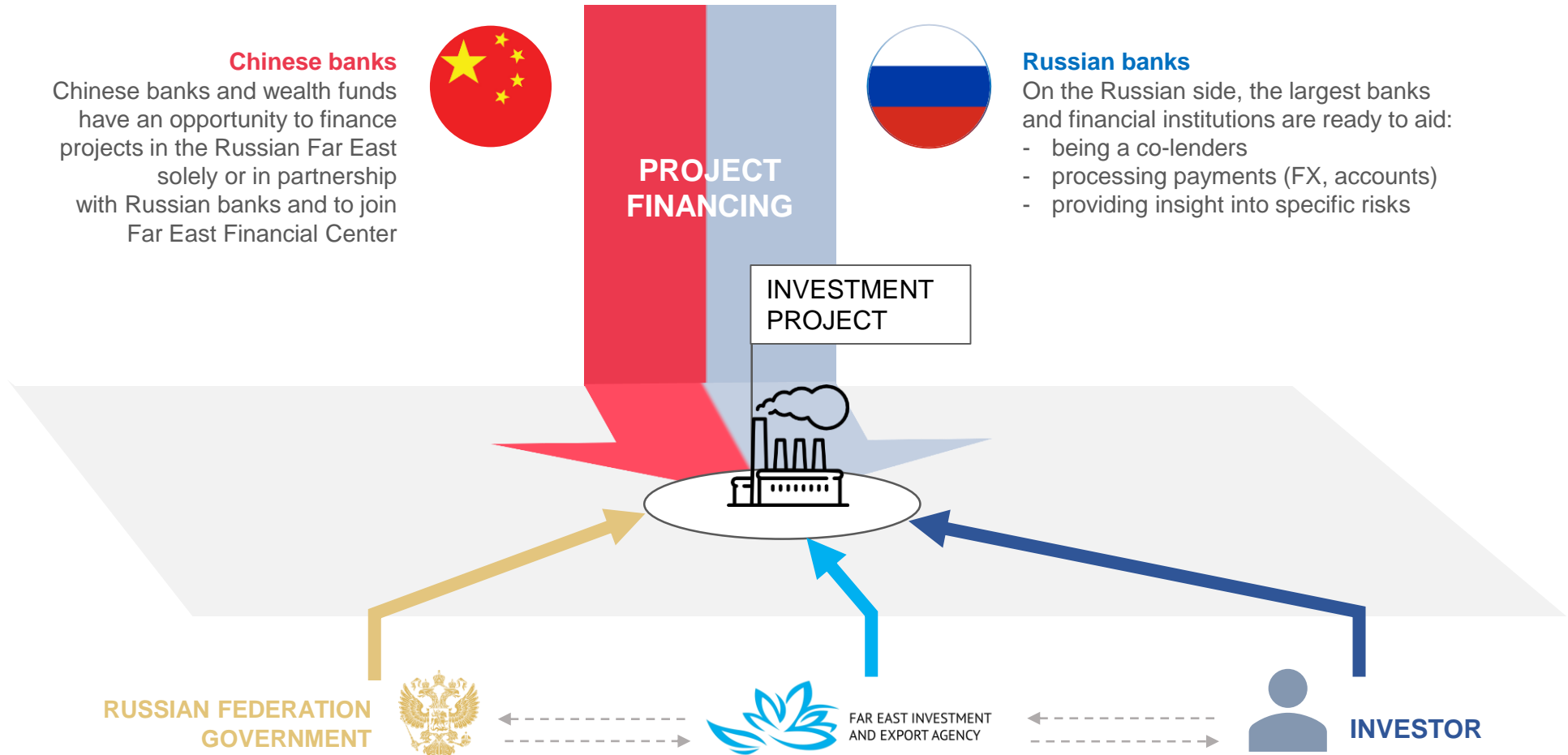
FEIA is an autonomous non-commercial organization, established by the Ministry for the Development of the Russian Far East. The Agency is aimed at providing support for investors and investment projects in the Russian Far East, guiding investors through all steps, communicating with the government and relevant authorities to resolve any arising issues and make investment experience trouble-free with all provided benefits – subsidies, preferential regimes, bespoke legal solutions, largest local partners in form of industry leaders and banks.

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CHINESE AND RUSSIAN BANKS + FEIA COOPERATION OPPORTUNITY



Chinese banks
Chinese banks and wealth funds have an opportunity to finance projects in the Russian Far East solely or in partnership with Russian banks and to join Far East Financial Center

Russian banks
On the Russian side, the largest banks and financial institutions are ready to aid:

- being a co-lenders
- processing payments (FX, accounts)
- providing insight into specific risks

Wide range available for project support, including Advanced Special Economic Zones (ASEZ), subsidies, lower tariffs, individual support measures

FEIA supports project on all stages: initiation and concept, research on forest resource base, interaction with government, dealing with key partners and financial institutions, deal structuring, project launch and operation

Various private and institutional Russian and foreign investors have already engaged into investment projects in the Russian Far East

SOLID PARTNERSHIPS & FLEXIBLE SOLUTIONS

LARGEST BANKS ARE READY TO NEGOTIATE

Top Russian banks & key partners

Rank by assets		Trillion RUB	Total Assets	Equity	Loan portfolio
1	 SBERBANK		28,8	3,5	18,0
2	 VTB		13,7	1,4	9,4
3	 GAZPROMBANK		6,1	0,6	3,6
4	 BANK FOR DEVELOPMENT		3,5	0,4	1,8
35	 Vostochny Bank		0,23	0,02	0,1
61	 MSP Bank		0,09	0,02	0,03
94	 Primsotsbank		0,05	0,007	0,04
122	 DVB Dalnevostochny Bank		0,04	0,007	0,02

Source: FEIA analysis, Financial statements of banks as of H1 2018

Possible deal structures

Chinese banks lending to Russian banks

- Chinese bank lends funds to Russian banks to further project financing on established terms
- Advantage: Might be simpler option at initial stages of Chinese-Russian banks cooperation since Chinese partners involvement in Russian economy is limited
- Recent example – 11/09/2018 China Development Bank CNY 12 bn to VEB credit issuance

Banking syndicate

- Chinese bank cooperate with Russian partners on debt issuance and on deep industry expertise combined with region context understanding
- Advantage: Partial risk mitigation due to profound Russian expertise while maintaining high returns

Structured product

- Russian banks together with FEIA design structured products tailored to needs and risk profile of Chinese counterparty, while Russian banks act as intermediary handling payments and monitoring projects within each product (incl. project stages, industry, etc.)
- Advantage: Bespoke investment solutions for any credit strategy and risk appetite

Bond issuance

- Depending on project stage, bonds may be issued as private or public debt offering on both Russian and Chinese debt capital markets incl. Panda & Dim Sum bonds)
- Bond rating and underwriting may be provided by Chinese and Russian banks and rating agencies
- Advantage: Direct access to high yield debt instrument for Chinese banks as well as Chinese institutional investors. Banks earn from debt instrument cashflows or from fees

Real options

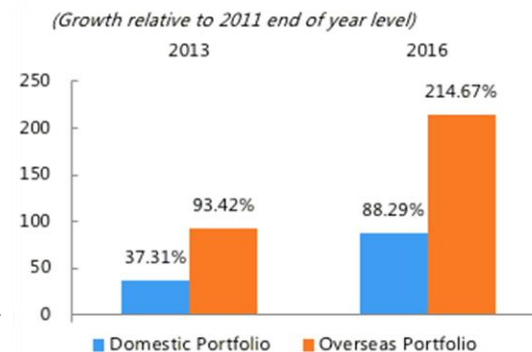
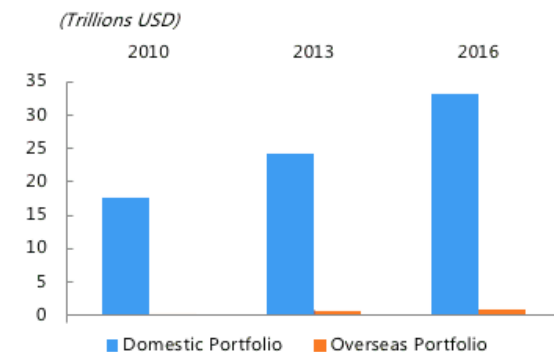
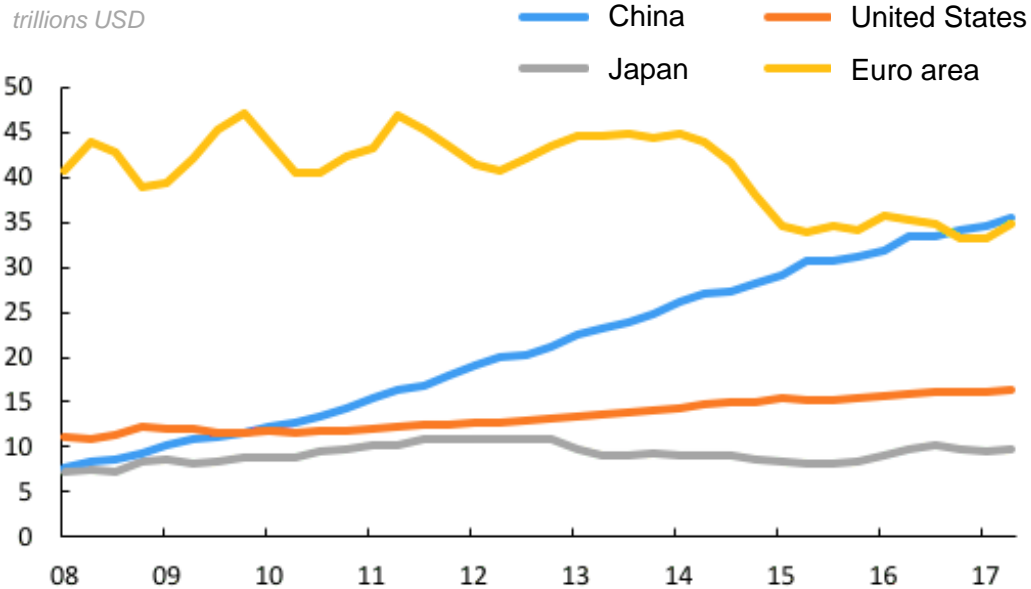
- Chinese banks providing financing in terms of real options. In case project successfully passes certain stages, Chinese banks receive equity in a going concern company with opportunity to earn on stake sale
- Advantage: Significant equity upside compensates higher project risks. Most applicable for certain high risk industries, incl. exploration

CHINESE FINANCIAL MIGHT

LARGEST ASSETS, GLOBAL EXPANSION

1 Large bank asset base to explore, growing share of overseas portfolio

Total bank assets for selected countries '08-'17



2 Trend for international expansion

The expansion of Chinese enterprises abroad as well as the launch of the Belt and Road Initiative has driven a surge in cross-border lending by China's banking sector since the start of the decade.

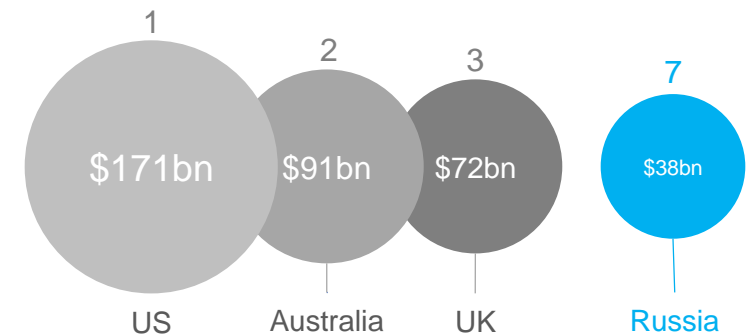
+ 500%

cross-border lending growth of Chinese banks compared to 2010

Cross-border lending by Chinese banks amounted USD\$630bn in 2017. Growth rate in US compared to 2010 was +13%, EU +5%

3 Russia is among key destinations

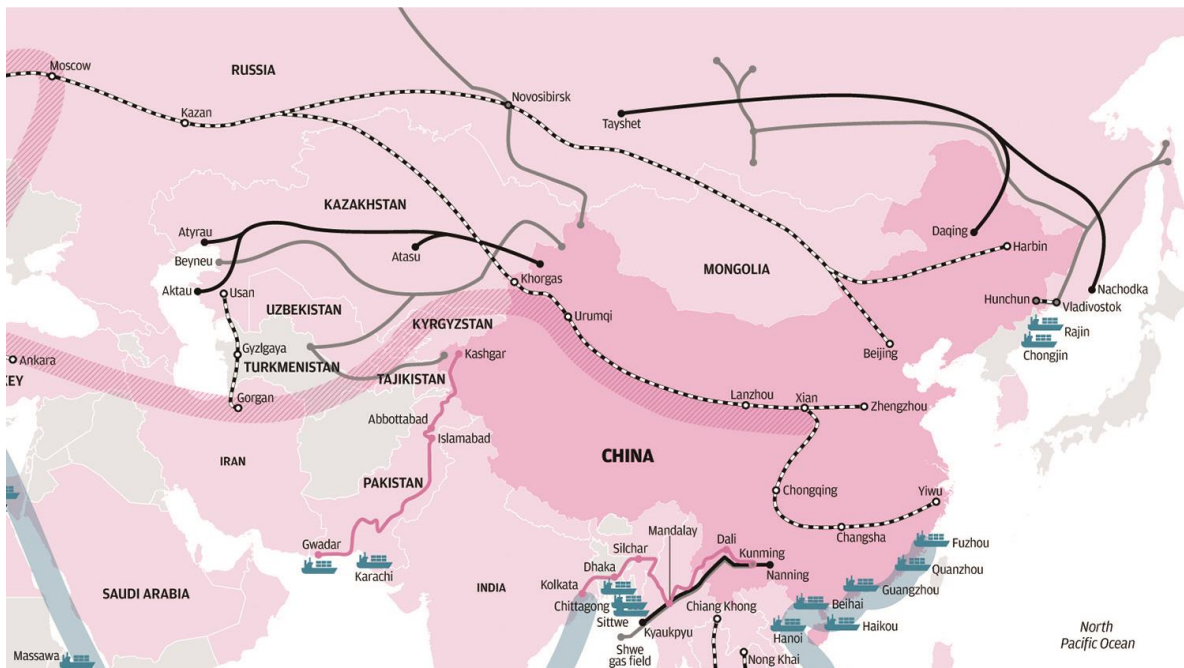
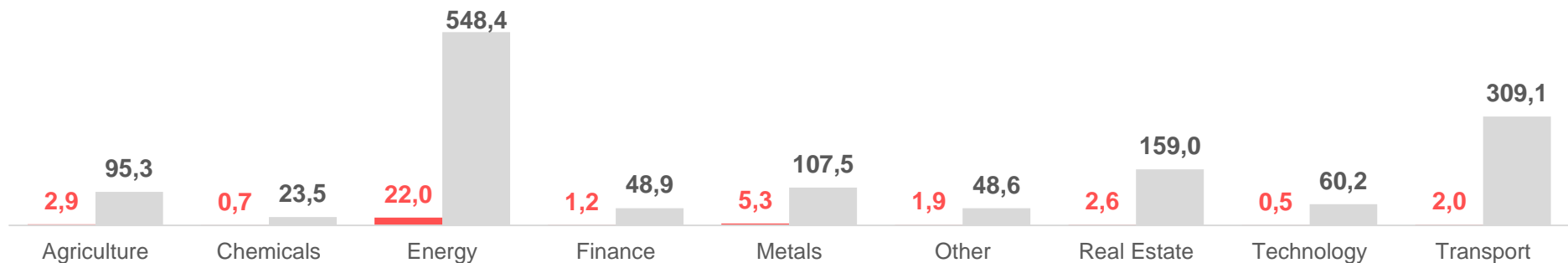
Russia, as a geographic neighbor and emerging market with attractive yields attracts significant share of Chinese FDI – \$38.15 bn for '05-'17 period.



CHINESE OUTWARD FDI ALREADY TAPPED RUSSIAN MARKETS BUT RUSSIAN POTENTIAL STILL HUGELY UNDEREXPLORED

Cumulative worldwide vs Russia-oriented Chinese Investments & Construction (2010 - 2018)

in US\$ bn ■ into Russia ■ Worldwide



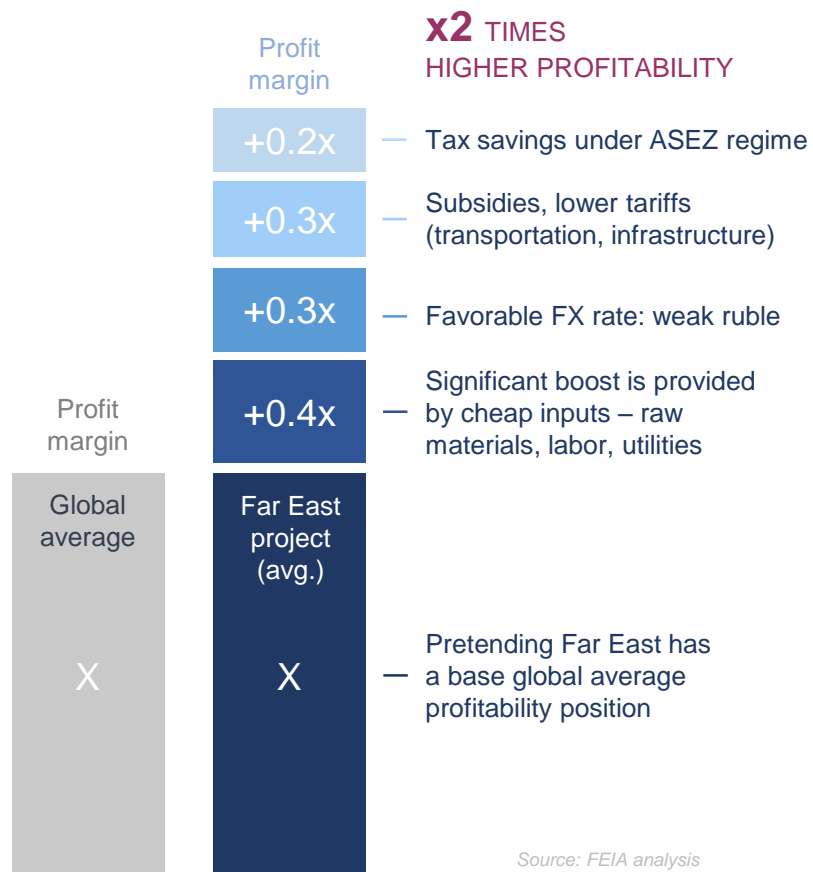
One Belt, One Road initiative to boost FDI

- The Belt and Road Initiative (BRI) or the Silk Road Economic Belt and the 21st-century Maritime Silk Road is a development strategy adopted by the Chinese government.
- The China–Mongolia–Russia Corridor will run from Northern China to the Russian Far East. The Russian government established Russian Direct Investment Fund and China Investment Corporation, partnered in 2012 to create the Sino-Russian Investment Fund, which concentrates on opportunities in bilateral integration.
- Between 2014 and 2016, China's total trade with countries along the Belt and Road exceeded \$3 tn, created \$1.1 bn revenues and 180 ths jobs.

FAR EASTERN PROJECTS: HIGHER PROFITABILITY, LOWER RISKS

HIGHLY COMPETITIVE POTENTIAL ASSETS

Global-leading profitability in major project sectors. Boosts



Low & manageable credit risk

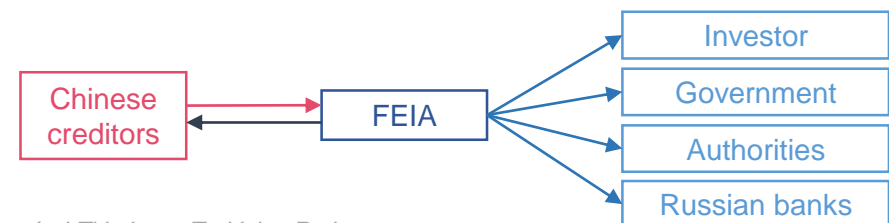
Higher profitability greatly improves project solvency potential. Moreover, state supportive initiatives and current regulation are tailored to bring project smoothly to operating stage and to enhance its financial and operational health.

State support includes:

- CAPEX reimbursement up to 10% of incurred costs (lower LTV¹)
- Subsidies for infrastructure development
- ASEZ regime (social contributions at 7.6% for 10 yrs, instead of 30%; profit tax 0% for 0-5yrs, 12% for 5-10yrs, property and land tax 0% 0-5yrs, free trade zone, etc) (higher CADs²)
- Fast procedures (customs clearance, permits, licenses)
- Bespoke solutions, being developed at investors request
- Offshore regime and lax regulation

FEIA – core intermediary between creditors, state, investors

For creditors FEIA serves as a primary intermediary, connecting them with investors, authorities, Russian banks and financial institutions, partners, collecting information about investor and project, developing new instruments and suggesting them to state.



¹ - LTV - Loan-To-Value Ratio

² - CADs - Cash Available For Debt Service

OFFSHORE OPPORTUNITIES IN FAR EAST

NEWLY OPENED, ADVANTAGE IS READY TO BE TAKEN



Key counterparties



FAR EAST INVESTMENT
AND EXPORT AGENCY

&



FAR EAST DEVELOPMENT
CORPORATION

Location

Rusky Island in Peter the Great Gulf in the Sea of Japan (Vladivostok, Primorsky Krai, Russia)

Who is eligible for application

Any foreign company

Special conditions

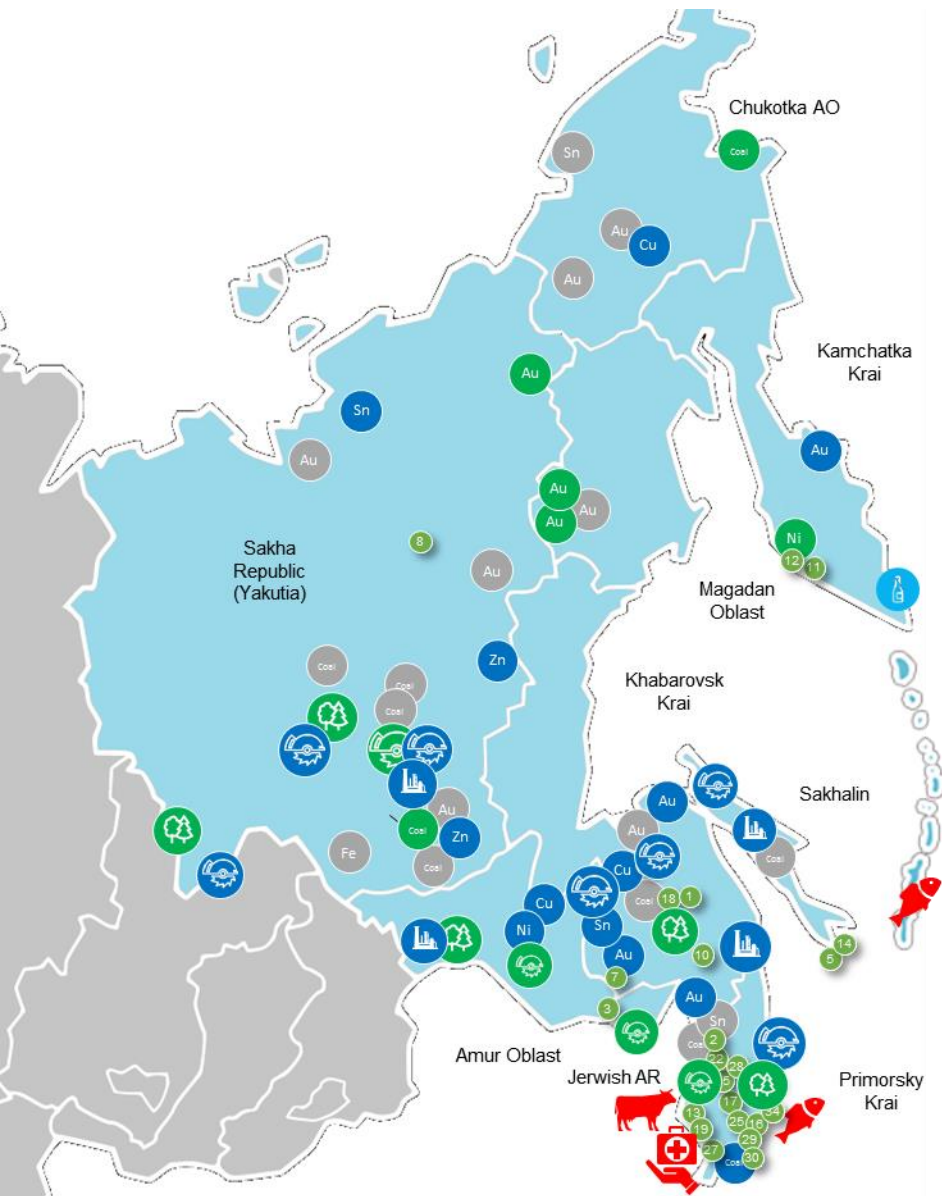
0% tax rate applicable for Net income in form of dividends from foreign companies

Fully functional

1st resident is signed at EEF (13/09/2018), bank Vostochniy – on of the key banks at Far East

WIDE VARIETY OF PROJECTS AVAILABLE

INDUSTRIES, PROJECT STAGE, YIELD & RISK



Mining

Largest Russian deposits to explore:

- Precious metals (gold, silver, platinoids) EBITDA: 40-50%
- Non-ferrous metals (copper, tin, mercury) EBITDA: 30-60%
- Coal EBITDA: 30-50%

Forest products

Vast resource base and favorable environment:

- Sawn wood (peeled veneer, timber)
- Construction materials, plywood, wood boards and panels
- Pellets, fuelwood
- Pulp & paper, tissues, viscose
- EBITDA: up to 50%

Agriculture

- Crop production (soybean, corn, wheat) EBITDA: 40%
- Meat production (cattle, pork, poultry) EBITDA: 20-30%
- Milk production EBITDA: 15-20%
- Greenhouse vegetable growing EBITDA: 60-65%

Oil & gas, chemicals

- Oil and gas processing: fuel, nitrogen fertilizers, methanol, acetic acid, polymers
- Oil and gas service sector: seismic, drilling, environmental protection
- EBITDA: 20-30%

Fish & Aquaculture

- 2.0 million hectares of clean natural areas, which are suitable for growing the most valuable seafood on the Asia-Pacific market
- EBITDA: 50-70%

Heavy industry & Development

- Two sectoral territorial clusters:
 - 1) Aviation industry (aircraft, helicopters) - 1 000-1 500 units per 2017 - 2030
 - 2) Shipbuilding - 220 large vessels in 2017 - 2030
- EBITDA: 20-25%
- Premium class hotels (3-5 stars), Recreation centers, Warehouses, Seaports, Infrastructure, etc. EBITDA: 50-70%

RUSSIAN FAR EAST FINANCIAL CENTER

FULL RANGE OF INSTRUMENTS FOR FOREIGN CREDITORS

Sector	Available service	Financial players	Examples	
Banking	Loans	<ul style="list-style-type: none"> Corporate banking (accounts, loans, deposits) 	<ul style="list-style-type: none"> Commercial banks 	<ul style="list-style-type: none"> Almost all financial centers include this subsector
	FX	<ul style="list-style-type: none"> Foreign exchange & currencies, money transfer 	<ul style="list-style-type: none"> Commercial banks Specialized brokers 	<ul style="list-style-type: none"> Almost all financial centers include this subsector
	International payments	<ul style="list-style-type: none"> Wire transfers, intermediary, bank guarantee, letters of credit, checks, certificates, etc. 	<ul style="list-style-type: none"> Commercial banks Export-import Agencies Leasing companies 	<ul style="list-style-type: none"> Almost all financial centers include this subsector
Insurance	<ul style="list-style-type: none"> Insurance brokerage, underwriting 	<ul style="list-style-type: none"> Insurance companies 	<ul style="list-style-type: none"> Zurich Bermuda 	
Investment & Asset Management	<ul style="list-style-type: none"> Private banking, asset & wealth management Direct investment funds, venture investment funds 	<ul style="list-style-type: none"> Asset management funds Pension funds 	<ul style="list-style-type: none"> Luxembourg Dublin Dubai 	
Investment banking	<ul style="list-style-type: none"> Capital market services (consulting, underwriting, deal support, brokerage) 	<ul style="list-style-type: none"> Investment banks Brokerage companies Direct investment funds Venture funds 	<ul style="list-style-type: none"> Well established in financial centers actively engaged in capital market-related activities 	
Trading & Brokerage	<ul style="list-style-type: none"> Securities & exchange trading (including wide range of derivatives), exchange infrastructure 	<ul style="list-style-type: none"> Exchanges Clearing & depository Payment systems 	<ul style="list-style-type: none"> Paris Singapore Madrid Shenzhen Dalian 	
Other financial services	<ul style="list-style-type: none"> Digital currencies and assets, legal and financial consulting, credit rating, underwriting, audit, bond and share issuance support, analytics, IT & fintech services, etc 	<ul style="list-style-type: none"> Research companies Rating agencies Audit & consulting companies IT-providers Start-ups 	<ul style="list-style-type: none"> Almost all financial centers include this subsector 	

FAR EAST FINANCIAL CENTER ADVANTAGES ARE BEING DEPLOYED IN A FAST PACE

Indicator	Alternative financial centers								Vladivostok	
	Hong Kong	Tokyo	Singapore	Shanghai	Dalian	Dubai	Moscow	Astana	Currently	Plan
English law	✓	✗	✓	✗	✗	✓	✗	✓	✗	✓
Specialized courts	✗	✗	✓	✓	✗	✓	✗	✓	✗	✓
Tax benefits	✓ Low taxation	✓ Low taxation ¹	✓ FSIS ²	✗	✗	✓ Free for 50 years	✓ Tax benefits	✓ Free for 50 years	✗	✓
Offshore	✓	✓	✓	✓	✗	✓	✗	✓	✗	✓
Exchange trading	✓ SEHK	✓ TYO	✓ SGX	✓ SSE	✓ DCE	✓ DFM	✓ MOEX	✓ AIX	✗	✓ For SME
Cryptocurrencies & digital assets	✓ Allowed	✓ Allowed, stock market	✓ Allowed, no regulation	✗ Stock market Prohibited	✗ Stock market Prohibited	✓ Allowed	✓ Allowed	✓ Allowed ³	✓ Allowed	✓ Allowed, stock market
Sandbox of fintech	✓ FSS, FIH, FCAS ⁴	✓ Finolab	✓ 80RR Fin-tech Hub	✓ LFDA ⁵	✓ DIFIF ⁶	✓ FinTech Hive	✗	✓ FinTech Hub	✗	✓
Convenient time zone (for Asia)	✓ GMT+8	✓ GMT+9	✓ GMT+8	✓ GMT+8	✓ GMT+8	✓ GMT+4	✓ GMT+3	✓ GMT+6	✓ GMT+10	✓ GMT+10
Flight connection	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

1. Planned from 2018. 2. Financial Sector Incentive Scheme: tax benefits

4. Fintech Supervisory Sandbox; Fintech Innovation Hub; Fintech Career Accelerator Scheme

6. Dalian Internet Finance Investment Fund

3. It is planned to launch its own cryptocurrency.

5. Lujiazui Fintech Development Alliance



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