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Interstate Bank

Interim Condensed Financial Statements and Report on Review

for nine-month period ended on 30 September 2017*

Moscow | 2017

* Translation from the original in Russian.
The original Interim Condensed Financial Statements together with the Report on Review in Russian are available on the Interstate Bank's website at www.isbnk.org or may be provided upon request.

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Report on review of interim financial statements

To members of the Interstate Bank

Introduction

We have reviewed the accompanying interim condensed financial statements of the Interstate Bank, which comprise the interim statement of financial position as of 30 September 2017, the interim statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for nine-month period ended on 30 September 2017, as well as the underlying principles of the accounting policies and explanatory notes.

The management is responsible for preparation and presentation of the interim financial statements in accordance with the International Financial Reporting Standards. Our responsibility is to express a conclusion on the said interim financial statements on the basis of our review.

Scope of the review

We have conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial statements includes making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Scope of a review is significantly narrower than scope of an audit conducted in accordance with the International Standards on Auditing, therefore the review does not provide assurance that we would become aware of all material matters which would be identified in an audit. Consequently, we do not express an auditor's opinion.

Conclusion

Our review has not revealed any facts which might lead us to believe that the attached interim financial statements do not provide a true and accurate presentation of the financial position of the Interstate Bank as of 30 September 2017 or of its financial results and cash flow for nine-month period ended on 30 September 2017, in accordance with the International Financial Reporting Standards.

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Other information

The review of the IFRS condensed interim financial statements of the Interstate Bank for nine-month period ended on 30 September 2016 has been conducted by FBK Finance LLC. The Report on review of the interim financial statements contains no noteworthy qualifications or facts.

President of FBK LLC

S.M. Shapiguzov
Pursuant to the Articles of Association,
Auditor's Qualification Certificate
No. 01-001230, ORNZ 21606043397

Lead Auditor

A.A. Terekhina
Auditor's Qualification Certificate
No. 03-000653 dated 14.05.2014
ORNZ 21403041298

24 October 2017

Audited Entity	Auditor
Name: Interstate Bank	Name: Limited Liability Company "Finansovye and Bukhgalterskie Konsultanty" (FBK LLC).
Registered address: Russian Federation, 115162, 15 Shukhova St., Moscow	Registered address: Bldg 2AB, 44/1 Myasnitskaya St, 101990 Moscow, Russia
State registration: Registered by the Registration Chamber on 24 March 1994. Certificate No. 030.977	State registration: Registered by Moscow Registration Chamber on November 15, 1993. Registration Certificate: series ЮЗ 3 No. 484.583 РП. Registered in the Unified State Register of Legal Entities on July 24, 2002 under Primary State Registration Number 1027700058286. Membership in self-regulatory auditors association: Self-regulatory Organization of Auditors Association "Sodruzhestvo". Number in the register of auditors and audit firms of a self-regulated auditors association: Certificate of membership in the self-regulating organization of auditors No. 7198, ORNZ 11506030481.

(in RUB'000 unless otherwise stated)

Interim statement of comprehensive income

	Note	2017 (unaudited)	2016 (unaudited)
Interest income	4	564,053	546,314
Interest expense	4	(2,841)	(113)
Net interest income / (expense)		**561,212**	**546,201**
Provision charge for impairment of interest-bearing assets		(335)	(5,172)
Net interest income after provision for impairment		**560,877**	**541,029**
Gains less losses arising from foreign exhange transactions		5,541	20,058
Gains less losses from revaluation of foreign currency		(3,950)	(32,334)
Fee and commission income	5	6,252	6,463
Fee and commission expense	5	(5,547)	(5,205)
Provision charge for impairment of other assets and changes in contingent liabilities		-	473
Other operating income		2,082	578
Operating expenses	6	(248,253)	(228,584)
Profit before tax		**317,002**	**302,478**
Income tax		(429)	(166)
NET PROFIT		**316,573**	**302,312**
Other comprehensive income			
Change in the fair value of financial assets available for sale		61,044	106,010
Total other comprehensive income, net of tax		**61,044**	**106,010**
COMPREHENSIVE INCOME		**377,617**	**408,322**

Signed on 20 October 2017

President I. G. Souvorov

Chief Accountant L.K. Razdevilova

Notes on Pages 9 - 19 make an integral part of these financial statements.

(in RUB'000 unless otherwise stated)

Interim statement of financial position

	Note	30 September 2017 (unaudited)	31 December 2016
ASSETS			
Cash and cash equivalents	7	486,458	288,972
Due from financial institutions	8	4,280,831	3,561,202
Loans and advances to customers		4,953	4,414
Financial assets available for sale	9	4,847,240	3,280,741
Fixed assets and intangible assets		49,754	46,158
Other assets		16,917	13,420
Total assets		**9,686,153**	**7,194,907**
LIABILITIES			
Due to financial institutions	10	1,060,009	281,282
Customers accounts	11	2,959,206	1,621,009
Other liabilities and reserves		27,981	8,257
Total liabilities		**4,047,196**	**1,910,548**
EQUITY			
Authorized capital / Paid-in shares	12	212,086	212,086
Shares in authorized capital reacquired from members	12	(1,100)	(1,100)
Fair value reserve for financial assets available for sale	9	64,508	3,464
Other equity instruments		2,052,230	2,052,230
Retained earnings		3,311,233	3,017,679
Total equity		**5,638,957**	**5,284,359**
Total liabilities and equity		**9,686,153**	**7,194,907**

Signed on 20 October 2017

President I. G. Souvorov

Chief Accountant L.K. Razdevilova

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(in RUB'000 unless otherwise stated)

Interim statement of changes in equity

	Authorized capital / Paid-in shares	Shares in authorized capital reacquired from members	Other equity instruments	Fair value reserve for financial assets available for sale	Retained earnings	Total equity
Balance as of 1 January 2016	**212,086**	**(1,100)**	**2,052,230**	**(125,274)**	**2,632,080**	**4,770,022**
Comprehensive income for nine months ended on 30 September 2016 (unaudited)	-	-	-	106,010	302,312	408,322
Amounts paid on perpetual subordinated debt (unaudited)	-	-	-	-	(23,040)	(23,040)
Balance as of 30 September 2016 (unaudited)	**212,086**	**(1,100)**	**2,052,230**	**(19,264)**	**2,911,352**	**5,155,304**
Balance as of 1 January 2017	**212,086**	**(1,100)**	**2,052,230**	**3,464**	**3,017,679**	**5,284,359**
Comprehensive income for nine months ended on 30 September 2017 (unaudited)	-	-	-	61,044	316,573	377,617
Amounts paid on perpetual subordinated debt (unaudited)	-	-	-	-	(23,019)	(23,019)
Balance as of 30 September 2017 (unaudited)	**212,086**	**(1,100)**	**2,052,230**	**64,508**	**3,311,233**	**5,638,957**

Signed on 20 October 2017

President I. G. Souvorov

Chief Accountant L.K. Razdevilova

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(in RUB'000 unless otherwise stated)

Interim statement of cash flows

	Note	2017 (unaudited)	2016 (unaudited)
Cash flows from operating activities			
Interest received		583,549	611,190
Interest paid		(3,072)	(113)
Fee and commission received		6,252	6,463
Fee and commission paid		(5,547)	(5,205)
Gains less losses arising from foreign exchange transactions		5,541	20,058
Other operating income		1,962	428
Operating expenses paid		(242,403)	(213,803)
Income tax expense		-	193
Cash flows from operating activity before changes in operating assets and liabilities		**346,282**	**419,211**
(Increase) / decrease in net cash from operating assets and liabilities			
Net (increase) / decrease in due from financial institutions		(719,575)	(1,988,772)
Net (increase) / decrease in loans and advances to customers		(539)	(244)
Net (increase) / decrease in other assets		(4,761)	46,120
Net increase / (decrease) in due to financial institutions		778,727	12,763
Net increase / (decrease) in customers accounts		1,337,427	887,431
Net increase / (decrease) in other liabilities		(2,128)	1,361
Net cash from / used in operating activities		**1,735,433**	**(624,852)**
Cash flows from investing activities			
Purchase of financial assets available for sale		(1,737,265)	**-**
Proceeds from disposal of financial assets available for sale		211,499	397,992
Dividends received from investment securities		120	150
Purchase of fixed assets		(8,351)	(8,407)
Net cash from / used in investment activity		**(1,533,997)**	**389,735**
Effect of exchange rate changes on cash and cash equivalents		(3,950)	(32,334)
Net increase in cash and cash equivalents		**197,486**	**(267,451)**
Cash and cash equivalents as at the beginning of the reporting period	**7**	288,972	535,124
Cash and cash equivalents as at the end of the reporting period	**7**	**486,458**	**267,673**

Signed on 20 October 2017

I. G. Souvorov

President

Chief Accountant L.K. Razdevilova

Notes on Pages 9 - 19 make an integral part of these financial statements.

Notes to financial statements

1. Principal activities

The Interstate Bank (hereinafter - the Bank) was established in 1993.

The Bank is an international settlement and financial institution existing and operating in accordance with the provisions of the international public law. The Bank engages in operations in the territory of the states that are parties to the Agreement on Foundation of the Interstate Bank dated 22 January 1993 (hereinafter - the Agreement), on the basis of agreements with the governments and central (national) banks of such states.

The Bank's members are: the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Turkmenistan, and Ukraine.

Pursuant to the Agreement, the Bank's main functions are:

- arrangement of multilateral interstate settlements in trade and other operations;
- provision of assistance for effective and reliable functioning of payment systems in all member states;
- provision of short-term loans to central (national) banks;
- research and analysis of the economies of the states that are parties to the Agreement, elaboration of recommendations and proposals for the central (national) banks regarding coordination of their monetary and foreign exchange policies;
- other banking operations consistent with the Bank's objectives and goals arising out of the Agreement and the Bank's Charter.

The Bank engages in its activities in the Russian Federation as a financial institution in accordance with the Agreement between the Government of the Russian Federation and the Interstate Bank on the Terms of the Presence of the Interstate Bank in the territory of the Russian Federation dated 30 July 1996, and in accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate Bank Banking Activities in the Territory of the Russian Federation" dated 2 December 1996. Pursuant to the said Agreements, the Bank is exempt from taxes, dues and other mandatory charges payable in the territory of the Russian Federation and is authorized to engage in banking activities in the Russian Federation without a license of Bank of Russia. In accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate Bank Banking Activities in the Territory of the Russian Federation" dated 2 December 1996, the Bank is not subject to certain requirements of the federal laws of the Russian Federation "On the Central Bank of the Russian Federation (the Bank of Russia)" and "On Banks and Banking Activity", in particular, to provisions regarding banks regulation and banking supervision.

In accordance with the Agreement between the Bank and the Bank of Russia dated 2 December 1996, the Bank is authorized to sell and buy government securities and precious metals, engage in deposit banking; issue guarantees and sureties, make transactions with financial instruments, open accounts with Russian and foreign financial institutions, and conduct other banking operations that are not prohibited under Russian laws.

The Bank has no branches in the Russian Federation or abroad. The Bank has representative offices in the Republic of Armenia, the Republic of Belarus, and the Kyrgyz Republic.

The main types of banking transactions conducted by the Bank:

settlement transactions, foreign exchange operations, transactions with securities.

The Bank's principal place of business is Moscow.

The Bank's headquarters are at: 15 Shukhova St., Moscow 115162 Russian Federation

2. The basis of preparation

The Bank keeps accounting records in the national currency of the Russian Federation and in accordance with the requirements of the Russian laws. These financial statements have been prepared on the basis of the said accounting records, subject to adjustments necessary to bring them in line with all material aspects of IFRS.

The management has prepared these financial statements on the basis of the going concern assumption. See Note 13 "Effect of estimates and judgemets on recognized assets and liabilities".

The financial statements are presented in the national currency of the Russian Federation – Russian ruble (RUB), which is the Bank's functional currency and the presentation currency. Unless specified otherwise, amounts disclosed in the financial statements are given in thousands of Russian rubles.

The accounting policy and calculation methods used in the preparation of these interim condensed financial statements are in conformity with the accounting policy and methods used and described in the Bank's annual financial statements for the year ended on 31 December 2016, except for changes occurring due to the introduction of new and/or revised standards and interpretations as from 1 January 2017.

Those changes had no material effect on the interim financial information.

The preparation of the financial statements requires the use of estimates and assumptions affecting reflected amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the amounts of income and expenses throughout the reporting period.

The judgments which were made by the Bank's management when applying the accounting policy, materially impact the sums disclosed in the financial statements and are most significant for the financial statements are outlined in Note 13.

3. Principles of accounting policies

3.1. Key Valuation Methods

When accounting for financial instruments, the Bank uses the following methods for their measurement:

- at fair value;
- at amortized cost, or
- at cost.

Fair value is the amount for which an asset can be exchanged or a liability can be settled in a transaction between knowledgeable, willing parties in an arm's length transaction.

Financial instruments are deemed as quoted on an active market if quotations for such instruments are regularly determined and information about them is available on the stock exchange, via information analysis systems or from other information sources, and if such prices reflect real and regular market transactions closed by independent market participants.

The fair value of financial instruments quoted on an active market is determined on the basis of:

- stock market quotations (market prices), generally for financial instruments handled by trade organizers;
- demand price for financial assets and supply price for financial liabilities and the measured fair value determined according to the data from information analysis systems (e.g., Reuters and Bloomberg), market dealers and other sources.

If there are no current quotations on an active market to determine the fair value, the following information can be used:

- the last quotation (demand/supply (price) provided by independent external sources, if the economic situation has not significantly changed between its determination and the reporting date;
- the actual price of the transaction closed by the Bank on standard terms if the economic situation has not significantly changed between the transaction date and the reporting date.

In case of significant changes in the economic situation, the last mentioned quotation (transaction price) is subject to adjustment considering updated quotations (transaction prices) for similar financial instruments. Debt securities may be subject to adjustment of the last mentioned quotation (transaction price), taking into account the updated debt security maturity.

Fair value measurement relies on the going concern assumption implying that the entity does not intend or does not need to be liquidated, considerably reduce the scope of its business, or conduct operations on unfavorable terms. Thus, fair value is not equivalent to the sum received by the Bank from a forced transaction, in case of forced liquidation or sale of assets to repay debt.

The fair value of financial instruments, in respect of which external sources provide no information about market prices (quotations), is measured with the use of valuation methods such as the discounted cash flow model and analysis of financial data on investment targets. If there is a financial instrument valuation method that is widely used by the market participants and that has confirmed the conformity of estimates to prices determined on the basis of actual market transactions, the price of an instrument can be determined by using such valuation method.

The valuation method used can be selected for each individual instance of determining fair value and, unless otherwise justified, the valuation methods based on exchange market prices and quotations of demand and supply prices are to be applied.

Amortized cost of a financial asset or a financial liability is the cost calculated by subtracting the amount of any made (received) payments from the value of the asset or liability at the time of the initial recognition, adjusted by the amount of the accumulated amortization difference between the amounts initially recognized and actually received (paid out) on the financial instrument, and by the value of the recognized impairment losses for such instrument. The said difference is amortized at the effective interest rate. Accumulated interest includes amortization of transaction costs deferred at initial recognition of premiums or discounts of the repayment value with the use of the effective interest rate method. Accumulated interest income and accumulated interest expense, including both the accumulated coupon yield and amortized discount and premium, are not presented separately but are included in the book value of the relevant assets and liabilities.

Cash flows and the effective interest rate are restated for financial assets and financial liabilities with a floating rate at the time of setting a new coupon (interest) rate. The effective rate is restated based on the current amortized cost and expected future payments. In such case, the current amortized cost of a financial instrument does not change and the amortized cost is subsequently restated at the new effective rate.

The effective interest rate method is a method to calculate the amortized cost of a financial asset or a financial liability and to define interest income or expense over a relevant period of life of the financial asset or liability.

The effective interest rate is the rate of discounting of estimated future cash flows during the expected life of a financial instrument or, if applicable, during a shorter period, to the net book value of a financial asset or a financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms related to a financial instrument (e.g., repsyment before maturity option), without accounting for future credit losses.

Such calculation includes all commissions and fees paid and received by the parties under a contract, which are an essential part of calculations of the effective interest rate, transaction costs, and all other premiums and discounts. In case of doubt whether originated loans will be repaid, their book value is adjusted to the recoverable amount, with the interest income being subsequently recognized on the basis of the interest rate that has been used to discount future cash flows in order to determine the recoverable amount.

It is assumed that cash flows and the estimated term for a group of similar financial instruments can be reliably measured. However, in rare cases when it is impossible to measure cash flows or the expected validity term of a financial instrument, the Bank uses contractual cash flows throughout the contracted term of the financial instrument.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset as of the purchase date, and includes transaction cost. Measurement at cost is only applicable to investments in equity instruments, which do not have quoted market prices and the fair value of which cannot be reliably measured, as well as to derivative financial instruments, which are linked to equity instruments unquoted on an open market and must be settled by delivery of such equity instruments. Transaction costs are additional expenses directly related to the acquisition, issue or disposal of a financial instrument and include remunerations and commissions paid to agents, consultants, brokers or dealers, dues and fees paid to regulatory authorities and stock exchanges, and also fees and taxes payable for conveyance of property. Transaction costs do not include premiums or discounts on debt liabilities, financing costs and internal administrative or storage expenses.

3.2 Initial Recognition of Financial Instruments

On initial recognition of a financial asset or a financial liability, the Bank measures it at the fair value plus, in case of a financial asset or a financial liability not measured at the fair value through profit or loss, transaction costs directly related to the acquisition or issue of the financial asset or the financial liability. Profit or loss at the initial recognition of a financial asset or a financial liability is only accounted for if there is a difference between the transaction price and the fair value, which can be evidenced by other current transactions with the same instrument on the market or a valuation method that uses only data from existing markets as the reference data.

In case of standard settlement terms, purchase and sale of financial assets are recognized for accounting purposes as of the transaction date, i.e. the date when the Bank undertakes to purchase or sell the given asset, or as of the settlement date, i.e. the date when the financial asset is delivered to or by the Bank. The chosen method is consistently applied by the Bank to all purchases and sales of financial assets referred to the same category of financial assets. For this purpose, financial assets held for trade form a category separate from financial assets measured at the fair value through profit or loss.

Accounting as of the transaction date implies:

- recognizing a financial asset to be received and liabilities to pay for such asset on the transaction date;
- derecognizing the asset that is the subject of sale, recognizing any profit or loss from its disposal and recognizing receivables from the buyer payable as of the transaction date.

Accounting as of the settlement date implies:

- recognizing the asset on the date of its delivery to the Bank;
- derecognizing the asset and recognizing any profit or loss from its disposal on the date of delivery by the Bank.

When accounting as of the settlement date, the Bank accounts for any change in the fair value of the financial asset to be received between the transaction date and the settlement date, in the same manner as it accounts for the change in the cost of the acquired asset, i.e. the change in the cost is not recognized with respect to assets recorded at cost or at amortized cost; it is booked to profit or loss in relation to assets classified as financial assets measured at the fair value through profit or loss and is recognized in the statement of changes in equity in relation to assets classified as assets available for sale.

In case of accounting as of the settlement date, before settlements are effected transactions are classified as transactions with derivative financial instruments.

3.3 Impairment of financial assets

For the objective recognition of assumed risks in its statements, the Bank forms provisions for investments in all categories of financial assets, excluding those measured at fair value through profit or loss.

Financial assets gets impaired and impairment losses occur only if there are objective signs of impairment as a result of one or several events, which took place after the asset's initial recognition ("event of loss") and if such event (or events) of loss has (have) an impact on the expected future cash flows relating to the financial asset that can be reliably measured.

The main signs that help the Bank to determine whether or not a financial asset is impaired (whether or not there is an event of loss) include the following circumstances:

- any payment becomes overdue and delay in payment is not due to failure in the payment system;
- the borrower or the issuer has significant financial problems, which is evidenced by the borrower's or the issuer's financial statements presented to the Bank;
- the borrower or the issuer considers possibly bankruptcy;
- the borrower's or the issuer's solvency has deteriorated due to changes in the national or regional economic situation, affecting the borrower or the issuer;
- the collateral value has significantly decreased due to unfavorable market conditions;
- for economic or legal reasons, the lender has provided concessional terms to the borrower, which would not have happened under different circumstances;
- assets have been provided to the borrower for repayment of debts under an earlier provided asset;
- the active market for the given financial asset no longer exists due to the issuer's financial difficulties (but not because the asset is no longer traded on the market);
- there is information evidencing that the borrower or the issue has breached contractual terms with respect to similar financial assets.

Losses from impairment of financial assets recorded at amortized cost are recognized in the income statement as they occur as a result of one or several events ("events of loss"), which take place after the initial recognition of a financial asset.

The Bank does not recognize impairment losses at the initial recognition of financial assets.

If the Bank does not have objective evidence of impairment for an individually measured financial asset, regardless of its materiality, such asset is included in a group of financial assets with similar credit risk parameters and is measured for impairment in the aggregate with such assets.

For the aggregate impairment measurement purposes, financial assets are grouped by similar credit risk parameters. Such parameters relate to the measurement of future cash flows for groups of such assets and evidence of debtors' ability to repay all amounts due and payable according to contractual terms with respect to assets measured.

Future cash flows in a group of financial assets aggregately measured for impairment are determined on the basis of contractual cash flows throughout the remaining term of an asset and on the basis of the Bank's statistics on the volumes of overdue debts resulting from events of loss and on the possible recovery of overdue debts. Statistics on previous years are adjusted on the basis of the currently observable data in order to reflect the effect of the current conditions, which had no effect on the previous periods, and to eliminate the effect of past events, which do not exist in the current period.

Losses from impairment of a financial asset are recognized by creating provisions for possible losses from impairment of a financial asset in an amount sufficient to reduce the asset's book value to the current value of the expected cash flows (which does not include future loan losses that have not yet been incurred to date), discounted at the initial effective interest rate for the given asset. The discounted value of the expected cash flows from a collateralized financial asset is calculated by considering cash flows that may arise in case of sale of collateral, less expenses on its sale, regardless of the extent of probability of such sale.

If the amount of the loss from impairment of a financial asset decreases in the subsequent period and such decrease can be objectively regarded to be an event taking place after the recognition of the financial asset's impairment (as, for example, upgrade of the debtor's credit rating), the earlier reflected impairment loss is reversed by adjusting the provisions created through the income statement.

After the loan is adjusted upon impairment to the recoverable amount, the interest income is recognized on the basis of the interest rate that has been used to discount the future cash flows in order to determine the impairment loss.

Financial assets, which are impossible for recover and with respect to which all required procedures have been completed for full or partial recovery and the final loss amount has been determined, are written off out of the provisions for possible impairment losses formed in the balance sheet.

When writing off bad debts and interest thereon, the Bank takes necessary and sufficient measures to collect the specified loan, such measures being practicable in accordance with the laws, on the basis of usual business practice, or under a contract.

If, in case of revision of terms in relation to impaired financial assets, revised terms considerably differ from the previous ones, a new asset is initially recognized at fair value.

Losses from impairment of financial assets available for sale are recognized in the income statement as they occur as a result of one or several events ("events of loss"), which take place after the initial recognition of financial assets available for sale.

A significant or long-term decrease in the fair value of an equity security classified as available for sale below the cost of its acquisition is deemed as a sign of impairment. In case of signs of impairment, the accumulated loss determined as the difference between the acquisition cost and the current fair value less loss from impairment of the given asset, which was earlier recognized in the income statement, is carried over from the statement of changes in equity to the income statement. Losses from impairment of equity instruments are not reversed through the income statement; an increase in fair value upon impairment is recognized directly in the statement of changes in equity.

Debt instruments classified as available for sale are tested for signs of impairment according to the same criteria ("events of loss") as are used for financial assets accounted at amortized cost. The loss amount to be carried over to the income statement equals the difference between the asset acquisition price (less sums paid for the repayment of the principal debt and considering amortization for assets measured by the effective interest rate method) and the current fair value, except for losses from impairment of the given asset that have been earlier recognized in the income statement. Interest income from impaired assets is accrued on the basis of amortized costs determined by considering the recognition of the impairment loss, at the interest rate used to discount the future cash flows in order to measure impairment losses. Interest expense is reflected in the "Interest Income" item of the income statement. If the fair value of a debt instrument classified as available for sale increases in the subsequent reporting period and such increase can be objectively regarded to be an event that has taken place after the recognition of the impairment loss in the income statement, the impairment loss is reversed through the income statement for the current reporting period.

3.4 Derecognition of financial assets

The Bank derecognizes a financial asset only if one of the following occurs:

- the term of the contractual rights of claim for cash flows from the financial asset expires;
- the Bank transfers the financial asset and such transfer meets derecognition criteria.

A financial asset is deemed as transferred by the Bank only if one of the following is true:

- the Bank transfers contractual rights to receive cash flows from the financial asset;
- the Bank reserves contractual rights to receive cash flows from the financial asset but contractually undertakes to pay monies to one or several recipients, and given other certain conditions.

When transferring a financial asset, the Bank measures the extent to which it retains risks and benefits in connection with the possession of the given financial asset. If the Bank:

- transfers a considerable part of all risks and benefits in connection with the possession of a financial asset, such financial asset is derecognized. Rights and obligations that arise or are retained in case of transfer of a financial asset are separately recognized as assets and liabilities;
- retains a considerable part of all risks and benefits in connection with the possession of a financial asset, such financial asset continues to be recognized;
- does not transfer and does not retain a considerable part of all risks and benefits in connection with the possession of a financial asset, the Bank determines whether control over such financial asset has been retained. If control is not retained, the Bank derecognizes the transferred financial asset. Rights and obligations that arise or are retained in case of transfer of a financial asset are separately recognized as assets and liabilities. If control is retained, the Bank continues recognizing the transferred financial asset to the extent, to which it continues its participation in such asset.

If assets are restructured with a significant change of terms, a restructured asset is derecognized and is recorded in the balance sheet as newly acquired.

If financial assets are restructured without any significant change of terms, a restructured asset is reflected at the book value of the restructurable financial asset.

(in RUB'000 unless otherwise stated)

4. Interest income and expense

Interest income and expense have been accounted for as follows.

	For 9 months ended on 30 September	
	2017	**2016**
	(unaudited)	**(unaudited)**
Interest income		
Due from financial institutions	285,310	306,235
Loans to customers	282	333
Financial assets available for sale	278,461	239,746
Total interest income from financial assets not measured at fair value through profit or loss	**564,053**	**546,314**
Total interest income	**564,053**	**546,314**
Interest expense		
Due to financial institutions	(2,308)	(113)
Accounts and deposits of corporate customers	(533)	-
Total interest expenses from financial liabilities not measured at fair value through profit or loss	**(2,841)**	**(113)**
Total interest expenses	**(2,841)**	**(113)**
Net interest income	**561,212**	**546,201**

5. Fee and commission income and expense

Fee and commission income and expenses have been accounted for as follows.

	For 9 months ended on 30 September	
	2017	**2016**
	(unaudited)	**(unaudited)**
Fee and commission income		
From cash and settlement transactions	6,022	6,137
Other fee and commission income	230	326
Total fee and commission income	**6,252**	**6,463**
Fee and commission expense		
Cash transfer services, including payment and settlement system services	(52)	(38)
Settlement and cash services and bank account maintenance	(3,976)	(3,351)
Custody services	(1,305)	(1,599)
Transactions with foreign currency items	(77)	(76)
Other fee and commission expenses	(137)	(141)
Total fee and commission expenses	**(5,547)**	**(5,205)**
Total fee and commission income and expenses	**705**	**1,258**

(in RUB'000 unless otherwise stated)

6. Administrative and other operating expenses

Administrative and other operating expenses were accounted for as follows.

	For 9 months ended on 30 September	
	2017	**2016**
	(unaudited)	**(unaudited)**
Staff costs	191,416	165,165
Depreciation	4,754	5,726
Intellectual property license fees	851	831
Communication services	14,951	17,142
Expenses on fixed assets (maintenance, repairs, disposal)	7,328	6,664
Professional services	1,973	11,963
Advertising and marketing	-	821
Entertaining	600	695
Travel expenses	2,297	4,418
Operating lease expenses	1,726	2,488
Security expenses	5,123	4,834
Office costs	-	184
Tangible assets costs	1,759	1,651
Insurance	1,702	1,611
Legal and arbitration expenses	120	52
Membership fees	2,179	1,082
Other operating expenses	11,474	3,257
Total administrative and other operating expenses	**248,253**	**228,584**

7. Cash and cash equivalents

	30 September 2017	**31 December 2016**
	(unaudited)	
Cash	67,333	44,368
Balances on accounts with the Bank of Russia	48,231	42,354
Cash on correspondent accounts	370,894	202,250
Total cash and cash equivalents	**486,458**	**288,972**

8. Due from financial institutions

Funds due from financial institutions are represented by loans (deposits) provided by the Bank to counterparty banks.

	30 September 2017	**31 December 2016**
	(unaudited)	
Term interbank loans and deposits	4,192,996	3,482,607
Other funds due from financial institutions	92,449	82,874
Total due from financial institutions before impairment provision	**4,285,445**	**3,565,481**
Provision for impairment	(4,614)	(4,279)
Total due from financial institutions	**4,280,831**	**3,561,202**

Other funds due from financial institutions include the Bank's funds held on nostro accounts. For measurement and risk management purposes, a provision was created in the amount of RUB'000 4,614 as of 30.09.2017 (as of 31.12.2016: RUB'000 4,279).

Funds due from other banks are not secured.

Information about the quality of funds due from financial institutions as of 30 September 2017 (unaudited) is provided below.

	Term interbank loans and deposits	Other funds due from financial institutions	Total due from financial institutions
Current (at fair value)			
- (with 20 major Russian banks)	3,752,893	8,067	3,760,960
- (with other Russian banks)	440,103	4	440,107
- (with other banks)	-	84,378	84,378
Total due from financial institutions before deduction of impairment provision	**4,192,996**	**92,449**	**4,285,445**
Provision for impairment	-	(4,614)	(4,614)
Total due from financial institutions	**4,192,996**	**87,835**	**4,280,831**

Information about the quality of funds due from financial institutions as of 31 December 2016 is provided below

	Term interbank loans and deposits	Other funds due from financial institutions	Total due from financial institutions
Current (at fair value)			
- (with 20 major Russian banks)	2,601,712	7,658	2,609,370
- (with other Russian banks)	640,724	2,108	642,832
- (with other banks)	240,171	-	240,171
Total current (at fair value)	**3,482,607**	**9,766**	**3,492,373**
Individually impaired (total amount)			
current but impaired	-	73,108	73,108
Total individually impaired (total amount)	-	**73,108**	**73,108**
Total due from financial institutions less impairment provisions	**3,482,607**	**82,874**	**3,565,481**
Provision for impairment	-	(4,279)	(4,279)
Total due from financial institutions	**3,482,607**	**78,595**	**3,561,202**

In 2016 and 2017, the Bank did not place funds at lower than market rates.

9. Financial assets available for sale

	30 September 2017 (unaudited)	31 December 2016
Deb financial assets		
Eurobonds of the Russian Federation	401,862	406,153
Russian federal bonds (OFZ)	2,571,565	2,253,351
Debt securities of other issuers	1,873,813	621,237
Total debt financial assets	**4,847,240**	**3,280,741**
Total financial assets available for sale before deduction of impairment provision	**4,847,240**	**3,280,741**
Provision for impairment	-	-
Total financial assets available for sale	**4,847,240**	**3,280,741**

In 2017, the Bank did not place funds in financial assets available for sale at lower than market rates.

The securities portfolio as of 30 September 2017 includes one issue of Eurobonds of the Russian Federation (2016: one issue), with a total par value of RUB'000 400,000 (2016: RUB'000 400,000), maturing in March 2018 (2016: in March 2018).

As of 30 September 2017, the coupon rate on the said Eurobonds is 7.85% (2016: 7.85%), with coupon payable twice a year.

The Russian federal bonds (OFZ) portfolio as of 30 September 2017 includes securities of nine issues (2016: eight issues of securities) with a total par value of RUB'000 2,464,800 (2016: RUB'000 2,167,599).

As of 30 September 2017, the coupon rate on the said bonds is between 5.00% and 11,41%, with coupon payable from two to four times a year (2016: between 5.00% and 14.48%).

The debt securities portfolio of other issuers includes: bonds of Russian residents with a credit rating of at least BB+ according to Standard and Poor's and/or a similar rating according to Fitch Ratings, with a total par value of RUB'000 1,810,025 (2016: RUB'000 628,173)

As of 30 September 2017, the coupon rate on the said bonds is between 5.3% and 11,75%, with coupon payable from two to four times a year (2016: between 7.0% and 13.0%).

10. Due to financial institutions

	30 September 2017 (unaudited)	31 December 2016
Correspondent accounts	1,060,009	281,282
Total due to financial institutions	**1,060,009**	**281,282**

During 2017, the Bank did not raise funds from financial institutions at higher than market rates.

11. Customers accounts

	30 September 2017 (unaudited)	31 December 2016
Funds of government and public organizations		
Current and settlement accounts	-	10
Total funds of government and public organizations	**-**	**10**
Funds of non-goverment legal entities		
Current and settlement accounts	2,945,234	1,580,123
Term deposits	-	30,231
Total funds of non-government legal entities	**2,945,234**	**1,610,354**
Funds of individuals		
Current and demand accounts	13,960	7,838
Total funds of individuals	**13,960**	**7,838**
Other customers accounts		
Other customer accounts	12	2,807
Total other customers accounts	12	2,807
Total customers accounts	**2,959,206**	**1,621,009**

Government and public organizations do not include state-owned commercial companies.

In 2017, the Bank did not raise funds from clients at higher than market rates.

A breakdown of clients by industry is provided below.

	30 September 2017 (unaudited)		31 December 2016	
	Amount	%	Amount	%
International organizations	2,896,751	97.9%	1,562,269	96.4%
Government and municipal organizations	0	0.0%	10	0.0%
Insurance	21	0.0%	21	0.0%
Finance and investments	37	0.0%	53	0.0%
Transport	110	0.0%	23	0.0%
Individuals	13,960	0.5%	7,838	0.5%
Trade and services	7,920	0.3%	33,009	2.0%
Industrial enterprises	40,255	1.3%	14,424	0.9%
Education	127	0.0%	523	0.0%
Other	25	0.0%	2,839	0.2%
Total customers accounts	**2,959,206**	**100.0%**	**1,621,009**	**100.0%**

As of 30 September 2017, the balance of account of one client was RUB'000 2,630,451 (2016: RUB'000 1,349,047), or 88.89% of total clients accounts (2016: 83.2%).

(in RUB'000 unless otherwise stated)

12. Authorized capital

	30 September 2017 (unaudited)			31 December 2016		
	Par value	**Value adjusted for inflation**	**Acquisition costs**	**Par value**	**Value adjusted for inflation**	**Acquisition costs**
Shares	20,000	212,086	-	20,000	212,086	-
Repurchase of shares in the authorized capital from members	-	-	(1,100)	-	-	(1,100)
Total authorized capital	**20,000**	**212,086**	**(1,100)**	**20,000**	**212,086**	**(1,100)**

The Bank was founded by the parties to the Agreement on Foundation of the Interstate Bank, signed on 22 January 1993 by heads of the member states: the Republic of Armenia, Republic of Belarus, Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Turkmenistan, the Republic of Uzbekistan, and Ukraine.

In 2012, the Republic of Uzbekistan ceased its membership in the Bank. A respective Agreement on the Settlement of Relations between the Interstate Bank and Republic of Uzbekistan was signed on 16 February 2012.

The votes in the Bank's Council, supreme management body, are distributed between the Bank's members as follows:

Russian Federation – 50% of the total votes; other members – in proportion to the share of each state in the total foreign trade turnover in 1990.

13. Effect of estimates and judgements on recognized assets and liabilities

The Bank makes estimates and judgements having an effect on recognized amounts of assets and liabilities in the next financial year. Estimates and judgements are made and based on past experience and other factors, including anticipated future events, the occurrence of which is expected under certain circumstances.

Losses from impairment of loans and receivables

The Bank analyzes the condition of the loan portfolio for impairment on a continuous basis. In determining whether losses from impairment must be recognized in the income statement, the Bank relies on judgments regarding the existence of information evidencing that anticipated cash flows on the loan portfolio would decrease before such decrease can be identified in respect of a particular loan in that portfolio. Such evidence may include information that a change has occurred in the creditworthiness of the Bank's client, national or local economic situation affecting the decrease of the value of the Bank's assets. The Bank uses estimates based on past experience in respect of losses from assets characterized by credit risk and on objective evidence of impairment similar to that contained in the portfolio in planning future cash flows. The methodology and assumptions used to estimate the amounts and times of cash flows are analyzed on a regular basis in order to reduce the differences between estimate losses and actual impairment losses.

Initial recognition of related party transactions

In the course of its operations, the Bank enters into transactions with related parties. In accordance with IAS 39, initial recognition of financial instruments must be made at fair value. If there is no active market for such transactions, professional judgments are used in order to determine whether the transactions are priced at market or non-market interest rates. The judgment is based on pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

The principle of going concern

The management has prepared these financial statements on the basis of the going concern assumption. Using this judgment, the management took into account the existing intentions, the profitability of transactions, available financial resources and effect of the current economic situation on the Bank's business.

Signed on 20 October 2017

I. G. Souvorov

President

Chief Accountant L.K. Razdevilova