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Interstate Bank

Interim Condensed Financial Statements and Report on Review

for the six-month period ended 30 June 2018*

Moscow | 2018

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*Translation from the original in Russian.
The original Interim Condensed Financial Statement 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 Information

To the Members
of the Interstate Bank
and other persons

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 June 2018, and the related interim statement of comprehensive income, statement of changes in equity, and the statement of cash flows for the six-month period ended 30 June 2018, as well as the underlying accounting policy principles and explanatory notes.

The management is responsible for preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard (IAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We 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 condensed financial statements consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all material matters which might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements of the Interstate Bank are not prepared, in all material respects, in accordance with International Financial Reporting Standard (IAS) 34, *Interim Financial Reporting*.

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President of FBK LLC

S. M. Shapiguzov
On the basis of the Articles of Association,
Auditor's Qualification Certificate No. 01-001230,
ORNZ (Principal Number of Registration Entry)
21606043397

Lead Auditor

A. A. Teryokhina
(Auditor's Qualification Certificate No. 03-000653, 14 May 2014, ORNZ 21806021441)

Date of Report on review

24 July 2018

Entity

Name:

Interstate Bank

Registered address:

15, Shukhova St., 115162 Moscow

State registration:

The Interstate Bank was registered by the Moscow Registration Chamber on 24 March 1994, Certificate No. 030.977. Registration number in the Russian Federation: 2639-МГ.

Auditor

Name:

Limited Liability Company Finansovye i Bukhgalterskie Konsultanty (FBK LLC)

Registered address:

Bldg. 2AB, 44/1 Myasnitskaya St., 101990 Moscow

State registration:

Registered by the Moscow Registration Chamber on 15 November 1993. Registration Certificate: Series ЮЗ 3 No. 484.583 РП. Registered with the Unified State Register of Legal Entities on 24 July 2002 under the Primary State Registration Number 1027700058286.

Membership in self-regulated auditor organizations:

Self-regulated organization of auditors Sodruzhestvo Association.

Number in the register of audit companies of the self-regulated organization of auditors:

Certificate of membership in the Self-regulated Organization of Auditors Sodruzhestvo Association No. 7198, ORNZ 11506030481.

(in RUB'000 unless otherwise stated)

Interim statement of comprehensive income

	Note	2018 (unaudited)	2017 (unaudited)
Interest income	5	361,543	367,842
Interest expense	5	(1,233)	(2,500)
Net interest income / (expense)		**360,310**	**365,342**
Provision charge for expected credit losses on interest-bearing assets		(40)	(10,771)
Net interest income / (expense) after change in the allowance for expected credit losses		**360,270**	**354,571**
Gains net of losses arising from foreign exchange transactions		5,082	3,305
Gains net of losses from foreign currency revaluation		6,170	(2,236)
Fee and commission income	6	4,606	3,939
Fee and commission expense	6	(4,230)	(3,642)
Other operating income		388	1,800
Operating expenses	7	(172,204)	(169,182)
Profit / (loss) before tax		**200,082**	**188,555**
Income tax (expense) / reimbursement		(329)	(353)
NET PROFIT / (LOSS)		**199,753**	**188,202**
Other comprehensive income			
Change in the fair value of financial assets through other comprehensive income		(32,132)	43,626
Total other comprehensive income, net of tax		**(32,132)**	**43,626**
COMPREHENSIVE INCOME		**167,621**	**231,828**

Signed on 20 July 2018.

President I. G. Souvorov

Chief Accountant L. K. Razdevilova

The notes on Pages 9 to 17 form an integral part of these interim condensed financial statements.

(in RUB'000 unless otherwise stated)

Interim statement of financial position

	Note	30 June 2018 (unaudited)	31 December 2017
ASSETS			
Cash and cash equivalents	8	601,800	551,904
Due from financial institutions	9	4,608,553	3,465,921
Loans and advances to customers		3,150	4,531
Financial assets at fair value through other comprehensive income	10	5,019,281	5,556,404
Fixed assets and intangible assets		44,541	48,165
Other assets		20,882	13,660
Total assets		**10,298,207**	**9,640,585**
LIABILITIES			
Due to financial institutions	11	1,126,143	1,178,615
Due to customers	12	3,231,483	2,696,737
Other liabilities and reserves		24,747	8,957
Total liabilities		**4,382,373**	**3,884,309**
EQUITY			
Authorized capital / Paid-in shares	13	212,086	212,086
Shares in authorized capital reacquired from members	13	(1,100)	(1,100)
Revaluation reserve of financial assets at fair value through other comprehensive income	10	71,441	103,573
Other equity instruments		2,052,230	2,052,230
Retained earnings		3,581,177	3,389,487
Total equity		**5,915,834**	**5,756,276**
Total liabilities and equity		**10,298,207**	**9,640,585**

Signed on 20 July 2018.

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	Revaluation reserve of financial assets at fair value through other comprehensive income	Retained earnings	Total equity
Balance as of 01 January 2017	**212,086**	**(1,100)**	**2,052,230**	**3,464**	**3,017,679**	**5,284,359**
Comprehensive income for the six months ended 30 June 2017 (unaudited)	**-**	**-**	**-**	43,626	188,202	**231,828**
Amounts paid on perpetual subordinated debt (unaudited)	**-**	**-**	**-**	-	(15,262)	**(15,262)**
Balance as of 30 June 2017 (unaudited)	**212,086**	**(1,100)**	**2,052,230**	**47,090**	**3,190,619**	**5,500,925**
Balance as of 01 January 2018	**212,086**	**(1,100)**	**2,052,230**	**103,573**	**3,389,487**	**5,756,276**
Comprehensive income for the six months ended 30 June 2018 (unaudited)	**-**	**-**	**-**	(32,132)	199,753	**167,621**
Amounts paid on perpetual subordinated debt (unaudited)	**-**	**-**	**-**	-	(15,262)	**(15,262)**
Effect of adopting IFRS 9	**-**	**-**	**-**	-	7,199	**7,199**
Balance as of 30 June 2018 (unaudited)	**212,086**	**(1,100)**	**2,052,230**	**71,441**	**3,581,177**	**5,915,834**

Signed on 20 July 2018.

President I. G. Souvorov

Chief Accountant L. K. Razdevilova

The notes on Pages 9 to 17 form an integral part of these interim condensed financial statements.

(in RUB'000 unless otherwise stated)

Interim statement of cash flows

	Note	2018 (unaudited)	2017 (unaudited)
Cash flows from operating activities			
Interest received		388,071	345,354
Interest paid		(1,244)	(2,730)
Fees and commissions received		4,606	3,939
Fees and commissions paid		(4,230)	(3,642)
Gains / (losses) arising from foreign exchange transactions		5,082	3,305
Other operating income		88	1,680
Operating expenses paid		(168,845)	(164,479)
Cash flow from / (used in) operating activities before changes in operating assets and liabilities		**223,528**	**183,427**
(Increase) / decrease in net cash from operating assets and liabilities			
Net (increase) / decrease in funds due from financial institutions		(1,126,490)	(446,584)
Net (increase) / decrease in loans and advances to customers		1,381	(2,566)
Net (increase) / decrease in other assets		(5,529)	(2,925)
Net increase / (decrease) in funds due to financial institutions		(52,472)	772,278
Net increase / (decrease) in funds due to customers		534,757	1,202,731
Net increase / (decrease) in other liabilities		(712)	(1,385)
Net cash received from / (used in) operating activities		**(425,537)**	**1,704,976**
Cash flows from investing activities			
Purchase of financial assets at fair value through other comprehensive income		-	(1,737,265)
Proceeds from disposal of financial assets at fair value through other comprehensive income		469,088	86,310
Dividends received from investment securities		300	120
Purchase of fixed assets		(125)	(7,654)
Net cash received from / (used in) investing activities		**469,263**	**(1,658,489)**
Effect of exchange rate changes on cash and cash equivalents		6,170	(2,236)
Net increase in cash and cash equivalents		**49,896**	**44,251**
Cash and cash equivalents as of the beginning of the reporting period	8	551,904	288,972
Cash and cash equivalents as of the end of the reporting period	**8**	**601,800**	**333,223**

Signed on 20 July 2018.

President I. G. Souvorov

Chief Accountant L. K. Razdevilova

The notes on Pages 9 to 17 form an integral part of these interim condensed 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 that exists and operats in accordance with the provisions of 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 operates 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 supreme management body is the Council of the Bank chaired by Mr. Arthur Javadyan, Chairman of the Central Bank of the Republic of Armenia.

The Bank's principal place of business is Moscow.

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

On 21 December 2017, Fitch Ratings assigned the Interstate Bank a long-term credit rating at the level of BB with a positive outlook. The credit rating was received by the Bank for the first time in the history of the Bank.

2 The basis of preparation

These interim condensed financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standard 34, *Interim Financial Reporting* and covers the six-month period ended 30 June 2018. An audit has not been conducted on these interim condensed financial statements.

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 based on the going concern assumption. See Note 14 *Effect of Estimates and Judgements on Recognized Assets and Liabilities*.

The financial statements are presented in the Russian Federation currency (RUB), which is the Bank's functional currency and the presentation currency. Unless otherwise specified, figures provided in the financial statements are in thousands of Russian rubles.

Changes in the accounting policy and presentation. The accounting policy and calculation methods used in preparation of these interim condensed financial statements conform with the accounting policy and methods used and described in the Bank's annual financial statements for the year ended 31 December 2017, except for changes occurring due to introducing new and/or revised standards and interpretations as from 1 January 2018.

During the first half of 2018, the Bank adopted IFRS 9, *Financial Instruments*. As permitted by the Standard's transitional provisions, the Bank has not restated the comparative information. Therefore, the comparative information is presented in accordance with the previous accounting policies as described in the Bank's 2017 annual financial statements. Differences arising in the carrying amounts of financial assets and liabilities as of 1 January 2018 were recognized directly in retained earnings and other capital components in the reporting period.

3 Principles of accounting policies

3.1. Financial Instruments

Depending on the classification, financial instruments are reported at fair value or amortized cost as described below.

Fair value is an amount for which an asset can be exchanged or a liability can be settled in an arm's length transaction between knowledgeable, willing parties. The fair value measurement is based on the assumption that selling an asset or settling a liability occurs either in the primary market for a given asset or liability, or in the absence of a primary market in the most advantageous market for the asset or liability. Fair value is the current ask price for financial assets, current demand price for financial liabilities, and the average current demand and ask prices when the Bank holds both a short-term and long-term position for a financial instrument. A financial instrument is considered to be quoted in an active market if quotes are regularly and at any time available through an exchange or other institution, and these prices represent actual market transactions that are regularly performed on an ongoing basis. Measurement methods are used to estimate fair value of certain financial instruments for which external market pricing data are unavailable. These measurement methods include discounted cash flow models, generally accepted option pricing models, models based on recent transactions between independent market participants and analyses of the financial performance of investment vehicles. Measurement methods may require assumptions that are not supported by any observable market data.

Amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial asset, adjusted for any loss allowance.

Gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the transaction had not been executed. Transaction costs include fees and commission paid to agents (including employees acting as selling agents),advisers, brokers, and dealers, levies by regulatory agencies and security exchanges, transfer and taxes and duties. Transaction costs do not include debt premiums and discounts, financing costs or internal administrative or holding costs.

Effective interest method is the method for allocation of interest income or interest expenses over a certain period to ensure a constant periodic interest rate (effective interest rate) on the current value of the instrument. Effective interest rate is that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate for financial instruments other than impaired financial assets, the Bank shall estimate the expected cash flows by considering all the contractual terms of the financial instrument, but shall not consider the expected credit losses. For impaired financial assets, the effective interest rate shall be adjusted for credit risk, which includes expected credit losses on estimated future cash flows. Calculating the effective interest rate shall incorporate transaction costs and fees and commissions paid or received which are an integral part of the effective interest rate. Transaction costs shall incorporate incremental costs directly attributable to the acquisition or issue of a financial asset or liability.

3.2. Initial Recognition of Financial Instruments

A financial asset or liability shall be initially recognized at fair value plus, for an instrument not measured at fair value through profit or loss, any transaction costs that are directly related to its acquisition or issue. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. Gains or losses from the initial recognition shall be recognized only if there is a difference between the fair value and the transaction price, as evidenced by other currently observable market transactions for the same instrument or methods of assessment, which only include information from observable markets.

All purchases and sales of financial assets that require delivery within terms set by rules or by the market environment (the *normal method* of purchase and sale) shall be recognized as of the transaction date, which is the date when the Bank assumed the obligation to provide the financial instrument. All other purchases and sales shall be recognized when the entity becomes a party to the contractual provisions of the instrument.

The classification of financial instruments at the initial recognition. Starting from 1 January 2018 upon initial recognition a financial asset shall be designated as measured at amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).

The classification and subsequent measurement of financial assets depend on a business model the Bank employs for managing assets and their cash flow characteristics.

1. The business model whose objective is to hold financial assets in order to collect contractual cash flows.

Contractual terms and conditions of financial instruments held within this business model give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

This business model shall apply to the following types of financial assets:

1) Interbank term loans and deposits
2) Cash on correspondent accounts
3) Other funds due from financial institutions
4) Loans and advances to customers

In accordance with paragraph 4.1.2 of IFRS 9, the Bank shall classify these financial assets as measured at amortised cost.

2. The business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

This business model shall apply to the portfolio of debt securities. Managing the securities portfolio shall imply long-term maintaining a sufficient level of interest income and ensuring a liquidity buffer. Decisions on sales shall be made as opportunities occur to reinvest in higher yielding financial assets, and if improving liquidity is required.

Interest (coupon) payments and principal payments on the debt shall be made on the dates specified in the terms and conditions of the securities issues.

Investments in debt securities held to collect contractual cash flows and sale, not designated as estimated at fair value through profit or loss, shall be measured at fair value through other comprehensive income. Changes in the fair value of these investments shall be recognized in other comprehensive income while the amount of impairment determined based on the expected credit loss model shall be recognized in the profit or loss for the current year.

Investments in equity instruments shall always be measured at fair value. However, the management may irrevocably designate those as measured at fair value through other comprehensive income if the instrument is not classified a*s held for trading*. If an equity instrument is classified as held for trading, changes in its fair value shall be recognized in profit or loss.

3. The business model whose objective is to generate income from selling financial instruments and other business models.

Financial assets with cash flows that do not meet the criteria for solely payments of principal and interest on the outstanding principal amount shall be measured at fair value with any changes recognized in profit or loss (derivative instruments). Embedded derivatives shall not be separated from financial assets, but shall be included for the purposes of SPPI test.

Reclassifying financial assets. Financial assets shall not be reclassified after their initial recognition, except for the period following a change in the business model in order to manage the financial assets.

Liabilities. The Bank shall classify its liabilities, other financial guarantees, and credit liabilities as measured at amortized cost or at fair value through profit or loss.

3.3. Impairment of Financial Assets

The adoption of IFRS 9 fundamentally changes the Bank's approach to loan impairment accounting. Instead of the loss-based approach under IAS 39, a forward-looking approach is introduced that requires expected credit losses (ECL) to be recognized. Starting from 1 January 2018, the Bank recognizes the allowance for expected credit losses on all loans and other debt financial assets that are not measured at fair value through profit or loss, as well as on loan commitments and financial guarantees (collectively referred to herein as the financial instruments). IFRS 9 impairment requirements shall not apply to equity instruments.

Based on forecasts, the Bank estimates the expected credit losses from debt-based financial assets measured at amortized cost and at fair value through other comprehensive income, and the risks arising from loan commitments and financial guarantees. The Bank shall estimate expected credit losses and recognize the loss allowance for expected credit losses at each reporting date. The estimated expected credit losses should reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasted economic conditions.

Debt-based financial assets measured at amortized cost shall be recognized in the statement of financial position net of the loss allowance for expected credit losses. With respect to loan commitments and financial guarantees (if these can be separated from the loan), a separate loss allowance for expected credit losses shall be recognized as a liability in the statement of financial position. For debt instruments measured at fair value through other comprehensive income, any allowance for expected credit losses shall be recognized in profit or loss, affecting the profits or losses during the course of fair value changes recognized in other comprehensive income, and shall not reduce the carrying amount of these instruments.

The Bank shall apply the impairment accounting model in accordance with IFRS 9, based on changes in the loan quality since the initial recognition:

- a financial asset that is not impaired upon its initial recognition, without a significant increase in its credit risk since its initial recognition, as well as assets attributable to the low-risk portfolio at the reporting date, shall be classified as a Stage 1 asset. For Stage 1 financial assets, expected credit losses shall be recognized at an amount equal to the portion of lifetime expected credit losses that arise from defaults which may occur over the next 12 months (12-month ECL).
- if the Bank identifies a significant increases in credit risk since initial recognition, the asset shall be transferred to Stage 2, and the lifetime expected credit losses shall be recognized (lifetime ECL).
- if the Bank determines that a financial asset is impaired: a default status is assigned to the borrower while simultaneously recognizing the loan as impaired, the asset shall be transferred to Stage 3 and the lifetime expected credit losses shall be recognized.

For purchased or originated impaired financial assets, the expected credit losses shall always be measured as expected credit losses over the entire term.

At each reporting date the Bank shall perform an assessment in order to identify any significant increases in credit risk since initial recognition of the financial instrument. The following components shall be used to calculate ECL:

PD – Probability of Default, an estimate of the likelihood of default to occur over a given time period (12 months or the entire life of the instrument (lifetime PD)).

LGD – Loss Given Default, an estimate of the loss arising on default. The values shall be determined using models based on internal statistics.

EAD – Exposure at Default, an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date.

Adopting of IFRS 9 has not resulted in any material impact on these interim condensed financial statements of the Bank.

(in RUB'000 unless otherwise stated)

4 Adopting new or revised standards and interpretations, reclassifications

COMPARATIVE CLASSIFICATIONS OF FINANCIAL INSTRUMENTS

Financial assets	Classification under IAS 39	Classification under IFRS 9
Interbank term loans and deposits	Measured at amortized cost	Measured at amortized cost
Funds on correspondent accounts	Measured at amortized cost	Measured at amortized cost
Other funds due from financial institutions	Measured at amortized cost	Measured at amortized cost
Loans and advances to customers	Loans and receivables	Measured at amortized cost
Securities	Financial assets available for sale	Measured at fair value through other comprehensive income
Due to financial institutions	Measured at amortized cost	Measured at amortized cost
Due to customers	Measured at amortized cost	Measured at amortized cost

The tables below show the effect of transitioning to IFRS 9 on the statement of financial position and retained earnings as of 1 January 2018, including the impact of transitioning from the incurred credit losses model under IAS 39 to the expected credit losses model under IFRS 9.

Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 31 December 2017	Impact of credit loss re-measurement under IFRS 9	Carrying amount under IFRS 9 1 January 2018
Cash and cash equivalents	Cash and cash equivalents	551,904	-	551,904
Due from financial institutions	Due from financial institutions	3,465,921	7,136	3,473,057
Financial assets available for sale	Financial assets at fair value through other comprehensive income	5,556,404	-	5,556,404
Other assets	Other assets	237	63	300
Retained earnings	Retained earnings	3,389,487	7,199	3,396,686

5 Interest income and expenses

Interest income and expenses have been accounted for as follows.	For the 6 months ended 30 June	
	2018 (unaudited)	**2017 (unaudited)**
Interest income		
On funds due from financial institutions	151,925	197,392
On loans to customers	99	187
On financial assets at fair value through other comprehensive income	209,519	170,263
Total interest income from financial assets not measured at fair value through profit or loss	**361,543**	**367,842**
Total interest income	**361,543**	**367,842**
Interest expense		
On funds due to financial institutions	(902)	(1,967)
On accounts and deposits of corporate customers	(331)	(533)
Total interest expense on liabilities not measured at fair value through profit or loss	**(1,233)**	**(2,500)**
Total interest expense	**(1,233)**	**(2,500)**
Net interest income	**360,310**	**365,342**

(in RUB'000 unless otherwise stated)

6 Fee and commission income and expenses

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

	For the 6 months ended 30 June	
	2018 (unaudited)	**2017 (unaudited)**
Fee and commission income		
From cash and settlement transactions	4,458	3,768
Other fee and commission income	148	171
Total fee and commission income	**4,606**	**3,939**
Fee and commission expense		
Cash transfer services, including payment and settlement system services	(37)	(23)
Settlement and cash services and bank account maintenance	(3,462)	(2,452)
Custody services	(586)	(1,028)
Transactions with foreign currency items	(51)	(51)
Other commission expense	(94)	(88)
Total fee and commission expense	**(4,230)**	**(3,642)**
Total fee and commission income and expense	**376**	**297**

7 Administrative and other operating expenses

Administrative and other operating expenses were accounted for as follows.

	For the 6 months ended 30 June	
	2018 (unaudited)	**2017 (unaudited)**
Staff costs	133,362	130,330
Depreciation	3,748	3,105
Intellectual property license fees	760	602
Communication services	5,748	6,032
Expenses on fixed assets (maintenance, repairs, disposal)	4,177	5,365
Professional services	461	810
Advertising and marketing	7	-
Entertaining	507	467
Travel expenses	1,207	954
Operating lease expenses	2,022	1,060
Security expenses	3,463	3,412
Write-off of tangible assets	1,568	1,503
Insurance	1,025	1,115
Other operating expenses	14,149	14,427
Total administrative and other operating expenses	**172,204**	**169,182**

8 Cash and cash equivalents

	30 June 2018 (unaudited)	**31 December 2017**
Cash	83,770	40,378
Balances on accounts with the Bank of Russia	30,534	128,214
Cash on correspondent accounts	487,496	383,312
Total cash and cash equivalents	**601,800**	**551,904**

Funds on correspondent accounts are measured at amortized cost calculated in accordance with IFRS 9.

(in RUB'000 unless otherwise stated)

9 Due from financial institutions

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

	30 June 2018 (unaudited)	31 December 2017
Interbank term loans and deposits	4,466,923	3,307,877
Other funds due from financial institutions	142,531	166,041
Total due from financial institutions before deduction of the allowance for ECL	**4,609,454**	**3,473,918**
Expected credit losses allowance	(901)	(7,997)
Total due from financial institutions	**4,608,553**	**3,465,921**

Other funds due from financial institutions include the Bank's funds held in nostro accounts.

The funds due from financial institutions are unsecured.

Information about the quality of funds due from financial institutions as of 30 June 2018, (unaudited) is provided below.

	Interbank term loans and deposits	Other funds due from financial institutions	Total due from financial institutions
Current			
- with 20 major Russian banks	-	909	909
- with other banks	-	71,455	71,455
Total current	-	**72,364**	**72,364**
Individually provisioned, current,			
current, provisioned	4,466,923	70,167	4,537,090
Total individually impaired, current	**4,466,923**	**70,167**	**4,537,090**
Total due from financial institutions before deduction of the allowance for ECL	**4,466,923**	**142,531**	**4,609,454**
Expected credit losses allowance	(635)	(266)	(901)
Total due from financial institutions	**4,466,288**	**142,265**	**4,608,553**

Information about the quality of funds due from financial institutions as of 31 December 2017, is provided below.

	Interbank term loans and deposits	Other funds due from financial institutions	Total due from financial institutions
Current			
- with 20 major Russian banks	3,307,877	13,584	3,321,461
Total current	**3,307,877**	**13,584**	**3,321,461**
Individually provisioned, current,			
current, provisioned	-	152,457	152,457
Total individually provisioned, current	-	**152,457**	**152,457**
Total due from financial institutions before deduction of the provision	**3,307,877**	**166,041**	**3,473,918**
Provision for impairment	-	(7,997)	**(7,997)**
Total due from financial institutions	**3,307,877**	**158,044**	**3,465,921**

In 2017 and 2018 the Bank did not place funds at lower than market rates.

(in RUB'000 unless otherwise stated)

10 Financial assets at fair value through other comprehensive income

	30 June 2018 (unaudited)	31 December 2017
Debt-based financial assets		
Russian Federation Eurobonds	-	410,034
Russian federal bonds	2,483,630	2,606,818
Debt securities of other issuers	2,535,651	2,539,552
Total debt-based financial assets	**5,019,281**	**5,556,404**
Total financial assets at fair value through other comprehensive income before deduction of the allowance for ECL	**5,019,281**	**5,556,404**
Total financial assets at fair value through other comprehensive income	**5,019,281**	**5,556,404**

In 2018, the Bank did not invest funds in financial assets at fair value through other comprehensive income at lower than market rates.

The Russian federal bonds portfolio as of 30 June 2018, includes eight issues of securities (2017: nine issues of securities) with a total par value of RUB 2,384,799,000 (2017: RUB 2,167,599,000).

As of 30 June 2018, the coupon rates on these bonds were between 5.00 % and 9.12 %, with coupon payable from two to four times a year (2017: between 5.00 % and 11.41 %).

The portfolio of debt securities from other issuers includes: bonds of Russian residents with a long-term credit rating of at least BB+ according to Fitch Ratings, and (or) a similar rating according to Standard and Poor's, with a total par value of RUB 2,457,074,000 (2017: RUB 1,288,824,000)

As of 30 June 2018, the coupon rates on these bonds were between 6.0 % and 11.75 %, with coupon payable from two to four times a year (2017: 6.0 % to 11.75 %).

11 Due to financial institutions

	30 June 2018 (unaudited)	31 December 2017
Correspondent accounts	1,126,143	1,178,615
Total due to financial institutions	**1,126,143**	**1,178,615**

During 2018, the Bank did not raise funds from financial institutions at rates above market.

12 Due to customers

	30 June 2018 (unaudited)	31 December 2017
Funds of government and public organizations		
Current and settlement accounts	37,077	-
Total funds of government and public organizations	**37,077**	**-**
Funds of non-government enterprises		
Current and settlement accounts	3,182,928	2,684,374
Total funds of non-government enterprises	**3,182,928**	**2,684,374**
Funds of individuals		
Current and demand accounts	11,072	12,360
Total funds of individuals	**11,072**	**12,360**
Other customers funds		
Other customers accounts	406	3
Total other customers funds	**406**	**3**
Total customers funds	**3,231,483**	**2,696,737**

In 2018, the Bank did not raise client deposits at rates above market.

A breakdown of clients by industry is given below:

	30 June 2018 (unaudited)		31 December 2017	
	Amount (RUB'000)	%	Amount (RUB'000)	%
International and public organizations	3,112,872	96.3 %	2,663,663	98.8 %
Industrial enterprises	47,265	1.5 %	12,704	0.5 %
Government and municipal organizations	37,077	1.2 %	-	0.0 %
Individuals	11,072	0.3 %	12,360	0.4 %
Other	12,747	0.4 %	16	0.0 %
Trade and services	7,890	0.2 %	7,700	0.3 %
Finance and investments	2,393	0.1 %	15	0.0 %
Education	153	0.0 %	149	0.0 %
Transportation	14	0.0 %	109	0.0 %
Insurance	-	0.0 %	21	0.0 %
Total customers' funds	**3,231,483**	**100.0 %**	**2,696,737**	**100.0 %**

As of 30 June 2018, the account balance of one corporate client was RUB 2,744,489,000, which is 84.9 % of clients accounts.

In 2017 and 2018, the Bank did not raise client deposits at rates above market.

13 Authorized capital

	30 June 2018 (unaudited)			31 December 2017		
	Par value	**Inflation-adjusted value**	**Acquisition cost**	**Par value**	**Inflation-adjusted value**	**Acquisition cost**
Shares	20,000	212,086		20,000	212,086	
Shares in authorized capital reacquired 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, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Turkmenistan, Ukraine, and the Republic of Uzbekistan.
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 the Republic of Uzbekistan was signed on 16 February 2012.

The votes in the Council of the bank, the supreme management body of the Bank, are distributed between the members states as follows:

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

14 Effect of estimates and judgements on recognized assets and liabilities

The Bank makes estimates and assumptions that impact the recognized amounts of assets and liabilities during the next financial year. Estimates and judgments are made based on past experience and other factors, including anticipated future events which may occur under certain circumstances.

Initial recognition of related party transactions

In the course of its operations, the Bank enters into related party transactions. In accordance with IFRS 9, the initial recognition of financial instruments shall be at fair value. If there is no active market for such transactions, professional judgments are used in order to determine whether 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.

Going concern principle

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

Signed on 20 July 2018.

President I. G. Souvorov

Chief Accountant L. K. Razdevilova