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Interstate Bank

Report on Review of Interim Condensed Financial Statements

for the six-month period ended 30 June 2019

Moscow | 2019



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Report on Review of Interim Condensed Financial Information

To members of the Interstate Bank

Introduction

We have reviewed the accompanying interim condensed financial information of the Interstate Bank, which comprises the interim statement of financial position as of 30 June 2019 and the related interim statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, as well as selected explanatory notes to the interim condensed financial information.

The management is responsible for the preparation and fair presentation of this interim condensed financial information in accordance with International Accounting Standard (IAS) 34 «Interim Financial Reporting». Our responsibility is to express a conclusion on this interim condensed financial information 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 information consists of making inquiries, primarily of 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 significant matters that 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 information of the Interstate Bank is not prepared, in all material respects, in accordance with the International Accounting Standard IAS 34 «Interim Financial Reporting».

President of FBK, LLC

Engagement Partner

Date of the report of review
25 July 2019



S.M. Shapiguzov

On the basis of the Articles of Association,
Auditor's Qualification Certificate No. 01-001230,
ORNZ 21606043397

A.A. Terekhina

Auditor's Qualification Certificate No. 03-000653,
ORNZ 21806021441

Audit entity

Name:

Interstate Bank

Place of business:

15 Shukhova St., Moscow, 115162

Official 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
Bukhgalterskie Konsultanty (FBK LLC)

Place of business:

44/1, 2AB, Myasnitskaya St, Moscow, 101990,
Russian Federation.

Official registration:

State Registration Certificate series Ю3 3
No. 484.583 ПП issued by Moscow Registration
Chamber on 15 November 1993.

The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number (OGRN) 1027700058286.

Membership in a self-regulatory auditor organization:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of audit organizations registered with the self-regulatory audit organization:

Certificate of membership in the Self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, principal number of registration entry (ORNZ) – 11506030481.

Interim statement of comprehensive income

	Note	30 June 2019 (unaudited)	30 June 2018 (unaudited)
Interest income	5	396,627	361,543
Interest expenses	5	(1,561)	(1,233)
Net interest income		395,066	360,310
Change in allowance for expected credit losses on interest-bearing assets		830	(40)
Net interest income after allowance for expected credit losses		395,896	360,270
Gains less losses arising from transactions with financial assets		(515)	-
Gains less losses arising from operations with foreign currency and derivative financial instruments		5,220	5,082
Gains less losses from revaluation of foreign currency		(8,585)	6,170
Fee and commission income	6	6,221	4,606
Fee and commission expense	6	(6,120)	(4,230)
Other operating income		2,221	388
Operating expenses	7	(188,588)	(172,204)
Profit before tax		205,750	200,082
Income tax		(365)	(329)
NET PROFIT		205,385	199,753
Other comprehensive income			
Change in the fair value of financial assets through other comprehensive income		134,256	(32,132)
Total other comprehensive income		134,256	(32,132)
COMPREHENSIVE INCOME		339,641	167,621

Signed on 25 July 2019.

President

I. G. Souvorov

Chief Accountant

L. K. Razdevilova



The notes on Pages 9 to 17 constitute an integral part of these financial statements.

Interim statement of financial position

	Note	30 June 2019 (unaudited)	31 December 2018
ASSETS			
Cash and cash equivalents	8	642,720	690,662
Due from financial institutions	9	4,075,882	5,362,792
Loans and advances to customers		8,901	10,273
Financial assets at fair value through other comprehensive income	10	6,107,824	4,700,142
Fixed assets and intangible assets		53,447	51,063
Right-of-use assets		3,732	-
Other assets		27,377	20,405
Total assets		10,919,883	10,835,337
LIABILITIES			
Due to financial institutions	11	1,132,748	1,306,496
Due to customers	12	3,474,366	3,560,372
Lease liabilities		4,058	-
Other liabilities		25,636	9,773
Total liabilities		4,636,808	4,876,641
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 for financial assets at fair value through other comprehensive income		73,377	(60,879)
Other equity instruments		2,052,230	2,052,230
Retained earnings		3,946,482	3,756,359
Total equity		6,283,075	5,958,696
Total liabilities and equity		10,919,883	10,835,337

Signed on 25 July 2019.

President

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Interim statement of changes in equity

	Authorized capital / Paid-in shares	Shares in authorized capital reacquired from members	Revaluation reserve for financial assets at fair value through other comprehensive income	Other equity instruments	Retained earnings	Total equity
Balance as of 1 January 2018	212,086	(1,100)	103,573	2,052,230	3,389,487	5,756,276
Effect of adopting IFRS 9	-	-	-	-	7,199	7,199
Balance as of 1 January 2018 after adoption	212,086	(1,100)	103,573	2,052,230	3,396,686	5,763,475
Comprehensive income for the period ended 30 June 2018 (unaudited)	-	-	(32,132)	-	199,753	167,621
Amounts paid on perpetual subordinated debt	-	-	-	-	(15,262)	(15,262)
Balance as of 30 June 2018 (unaudited)	212,086	(1,100)	71,441	2,052,230	3,581,177	5,915,834
Balance as of 1 January 2019	212,086	(1,100)	(60,879)	2,052,230	3,756,359	5,958,696
Comprehensive income for the period ended 30 June 2019 (unaudited)	-	-	134,256	-	205,385	339,641
Amounts paid on perpetual subordinated debt	-	-	-	-	(15,262)	(15,262)
Balance as of 30 June 2019 (unaudited)	212,086	(1,100)	73,377	2,052,230	3,946,482	6,283,075

Signed on 25 July 2019.

President

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Chief Accountant

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The notes on Pages 9 to 17 constitute an integral part of these financial statements.

Interim statement of cash flows

	30 June 2019 (unaudited)	30 June 2018 (unaudited)
<i>Cash flows from operating activities</i>		
Interest received	401,519	388,071
Interest paid	(1,270)	(1,244)
Fees and commissions received	6,221	4,606
Fees and commissions paid	(6,120)	(4,230)
Gains arising from operations with foreign currency and derivative financial instruments	5,220	5,082
Other operating income	33	88
Operating expenses paid	(182,708)	(168,845)
Interest expenses paid on the lease liabilities	(291)	-
Cash flows received from operating activities before changes in operating assets and liabilities	222,604	223,528
Net (increase) / decrease in due from financial institutions	1,280,196	(1,126,490)
Net (increase) / decrease in loans and advances to customers	1,372	1,381
Net (increase) / decrease in other assets	(6,972)	(5,529)
Net increase / (decrease) in due to financial institutions	(173,748)	(52,472)
Net increase / (decrease) in due to customers	(86,006)	534,757
Net increase / (decrease) in other liabilities	(725)	(712)
Net cash received from / (used in) operating activities	1,236,721	(425,537)
<i>Cash flows from investing activities</i>		
Purchase of financial assets at fair value through other comprehensive income	(1,543,117)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	271,500	469,088
Dividends received from investment securities	300	300
Purchase of fixed assets and intangible assets	(6,649)	(125)
Proceeds from disposal of fixed assets	1,888	-
Net cash (used in)/received from investing activities	(1,276,078)	469,263
Effect of exchange rate changes on cash and cash equivalents	(8,585)	6,170
Net increase in cash and cash equivalents	(47,942)	49,896
Cash and cash equivalents at the beginning of the reporting period	690,662	551,904
Cash and cash equivalents at the end of the reporting period	642,720	601,800

Signed on 25 July 2019.

President

I. G. Souvorov

Chief Accountant

L. K. Razdevilova



The notes on Pages 9 to 17 constitute 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 that exists and operates in accordance with the provisions of international public law. The Bank operates in 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 these 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, and Turkmenistan.

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

- arrangement of multilateral interstate settlements in trade and other operations;
- provision of assistance for the 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, development of recommendations and proposals for the central (national) banks regarding the 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 Interstate Bank's Presence in 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 Banking Activities by the Interstate Bank in the Territory of the Russian Federation" dated 2 December 1996. Pursuant to these agreements, the Bank is exempt from taxes, duties and other mandatory charges payable within the Russian Federation and is authorized to engage in banking activities in the Russian Federation without a license from the 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 Banking Activities by the Interstate Bank in the Territory of the Russian Federation" dated 2 December 1996, the Bank is not subject to certain requirements of the Russian Federation federal laws "On the Central Bank of the Russian Federation (the Bank of Russia)" and "On Banks and Banking Activity", in particular, with regard to the provisions concerning banking regulation and banking supervision.

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

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 following are the main types of banking transactions conducted: settlement transactions, foreign exchange operations and transactions with securities.

The supreme governing body is the Bank's Council headed by Mr Artur 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.

In December 2017, the international rating agency Fitch Ratings assigned the Bank a long-term credit rating at the level of BB with a positive outlook (the rating was confirmed in December 2018).

2 Basis of Preparation

These interim condensed financial statements of the Bank have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*, and cover the six-month period ended 30 June 2019. No audit has been conducted on these interim condensed financial statements.

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

The management prepared these financial statements on a going concern basis. See Note 15 *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 stated, figures in the financial statements are provided in thousands of Russian rubles.

Changes in accounting policy and presentation. The accounting policies and methods of computation used in preparing these interim condensed financial statements are consistent with the accounting policies and methods used and described in the Bank's annual financial statements for the year ended 31 December 2018, except for the changes related to the adoption of new and/or revised standards and interpretations as of 1 January 2019.

During the first half of 2019, the Bank adopted IFRS 16 *Leases*. As permitted by the Standard's transitional provisions, the Bank has not restated the comparatives. Therefore, all the information on the comparative period is presented in accordance with the previous accounting policies as described in the Bank's 2018 annual financial statements.

Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019). Uncertainty in the interpretation of tax laws may have an impact on accounting for current or deferred tax assets or liabilities. The interpretation clarifies the way the requirements of IAS 12 *Income Taxes* apply to recognition and measurement where there is any uncertainty over income tax treatments. In such a case, an entity is required to recognize and measure its current and deferred tax assets or liabilities on the basis of taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates determined in accordance with this Interpretation.

The Bank does not expect these amendments to have any material impact on the Bank's financial statements.

In IFRS 7 *Financial Instruments: Disclosures*, the references to the previous editions of the standards for consolidated and separate statements IFRS 10, IAS 27 have been removed.

The following are new and revised standards and interpretations that have been issued but are not yet effective.

IFRS 17 *Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2021). The new standard establishes the principles of recognition, valuation, presentation and disclosure of insurance policies and replaces IFRS 4 *Insurance Contracts*. This standard provides for a general model modified under insurance contracts with direct participation components described as variable premium contracts.

The general model is presented in simplified form, subject to certain criteria, through the valuation of liabilities for the remaining insurance coverage, employing the insurance premium distribution approach. The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows, and will separately measure the value of such uncertainty; the model considers market interest rates and the impact of insurance holder options and guarantees. Profit from insurance policy sales is deferred to future periods in a separate liability component on day one and aggregated into groups of insurance contracts; it is then recognized systematically in the profit and loss statement during the period in which insurers provide insurance coverage, adjusting for changes in assumptions regarding future insurance coverage.

The standard is applied retrospectively, except where this is not feasible, whereby a modified retrospective or fair value approach is applied.

The Bank does not expect these amendments to have any material impact on the Bank's financial statements.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after 1 January 2020). The amendments clarify that profit or loss shall be recognized in full should the assets transferred to an associate or joint venture constitute a business as defined in IFRS 3 *Business Combinations*. Profit or loss from sale or contribution of assets that do not constitute a business shall be recognized only within the limits of the investor's non-ownership interest in the associate or joint venture.

The Bank does not expect these amendments to have any material impact on the Bank's financial statements.

3 Principles of Accounting Policies

3.1 Lease

The date of the Bank's initial application of IFRS 16 is 1 January 2019.

The Bank applies IFRS 16 using the modified retrospective approach, therefore comparative information has not been restated.

The effect of adopting IFRS 16 is disclosed in Note 4.

The Bank as the lessee:

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease

At the commencement date, the Bank (the lessee) shall measure the right-of-use asset at cost.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank shall recognise a right-of-use asset and a corresponding lease liability in respect of all the lease contracts whereby it is the lessee, except for short-term leases (with a term of 12 months or less) and leases for which the underlying asset is of low value.

In respect of the above lease contracts, the Bank records lease payments as operating expenses on a straight-line basis, unless a different presentation is more accurate.

Lease liabilities are initially measured at the present value of the lease payments that have not yet been paid as of the lease

commencement date and are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Bank shall use the incremental borrowing rate.

The Bank as the lessor

The Bank may enter into lease contracts as the lessor in respect of certain items (investment properties).

Leases for which the Bank is the lessor are classified as either an operating lease or finance lease. In all cases where the terms and conditions of the lease involve transferring to the lessee substantially all the risks and rewards incident to ownership, the contract is classified as a finance lease. All other leases are classified as operating leases.

Income from operating leases is recorded on a straight-line basis over the lease period. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease period.

When the Bank acts as the lessee, payments under operating lease contracts are recorded by the lessee in the statement of profit and loss on a straight-line basis over the lease period. If the operating lease is terminated before the lease period expires, any sum payable to the lessor as a penalty is reflected as an expense in the period in which the operating lease was terminated.

Income from finance leases is reflected as a receivable, at an amount equal to the net investment in the lease (NIL). Income from finance leases is allocated across reporting periods reflecting a constant periodic rate of return on the Bank's net investment in respect of the lease.

A finance lease transfers substantially all the risks and rewards incident to asset ownership. When the Bank is the lessor, the Bank reflects lease receivables at amounts equal to the net investment in the lease, at commencement of the lease term. Finance income is calculated based on a pattern reflecting a constant periodic rate of return on the current value of net investments. Initial direct costs are included in the value at the initial recognition of lease payments. Net investments in finance leases are reflected as part of loans and advances to customers.

4 Adopting New or Revised Standards and Interpretations, Reclassifications

The effect of adopting IFRS 16 is analyzed below.

The table below shows the amount of adjustment for items on the statement of financial position affected by IFRS 16 for the current and previous year. Comparative information for the prior period has not been restated.

Effect of adopting IFRS 16 as of 1 January 2019.	
Future lease payments under operating lease commitments disclosed in the financial statements as of 31 December 2018	7,552
Effect of discounting	(713)
Lease liabilities under IFRS 16 as of 1 January 2019	6,839
Right-of-use assets under IFRS 16 as of 1 January 2019	6,839

5 Interest Income and Expenses

Interest income and expenses were as follows.

	For the 6 months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
<i>Interest income on assets measured at amortized cost</i>		
Due from financial institutions	187,273	151,925
Loans to customers	241	99
Total interest income on financial assets measured at amortized cost	187,514	152,024
<i>Interest income on assets at fair value through other comprehensive income</i>		
On financial assets held for profit or for sale	209,113	209,519
Total interest income on financial assets at fair value through other comprehensive income	209,113	209,519
Total interest income	396,627	361,543
<i>Interest expenses on liabilities at amortized cost</i>		
Due to financial institutions	(1,270)	(902)
Accounts and deposits of legal entities	-	(331)
Lease liabilities	(291)	-
Total interest expenses on liabilities at amortized cost	(1,561)	(1,233)
Total interest expenses	(1,561)	(1,233)
Net interest income	395,066	360,310

6 Fee and Commission Income and Expenses

Fee and commission income and expenses were as follows.

	For the 6 months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
<i>Fee and commission income</i>		
Cash and settlement transactions	6,006	4,458
Other fee and commission income	215	148
Total fee and commission income	6,221	4,606
<i>Fee and commission expense</i>		
Money transfer services, including services of payment and settlement systems	(40)	(37)
Cash and settlement services and account maintenance	(5,330)	(3,462)
Custody services	(674)	(586)
Transactions with foreign currency	(3)	(51)
Other fee and commission expenses	(73)	(94)
Total fee and commission expenses	(6,120)	(4,230)
Total fee and commission income and expenses	101	376

7 Operating Expenses

Administrative and other operating expenses were as follows.

	For the 6 months ended 30 June	
	2019 (unaudited)	2018 (unaudited)
Staff costs	139,189	133,362
Depreciation	4,265	3,748
Right-of-use asset depreciation	1,714	-
Intellectual property license fees	797	760
Communications services	11,428	9,230
Expenses related to fixed assets (maintenance, repairs, disposal)	5,219	4,177
Professional services	9,864	4,938
Advertising and marketing	11	7
Hospitality expenses	535	507
Travel expenses	4,553	1,207
Operating lease expenses	-	2,022
Security expenses	3,617	3,463
Inventory write-off	1,277	1,568
Insurance	1,213	1,025
Membership fees	2,562	2,567
Other operating expenses	2,344	3,623
Total administrative and other operating expenses	188,588	172,204

8 Cash and cash equivalents

	30 June 2019 (unaudited)	31 December 2018
Cash	72,207	59,945
Cash balances with the Bank of Russia	75,774	34,979
Balances in correspondent accounts	494,739	595,738
Total cash and cash equivalents	642,720	690,662

Balances in correspondent accounts are reflected at amortized cost calculated in accordance with IFRS 9.

9 Due from financial institutions

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

	30 June 2019 (unaudited)	31 December 2018
Interbank term loans and deposits	3,950,951	5,220,889
Other funds due from financial institutions	125,294	143,096
Total due from financial institutions before allowance for expected credit losses	4,076,245	5,363,985
Allowance for expected credit losses	(363)	(1,193)
Total due from financial institutions	4,075,882	5,362,792

Due from financial institutions includes balances on NOSTRO accounts.

Funds due from financial institutions are not secured.

Below is information about the credit quality of due from financial institutions at 30 June 2019 (unaudited).

	Interbank term loans and deposits	Other funds due from financial institutions	Total due from financial institutions
<i>Due from financial institutions:</i>			
- (with the top 20 Russian banks)	3,208,042	15,270	3,223,312
- (with other Russian banks)	610,250	-	610,250
- (with other banks)	132,659	110,024	242,683
Total due from financial institutions before allowance for expected credit losses	3,950,951	125,294	4,076,245
Allowance for expected credit losses	(14)	(349)	(363)
Total due from financial institutions	3,950,937	124,945	4,075,882

Below is information about the credit quality of due from financial institutions at 31 December 2018.

	Interbank term loans and deposits	Other funds due from financial institutions	Total due from financial institutions
<i>Current (at fair value)</i>			
- (with the top 20 Russian banks)	3,664,984	18,159	3,683,143
- (with other Russian banks)	1,455,861	-	1,455,861
- (with other banks)	100,044	124,937	224,981
Total due from financial institutions before allowance for expected credit losses	5,220,889	143,096	5,363,985
Allowance for expected credit losses	(688)	(505)	(1,193)
Total due from financial institutions	5,220,201	142,591	5,362,792

The Bank did not place any funds at below-market rates in 2018 and 2019.

10 Financial assets at fair value through other comprehensive income

	30 June 2019 (unaudited)	31 December 2018
<i>Debt financial assets</i>		
Federal bonds of the Russian Federation (OFZ)	3,091,123	2,269,845
Debt securities of other issuers	3,016,701	2,430,297
Total financial assets at fair value through other comprehensive income before allowance for expected credit losses	6,107,824	4,700,142
Allowance for expected credit losses	-	-
Total financial assets at fair value through other comprehensive income	6,107,824	4,700,142

In 2019, the Bank did not invest any funds in financial assets at fair value through other comprehensive income at below-market rates.

The portfolio of federal bonds of the Russian Federation (OFZ) as of 30 June 2019 includes ten issues (2018: seven issues) with the total nominal value of 3,002,942 thousand rubles (2018: 2,237,000 thousand rubles).

As of June 30, 2019, the coupon rate on these bonds is between 6.50% and 8.48%, payable two to four times a year (2018: between 6.5% and 8.25%).

The portfolio of debt securities from other issuers includes bonds issued by Russian residents with the long-term credit rating of at least BB+ according to Standard and Poor's and (or) at least a similar rating according to Fitch Ratings, with the total nominal value of 2,962,885 thousand rubles (2018: 2,428,400 thousand rubles).

As of 30 June 2019, the coupon rate on these bonds is between 6.0% and 9.15%, payable two to four times a year (2018: 6.0% to 9.5%).

11 Due to financial institutions

	30 June 2019 (unaudited)	31 December 2018
Correspondent accounts of other banks	1,132,748	1,306,496
Total due to financial institutions	1,132,748	1,306,496

During 2019, the Bank did not receive any funds from financial institutions at above-market rates.

12 Due to customers

	30 June 2019 (unaudited)	31 December 2018
<i>Accounts of non-government legal entities</i>		
Current and settlement accounts	3,462,322	3,546,712
Total accounts of non-government legal entities	3,462,322	3,546,712
<i>Accounts of individuals</i>		
Current and demand accounts	12,044	13,660
Total accounts of individuals	12,044	13,660
Total due to customers	3,474,366	3,560,372

A breakdown of due to customers by industry is given below:

	30 June 2019 (unaudited)		31 December 2018	
	Amount	%	Amount	%
International and public organizations	3,398,525	97.8%	3,439,793	96.6%
Industrial enterprises	50,279	1.4%	94,536	2.7%
Individuals	12,044	0.4%	13,660	0.4%
Trade and services	8,899	0.3%	12,086	0.3%
Transport	4,443	0.1%	107	0.0%
Education	137	0.0%	152	0.0%
Insurance	21	0.0%	21	0.0%
Finance and investments	11	0.0%	7	0.0%
Other	7	0.0%	10	0.0%
Total due to customers	3,474,366	100.0%	3,560,372	100.0%

In 2018 and 2019, the Bank did not receive any funds from customer at above-market rates.

13 Authorized Capital

	30 June 2019 (unaudited)			31 December 2018		
	Nominal value	Inflation- adjusted value	Acquisition cost	Nominal value	Inflation- adjusted value	Acquisition cost
Shares	20,000	212,086		20,000	212,086	
Shares in authorized capital repurchased 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 the heads of the following 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, the Republic of Uzbekistan, and Ukraine.

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

During first half of 2019, the Council of the Bank instructed the Bank to settle financial relations with Ukraine following Ukraine's withdrawal from the Agreement on Foundation of the Interstate Bank. As of the reporting date, the process of settling financial relations between Ukraine and the Bank has not yet been completed.

Votes in the Council of the Bank, its supreme governing body, are distributed among 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 for 1990.

14 Fair Value of Financial Instruments

Fair value is the amount of compensation in an arm's length transaction with an asset or a liability between knowledgeable, willing parties. The best evidence of fair value is the price of a financial instrument quoted on the market.

The estimated fair value of financial instruments was calculated by the Bank based on existing market data (if available) and appropriate valuation techniques. However, professional judgment needs to be used when interpreting market data to determine fair value. Although the Russian Federation has been assigned investment ratings, the country's economy is still characterized by certain specifics typical of developing countries, and its economic conditions continue to restrict the volume of trading on financial markets. Market quotations can be outdated or can reflect sales at low prices and thus cannot be indicative of the fair value of financial instruments. When determining the fair value of financial instruments, the management uses all available market data.

Financial instruments measured at fair value

Financial assets held for profit or for sale are recorded at fair value. Fair value is calculated on the basis of observable quoted active market prices (Level 1).

Financial instruments not measured at fair value but for which the fair value is disclosed

The management believes that, as of 30 June 2019, the fair value of each class of financial assets and liabilities recognized at amortized cost (cash and cash equivalents, due from financial institutions, loans and advances to customers, due to financial institutions, and due to customers) did not differ materially from their respective carrying amounts.

15 Effect of Estimates and Judgements on Recognized Assets and Liabilities

The Bank makes estimates and judgements that affect recognized amounts of assets and liabilities in the next financial year. Estimates and judgments are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the 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, financial instruments must be initially recognized 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 prepared these financial statements on a going concern basis. Using this judgment, the management took into account existing intentions, the profitability of operations, available financial resources and the impact of current economic conditions on the Bank's business.

Signed on 25 July 2019.

President

I. G. Souvorov

Chief Accountant

L. K. Razdevilova



Numbered and stitched
up in total

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President of «FBK», LLC

Engagement partner



Г.П. АРАБОВ
Г. МОСКВА