2016

Annual Report

МБ INTERSTATE BANK

TABLE OF CONTENTS

Bank Members	4
Governing Bodies	5
Letter from the Chairman of the Bank Council	8
Statement of the Bank's President	9
About the Bank	12
Financial Highlights	13
Asset Structure	16
Resources	17
Financial Results	20
Risk Management	20
Correspondent Relations and Customer Services	21
Prevention of Money Laundering and Terrorism Financing	24
Research and Analysis	24
International Cooperation	25
Financial Statements	30
Contact Information	36

REPUBLIC OF ARMENIA

BANK MEMBERS

Republic of Armenia

Republic of Belarus

Republic of Kazakhstan

Kyrgyz Republic

Republic of Moldova

Russian Federation

Republic of Tajikistan

Turkmenistan

Ukraine

GOVERNING BODIES as of December 31, 2016

Bank Council

Chairman of the Council

Georgy I. Luntovskiy
First Deputy Governor,
Central Bank of the Russian Federation

Council Members

Arthur Y. Javadyan
Chairman, Central Bank
of the Republic of Armenia

Pavel V. Kallaur
Chairman of the Board,
National Bank of the Republic of Belarus

Daniar T. Akishev
Governor, National Bank
of the Republic of Kazakhstan

Tolkunbek S. Abdygulov
Chairman, National Bank
of the Kyrgyz Republic

Sergiu Cioclea
Governor, National Bank of Moldova

Jamshed Nurmahmadzoda
Chairman, National Bank of Tajikistan

Merdan O. Annadurdyev
Chairman of the Board, Central Bank
of Turkmenistan

Valeria O. Gontareva
Governor, National Bank of Ukraine

Bank Management

Igor G. Souvorov
President

Andrei E. Tchetyrkine
Deputy President

REPUBLIC
OF BELARUS

LETTER FROM THE CHAIRMAN OF THE BANK COUNCIL

As the Chairman of the Interstate Bank Council, I am pleased to announce that despite external challenges and uneasy macroeconomic situation that have affected the economies of the member states, the bottom line of the Bank's performance in 2016 was quite positive.

In 2016, the Bank Council approved the prospective lines of business activity which included expanding the scope of operations with the central (national) banks of the member states and promoting payments in national currencies. This was a significant step forward for the Bank.

The Bank Council is looking forward to new initiatives of the Bank as a venue for developing cooperation and exchanging views among central (national) banks and other institutions of the Commonwealth of Independent States (the CIS) and the Eurasian Economic Union (the EAEU) member states. From this perspective, good relations that the Interstate Bank has established with the Bank for International Settlements will play an important role.

The Interstate Bank's performance in 2016 paved the way for its future growth. I am confident that the Interstate Bank will be able to deal successfully with all items on the agenda with the support from the member states and the professional work done by its staff and management.

First Deputy Governor of the Bank of Russia,
Chairman of the Interstate Bank Council

G. Luntovskiy

STATEMENT OF THE BANK'S PRESIDENT

Dear Founders, Clients, and Partners,

Taking into account the spreading global crisis, the downturn in business activity in a number of countries, instability of global energy commodity prices and the financial markets volatility, the Interstate Bank in 2016 continued to follow the conservative risk assessment policy, giving priority to protecting its founders' assets and ensuring stable operations.

According to the prospective lines of business activity approved by the Bank Council, the focus was made on developing cooperation with the central (national) banks of our member states and expanding the transactions in national currencies. The Bank is a reliable partner for its clients: international organizations, integration institutions, and companies engaged in foreign economic activities in the CIS/EAEU member states.

The Bank provides effective solutions for settlements in the CIS/EAEU national currencies, using direct access to the payment systems of the central (national) banks of its member states and long-term partnership with local banks in these countries.

By virtue of the Bank's presence in the largest exchanges as well as in the interbank market of the CIS/EAEU, the Bank can offer its clients competitive conditions for their transactions.

The Bank's conservative model of doing business made it possible to achieve positive financial results in 2016. Thus, the Bank's capital increased to 5.3 billion rubles, the Bank's assets totaled 7.2 billion rubles, and net profit amounted to 416.4 million rubles.

With a view to expand its involvement in integration process during the reporting period the Bank actively cooperated with the Eurasian Economic Commission, the CIS Executive Committee, professional associations such as the Chamber of Commerce and Industry of the Russian Federation, the Russian Union of Industrialists and Entrepreneurs, etc. The Interstate Bank established working relations with the Bank for International Settlements (Basel). In 2016, the Bank continued contributing to the activities of the Eurasian Council of Central (National) Banks acting as its secretariat.

In conclusion, I would like to thank our founders, clients, and partners, whose support allows the Interstate Bank to look forward with confidence.

President

I. Souvorov

REPUBLIC OF KAZAKHSTAN

ABOUT THE BANK

The Interstate Bank is an international financial institution established in 1993. Its 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. The foundation documents of the Interstate Bank have been registered with the United Nations.

The Interstate Bank focuses on the economic integration and growth of the national economies of the CIS and EAEU countries by participating in significant interstate projects and promoting the transactions in national currencies.

The Interstate Bank has entered into the agreements on the terms of its presence with the governments of the Republic of Armenia, the Kyrgyz Republic, and the Russian Federation. The Bank has also concluded the agreements on the procedure and rules for banking transactions with the central (national) banks of the Republic of Armenia, the Republic of Belarus, the Kyrgyz Republic, the Russian Federation, and the Republic of Tajikistan. The supreme governing body is the Bank Council that consists of the central (national) banks' executives and officials from the ministries of finance of the member states.

The Bank has representative offices in the Republic of Armenia, the Republic of Belarus, and the Kyrgyz Republic.

The Bank is a member of FX sections of the Moscow Stock Exchange, the Belarusian Currency and Stock Exchange, and the Kazakhstan Stock Exchange.

FINANCIAL HIGHLIGHTS

According to the financial statements prepared under the International Financial Reporting Standards (IFRS), the Bank's assets were 7,194.9 million rubles as of December 31, 2016, while its capital totaled 5,284.4 million rubles. The Bank earned a net profit of 416.4 million rubles in the reporting year.

The Bank's cost-income ratio was 42.4 %, with a return on equity of 8.3 % and a return on assets of 5.7 %.

ASSETS: 7,194.9 mln rubles

CAPITAL: 5,284.4 mln rubles

NET PROFIT: 416.4 mln rubles

KYRGYZ REPUBLIC

ASSET STRUCTURE

As of the end of 2016, substantial part of the Bank's assets consisted of the funds in the financial institutions (mainly interbank deposits placed with the largest banks in the CIS/EAEU countries) in the amount of 3,561.2 million rubles (49.5 % of total assets).

Financial assets available for sale totaled 3,280.7 million rubles (45.6 % of total assets). These investments primarily consisted of debt securities of the Russian Federation and other first class issuers.

ASSET STRUCTURE

49.5 %
Due from financial institutions:
3,561.2 mln rubles

0.6 %
Fixed assets and intangible assets:
46.2 mln rubles

45.6 %
Financial assets available for sale:
3,280.7 mln rubles

0.2 %
Other assets:
13.4 mln rubles

4.0 %
Cash and cash equivalents:
289.0 mln rubles

0.1 %
Loans and advances to customers:
4.4 mln rubles

42.8 %
Due from financial institutions:
3,188.0 mln rubles

0.6 %
Fixed assets and intangible assets:
43.7 mln rubles

48.2 %
Financial assets available for sale:
3,587.7 mln rubles

1.1 %
Other assets:
84.5 mln rubles

7.2 %
Cash and cash equivalents:
535.1 mln rubles

0.1 %
Loans and advances to customers:
5.8 mln rubles

RESOURCES

The Bank's resources totaled 7,194.9 million rubles as of December 31, 2016, the Bank's capital reached 5,284.4 million rubles (73.4 % of the Bank's total resources), and liabilities were 1,910.5 million rubles (26.6 %).

By the end of 2016, the Bank's capital increased by 10.8 %. The substantial part of the Bank's capital consisted of the perpetual subordinated loans (provided by the central banks of the member states) eligible for inclusion in Tier 1 capital under Basel III rules.

The liabilities mainly consisted of customers' accounts (1,621.0 million rubles, 84.8 %) and financial institutions' funds (281.3 million rubles, 14.7 %), nominated primarily in Russian rubles.

RESOURCE STRUCTURE

73.4 %
Equity:
5,284.4 mln rubles

3.9 %
Due to financial institutions:
281.3 mln rubles

22.6 %
Customers' accounts:
1,621.0 mln rubles

0.1 %
Other: 8.2 mln rubles

64.1 %
Equity:
4,770.0 mln rubles

11.2 %
Due to financial institutions:
835.3 mln rubles

24.6 %
Customers' accounts:
1,836.7 mln rubles

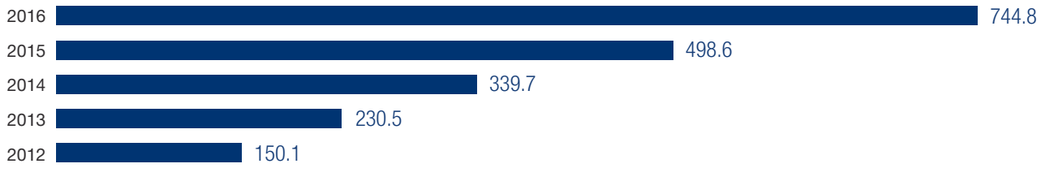
0.1 %
Other: 2.8 mln rubles

REPUBLIC OF MOLDOVA

FINANCIAL RESULTS

During the reporting year, the Bank earned a net profit of 416.4 million rubles. The Bank's net interest income is steadily growing.

NET INTEREST INCOME, mln rubles



RISK MANAGEMENT

The Bank's risk management system ensures the Bank's financial stability in the course of its operations.

The Bank's risk management system has been elaborated on the basis of international risk management standards, including recommendations of the Basel Committee on Banking Supervision and regulations of the Bank of Russia.

The risk management system includes:
- direct risk management activities (identification, assessment and response to risks);
- constant monitoring of risks such as operational risk, legal risk in various jurisdictions, financial risks (credit risk, liquidity risk, and market risk), and reputational risk;
- business continuity plans.

The Bank's risk management system takes into account the objectives, nature and size of the Bank's activities and operations.

In its operations the Bank implements the principle of a clear separation of powers and responsibilities between its departments and employees with regard to concluding the transactions (the adoption of financial risks), their registration, accounting, reporting, and risk assessment in order to eliminate potential conflicts of interest.

The Bank is taking further steps to develop the risk management system, systematically and consistently implementing measures to improve risk identification, management, assessment, and control methods.

CORRESPONDENT RELATIONS AND CUSTOMER SERVICES

The Interstate Bank maintains correspondent relations with the leading banks both from the CIS/EAEU member states and from other jurisdictions. The Bank renders banking services to the integration institutions of the Commonwealth of Independent States and the Eurasian Economic Union, and various enterprises and organizations engaged in foreign economic activity. The Bank is a settlement bank for interstate special-purpose programs. In particular, it currently provides banking services to the CIS interstate special-purpose program "Rehabilitation of Territories Affected by Uranium Mining".

The Interstate Bank has direct access to the central (national) bank payment systems of six countries (the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation, and the Republic of Tajikistan) and makes payments in national currencies through correspondent accounts opened with these central (national) banks.

The Bank provides settlement services to correspondent banks and clients in Russian rubles, Armenian drams, Belarusian rubles, Kazakhstani tenges, Kyrgyzstani soms, Moldovan leus, Tajikistani somonis, Ukrainian hryvnias, Azerbaijani manats, Georgian laris, Chinese yuans, and other currencies.

In 2016, the total turnover of correspondent banks and customers in national currencies processed by the Bank through the central (national) bank payment systems was 33.5 billion rubles. Transactions in Russian rubles accounted for the sizable portion of the turnover.

Providing customers and correspondent banks with high-quality settlement services in the national currencies of the CIS/EAEU member countries remains one of the Bank's priorities.

RUSSIAN FEDERATION

PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING

The Interstate Bank makes all necessary steps to prevent proliferation and legalization of criminal capital, terrorism financing, and the Bank's involvement in suspicious transactions guided by the recommendations of the Financial Action Task Force on money laundering (FATF), the Basel Committee on Banking Supervision, and Federal Law of the Russian Federation No. 115-FZ dated August 7, 2001 "On Counteracting Money Laundering of Criminally Gained Income and Terrorism Financing".

RESEARCH AND ANALYSIS

The Bank's research focuses on studying the main issues in developing financial and banking activities, monetary and financial integration, and economic cooperation between the states. The Bank arranges the exchange of statistical and analytical information under the agreement on information analysis and consulting between the CIS central (national) banks.

The Bank's information portal contains bulletins on the CIS and EAEU, news about the banking sector in Russia, the CIS member states and other countries, overview of developments in the payments sphere, and also exchange rates data and other key indicators of the EAEU member states' FX and financial markets. The report "Indicators of Socioeconomic, Monetary, Financial and Banking Statistics of the CIS Member States in 2015" was published.

INTERNATIONAL COOPERATION

The Bank worked closely with the central (national) banks of its member states. As the Secretariat of the Eurasian Council of Central (National) Banks, the Interstate Bank participated in organizing two Council meetings in 2016: in the Republic of Belarus and in the Kyrgyz Republic. The issues related to developing the banking sector and currency markets, financial stability, payments related to the turnover of goods and services, etc., were considered during the meetings. The meetings documents were published on the Bank's web site (www.isbnk.info).

In 2016, the Bank held discussions with the management of the Bank for International Settlements (Basel) with a view to start cooperation and to use their experience in banking supervision, financial markets, payment systems, etc.

The Interstate Bank's management and representatives participated in the meetings held by the Executive Committee of the CIS and the Eurasian Economic Commission (EEC). The Bank's representatives participated in the meetings of the CIS Economic Council, the EEC Advisory Committee on Financial Markets, including the Working Group on Currency Regulation and Control Issues in the EAEU Member States, as well as in various international forums and conferences.

The Interstate Bank participated in a number of international events held to discuss the development of transactions in national currencies. In particular, the Bank acted as a co-sponsor of the international conference "Current Financial Regulation in the EAEU Member States: Challenges and Perspectives", which was held at the Lomonosov Moscow State University.

In November 2016, the Bank became an official partner for the 4th National Payments Forum of Russia and held a panel session "Transactions in National Currencies: Development Prospects" to discuss the effective methods of cross-border settlements in national currencies.

In Moscow in November 2016, the Bank, together with the Eurasian Economic Commission and the United Nations Conference on Trade and Development (UNCTAD), organized the international seminar "Challenges and Opportunities of the EAEU Economic Development: Regional and Global Context". The seminar was focused on presentation of the new UNCTAD Trade and Development Report. During the seminar, the Interstate Bank shared its views on the prospects for developing Eurasian integration in the financial sector using, inter alia, national currencies. The seminar was attended by representatives from the central (national) banks, ministries and departments, and leading financial institutions from the EAEU member countries.

REPUBLIC OF TAJIKISTAN

TURKMENISTAN

FINANCIAL STATEMENTS

Extract from the IFRS financial statements*
in thousands of Russian rubles

STATEMENT OF COMPREHENSIVE INCOME

	2016	2015
Interest income	746 001	630 177
Interest expense	(1 205)	(131 577)
Net interest income	**744 796**	**498 600**
Provision charge for impairment of interest-bearing assets	(4 279)	-
Net interest income / (expense) after provision for impairment	**740 517**	**498 600**
Gains less losses arising from transactions with financial assets / liabilities	-	434 435
Gains less losses arising from foreign exhange transactions	21 875	170 958
Gains less losses from revaluation of foreign currency	(39 222)	401 569
Fee and commission income	8 942	5 993
Fee and commission expense	(6 974)	(4 587)
Provision charge for impairment of other assets and changes in contingent liabilities	374	(685)
Other operating income	726	1 732
Operating expenses	(309 860)	(290 786)
Profit before tax	**416 378**	**1 217 229**
NET PROFIT	**416 378**	**1 217 229**
Other comprehensive income	128 738	(2 067)
Other comprehensive income to be reclassified in profit or loss in subsequent periods: Changes in fair value reserve for financial assets available for sale	128 738	(2 067)
Total other comprehensive income, net of tax	**128 738**	**(2 067)**
COMPREHENSIVE INCOME	**545 116**	**1 215 162**

STATEMENT OF FINANCIAL POSITION

	December 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	288 972	535 124
Due from financial institutions	3 561 202	3 187 987
Loans and advances to customers	4 414	5 750
Financial assets available for sale	3 280 741	3 587 713
Fixed assets and intangible assets	46 158	43 748
Other assets	13 420	84 519
Total assets	**7 194 907**	**7 444 841**
LIABILITIES		
Due to financial institutions	281 282	835 274
Customers accounts	1 621 009	1 836 689
Other liabilities and reserves	8 257	2 856
Total liabilities	**1 910 548**	**2 674 819**
EQUITY		
Authorized capital / Paid-in shares	212 086	212 086
Shares in authorized capital reacquired from members	(1 100)	(1 100)
Fair value reserve for financial assets available for sale	3 464	(125 274)
Other equity instruments	2 052 230	2 052 230
Retained earnings	3 017 679	2 632 080
Total equity	**5 284 359**	**4 770 022**
Total liabiliites and equity	**7 194 907**	**7 444 841**

* The complete set of the Interstate Bank's IFRS financial statements together with the opinion of independent auditors is available on the Interstate Bank's web-site at www.isbnk.org or may be provided upon request.

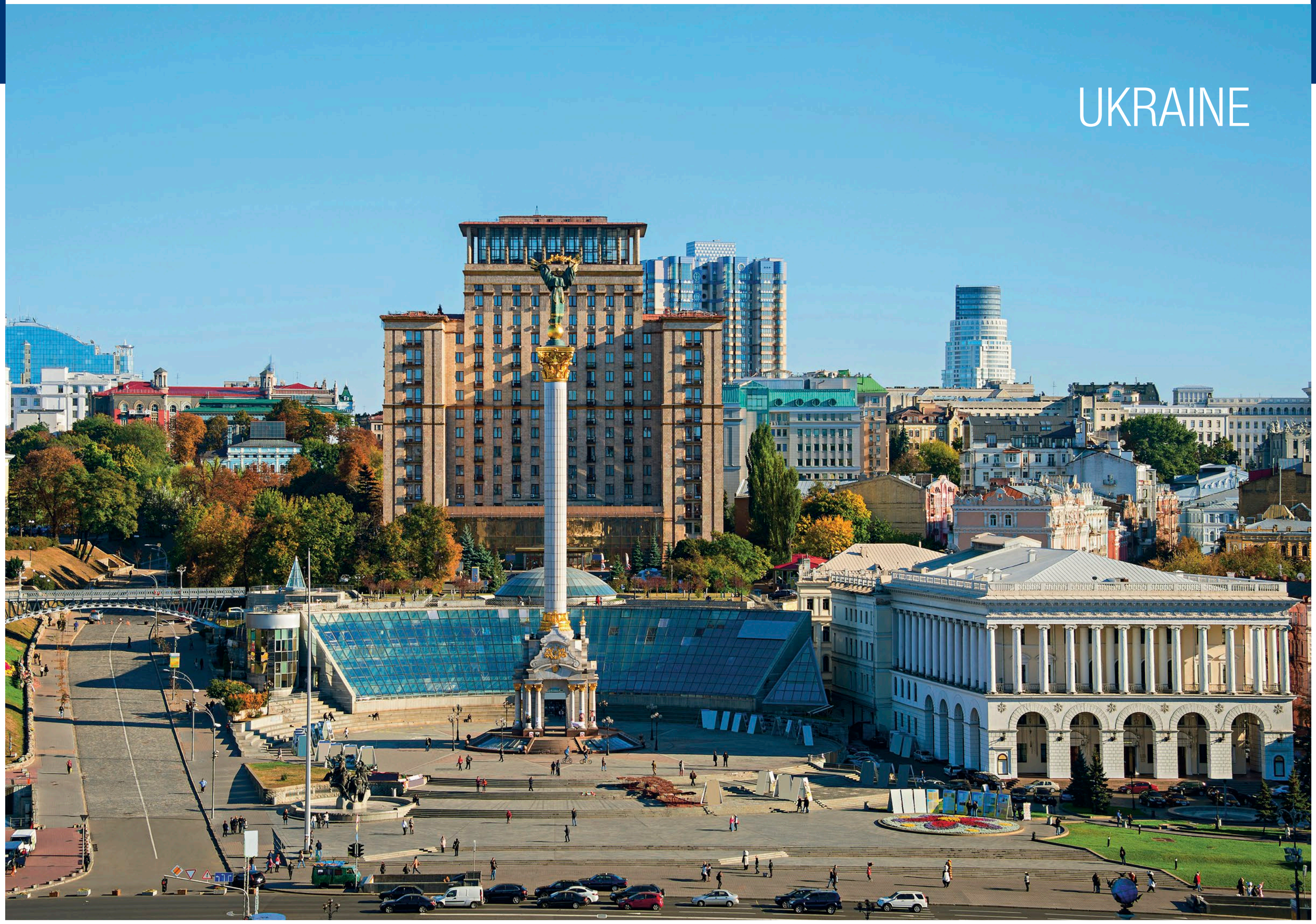
STATEMENT OF CHANGES IN EQUITY

	Authorized capital / Paid-in shares	Shares in authorized capital reaquired from members	Other equity instruments	Fair value reserve for financial assets available for sale	Retained earnings / (Accumulated deficit)	Total equity
Balance as of January 1, 2015	**212 086**	**(1 100)**	**-**	**(123 207)**	**1 416 621**	**1 504 400**
Comprehensive income for the year ended on December 31, 2015, net of tax	-	-	-	(2 067)	1 217 229	1 215 162
Perpetual subordinated debt	-	-	2 052 230	-	-	2 052 230
Amounts paid on perpetual subordinated debt	-	-	-	-	(1 770)	(1 770)
Balance as of January 1, 2016	**212 086**	**(1 100)**	**2 052 230**	**(125 274)**	**2 632 080**	**4 770 022**
Comprehensive income for the year ended on December 31, 2016, net of tax	-	-	-	128 738	416 378	545 116
Amounts paid on perpetual subordinated debt	-	-	-	-	(30 779)	(30 779)
Balance as of December 31, 2016	**212 086**	**(1 100)**	**2 052 230**	**3 464**	**3 017 679**	**5 284 359**

STATEMENT OF CASH FLOWS

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	758 613	635 045
Interest paid	(977)	(37 971)
Fee and commission received	8 942	5 993
Fee and commission paid	(6 974)	(4 587)
Gains less losses arising from transactions with financial assets designated at fair value through profit or loss, available for sale	-	434 435
Gains less losses arising from foreign exchange transactions	21 875	170 958
Other operating income	464	1 698
Operating expenses paid	(298 902)	(286 054)
Cash flows from operating activity before changes in operating assets and liabilities	**483 041**	**919 517**
NET (INCREASE) / DECREASE IN OPERATING ASSETS AND LIABILITIES		
Net (increase) / decrease in due from financial institutions	(377 065)	(1 914 365)
Net (increase) / decrease in loans and advances to customers	1 336	(965)
Net (increase) / decrease in other assets	68 535	(71 216)
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss	-	(34 631)
Net increase / (decrease) in due to financial institutions	(553 992)	686 425
Net increase / (decrease) in customers accounts	(215 680)	(50 721)
Net increase / (decrease) in other liabilities	(208)	(73 335)
Net cash flows from operating activities	**(594 033)**	**(539 291)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets available for sale	-	(2 079 885)
Proceeds from disposal of financial assets available for sale	422 669	2 109 347
Dividends received from investment securities	150	210
Purchase of fixed assets	(5 049)	(3 979)
Proceeds from disposal of fixed assets	112	-
Net cash used in investing activities	**417 882**	**25 693**
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid on perpetual subordinated debt	(30 779)	(744)
Net cash used in financing activities	**(30 779)**	**(744)**
Effect of exchange rate changes on cash and cash equivalents	(39 222)	57 809
Net increase (decrease) in cash and cash equivalents	**(246 152)**	**(456 533)**
Cash and cash equivalents as at the beginning of the reporting period	535 124	991 657
Cash and cash equivalents as at the end of the reporting period	**288 972**	**535 124**

UKRAINE



CONTACT INFORMATION

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INTERSTATE BANK