

PJSC “MTS-Bank”

Interim condensed consolidated financial statements
for the six months ended 30 June 2021
(unaudited)

Public Joint-Stock Company “MTS-Bank”

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REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To: Shareholders and Board of Directors of the Public Joint-Stock Company “MTS-Bank”

Introduction


We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint-Stock Company “MTS-Bank” and its subsidiaries (the “Group”) as of 30 June 2021 and the related interim condensed consolidated statements of profit or loss and other comprehensive income for the three and six months then ended, interim condensed consolidated statements on changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated 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 the interim condensed consolidated financial statements 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 consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Zdanevych Anna Mikhaylovna
Engagement partner

26 August 2021



The Entity: Public Joint-Stock Company "MTS-Bank"

State Registration Certificate No. 2268 dated 29 January 1993

Certificate of registration in the Unified State Register of Legal Entities: No. 1027739053704 dated 08 August 2002, issued by Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 for Moscow.

Address: Russia, 115432, Moscow, Andropova Avenue 18, bld. 1

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration No. 018.482, issued by the Moscow Registration Chamber on 30 October 1992.

Primary State Registration Number: 1027700425444

Certificate of Registration in the Unified State Register of Legal Entities series 77 No. 004840299, issued by Interregional Inspectorate of the Russian Ministry of Taxation No.39 for Moscow on 13 November 2002.

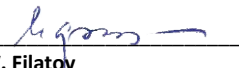
Member of Self-Regulated Organization of Auditors Association "Sodruzhestvo", ORNZ 12006020384.

Public Joint-Stock Company "MTS-Bank"

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Six Months Ended 30 June 2021 (in thousands of Russian Rubles, unless otherwise indicated)

	Note	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)	Three months ended 30 June 2021 (unaudited)	Three months ended 30 June 2020 (unaudited)
Interest income	5	11 869 689	11 087 396	6 372 598	5 574 268
Interest expense	5	(2 933 546)	(3 811 344)	(1 573 755)	(1 898 669)
Deposit insurance expenses	5	(219 994)	(228 627)	(110 692)	(60 722)
Net interest income before allowance for expected credit losses on interest bearing assets		8 716 149	7 047 425	4 688 151	3 614 877
Allowance for expected credit losses on interest bearing assets	6	(4 390 673)	(5 784 315)	(2 396 143)	(3 955 508)
Net interest income		4 325 476	1 263 110	2 292 008	(340 631)
Net (loss)/gain on transactions with securities at fair value through profit or loss		(314 589)	17 428	(113 317)	418 315
Net gain on transactions with derivative financial instruments		41	4 204	139	2 870
Net (loss)/gain on foreign exchange transactions		(22 551)	107 027	(28 665)	(47 049)
Fee and commission income	7	9 593 532	5 458 168	5 207 385	2 552 648
Fee and commission expenses	7	(3 364 915)	(2 583 258)	(1 592 690)	(1 241 088)
Recovery of allowance/(allowance) for expected credit losses on other transactions	6	345 519	(318 268)	190 596	(350 064)
Change in value of property for resale		(21 348)	(49 904)	(16 599)	(38 707)
Net loss on disposal of property for resale		(900)	(2 726)	(113)	1 194
Share of (loss)/profit of a joint venture		(7 674)	24 497	1 523	8 215
Other income		129 164	186 921	52 329	91 377
Net non-interest income		6 336 279	2 844 089	3 700 588	1 397 711
Operating income		10 661 755	4 107 199	5 992 596	1 057 080
Operating expenses	8	(6 688 442)	(5 265 573)	(3 541 946)	(2 513 078)
Profit/(loss) before income tax		3 973 313	(1 158 374)	2 450 650	(1 455 998)
Income tax (expense)/benefit		(577 627)	9 876	(535 702)	(64 364)
Profit/(loss) for the period		3 395 686	(1 148 498)	1 914 948	(1 520 362)
TOTAL COMPREHENSIVE INCOME/(LOSS)		3 395 686	(1 148 498)	1 914 948	(1 520 362)
Attributable to:					
Shareholders of the parent Bank		3 395 686	(1 148 498)	1 914 948	(1 520 362)

On behalf of the Management Board:


I. V. Filatov
Chairman of the Management Board

26 August 2021
Moscow


A. V. Yeltyshev
Chief Accountant

26 August 2021
Moscow

The Notes from 1 to 24 are an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company "MTS-Bank"

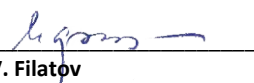
Interim Condensed Consolidated Statement of Financial Position

as at 30 June 2021

(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	30 June 2021 (unaudited)	31 December 2020
ASSETS:			
Cash and balances with the Central Bank	9	7 711 070	17 484 335
Investments in securities	10	30 590 486	31 407 537
Due from banks	11	6 348 021	22 885 732
Loans to customers	12	170 665 030	129 862 422
Investments in a joint venture		558 190	635 755
Derivative financial instruments	13	2 215	1 780
Property, plant and equipment and intangible assets		7 063 363	6 713 930
Right-of-use assets		633 129	559 126
Property for resale		2 251 077	2 523 619
Deferred income tax assets		3 257 843	3 253 195
Other assets		2 011 364	1 437 475
TOTAL ASSETS		231 091 788	216 764 906
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions		23 493 992	24 461 813
Customer accounts	14	153 807 268	149 739 239
Debt securities issued	15	5 756 355	1 839 813
Lease liabilities		674 188	586 112
Derivative financial instruments	13	1 938	1 652
Current income tax liabilities		24 814	16 807
Other liabilities		5 959 395	5 904 469
TOTAL LIABILITIES		189 717 950	182 549 905
EQUITY:			
Share capital	16	15 492 955	13 914 423
Share premium	16	15 062 433	12 640 965
Perpetual notes		5 000 000	5 000 000
Property, Plant and equipment revaluation reserve		49 531	49 531
Retained earnings		5 768 919	2 610 082
TOTAL EQUITY		41 373 838	34 215 001
TOTAL LIABILITIES AND EQUITY		231 091 788	216 764 906

On behalf of the Management Board:


I. V. Filatov

Chairman of the Management Board

26 August 2021
Moscow


A. V. Yeltyshev

Chief Accountant

26 August 2021
Moscow

The Notes from 1 to 24 are an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company “MTS-Bank”

Interim Condensed Consolidated Statement of Changes in Equity for the Six Months Ended 30 June 2021 (in thousands of Russian Rubles, unless otherwise indicated)

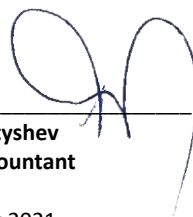
	Share capital	Treasury shares	Share premium	Perpetual notes	Property, plant and equipment revaluation reserve	Retained earnings	TOTAL EQUITY
31 December 2019	12 142 288	(77 285)	9 440 950	5 000 000	51 607	2 483 267	24 040 827
Issue of ordinary shares	1 799 986	-	3 200 015	-	-	-	5 000 001
Interest paid on perpetual bonds	-	-	-	-	-	(341 247)	(341 247)
Comprehensive loss	-	-	-	-	-	(1 148 498)	(1 148 498)
30 June 2020 (unaudited)	13 942 274	(77 285)	12 640 965	5 000 000	51 607	993 522	27 551 083
31 December 2020	13 914 423	-	12 640 965	5 000 000	49 531	2 610 082	34 215 001
Issue of ordinary shares	1 578 532	-	2 421 468	-	-	-	4 000 000
Interest paid on perpetual bonds	-	-	-	-	-	(236 849)	(236 849)
Comprehensive income	-	-	-	-	-	3 395 686	3 395 686
30 June 2021 (unaudited)	15 492 955	-	15 062 433	5 000 000	49 531	5 768 919	41 373 838

On behalf of the Management Board:



I. V. Filatov
Chairman of the Management Board

26 August 2021
Moscow



A. V. Yeltyshev
Chief Accountant

26 August 2021
Moscow

The Notes from 1 to 24 are an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company “MTS-Bank”

Interim Condensed Consolidated Statement of Cash Flows for the Six Months Ended 30 June 2021 (in thousands of Russian Rubles, unless otherwise indicated)

	Notes	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		11 005 297	10 177 878
Interest paid		(3 726 499)	(3 380 319)
Deposit insurance expenses		(218 553)	(228 627)
Realized gain/(loss) on transactions with securities at fair value through profit or loss		10 537	(22 064)
Realized (loss)/gain on transactions with derivative financial instruments		(108)	5 133
Realized (loss)/ gain on foreign currency transactions		(139 450)	352 336
Fee and commission received		9 608 503	5 955 204
Fee and commission paid		(3 280 857)	(2 742 230)
Other operating income received		108 409	132 899
Administrative and other operating expenses paid		(5 906 425)	(5 327 717)
Income tax paid		(574 267)	(93 872)
Cash inflow from operating activities before changes in operating assets and liabilities		6 886 587	4 828 621
Changes in operating assets and liabilities			
<i>(Increase)/decrease in operating assets:</i>			
Minimum reserve deposits with the Central Bank		(209 956)	49 222
Securities at fair value through profit or loss		385 666	(5 794 420)
Due from banks		(679)	19 827
Loans to customers		(44 846 937)	(7 625 192)
Property for resale		(44 103)	177 015
Other assets		(225 987)	(726 844)
<i>Increase/(decrease) in operating liabilities:</i>			
Financial obligations on securities return		-	(271 277)
Due to banks and other financial institutions		(965 684)	(12 198 371)
Customer accounts		5 441 149	41 990 379
Debt securities issued, other than bonds issued		(830 717)	927 405
Other liabilities		277 410	325 523
Net cash (outflow)/inflow from operating activities		(34 133 251)	21 701 888

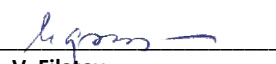
Public Joint-Stock Company "MTS-Bank"

Interim Condensed Consolidated Statement of Cash Flows for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

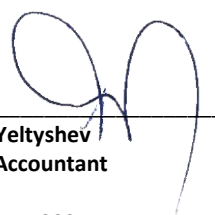
	Notes	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Development/purchase of property, plant and equipment and intangible assets		(1 027 672)	(1 172 603)
Proceeds from sale of property, plant and equipment and intangible assets		3 906	3 834
Redemption of securities at amortized cost		89 896	1 407 728
Proceeds from investments in a joint venture		69 891	34 784
Net cash (outflow)/inflow from investing activities		(863 979)	273 743
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease payments		(116 687)	(105 894)
Redemption of bonds issued		-	(134 785)
Proceeds from issuance of ordinary shares		4 000 000	5 000 001
Issue of bonds		5 000 000	-
Redemption of perpetual bonds issued		(236 849)	(341 247)
Net cash inflow from financing activities		8 646 464	4 418 075
Change in interest accrued on cash and cash equivalents		(7 381)	(166)
Change in allowance for expected credit losses on cash and cash equivalents		(4 908)	(5 985)
Effect of foreign currencies exchange rate fluctuations on cash and cash equivalents		(122 179)	(2 700)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(26 485 234)	26 384 855
CASH AND CASH EQUIVALENTS, beginning of period	9	37 419 759	26 517 217
CASH AND CASH EQUIVALENTS, end of the period	9	10 934 525	52 902 072

As at 30 June 2021 and 31 December 2020, the Group had no material non-cash movements in changes in liabilities arising from financing activities.

On behalf of the Management Board:


I. V. Filatov
Chairman of the Management Board

26 August 2021
Moscow


A. V. Yeltyshev
Chief Accountant

26 August 2021
Moscow

The Notes from 1 to 24 are an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company “MTS-Bank”

Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (in thousands of Russian Rubles, unless otherwise indicated)

1. Organization

Public Joint Stock Company “MTS-Bank” (“MTS-Bank”) was established in the Russian Federation as an open joint stock company in 1993. Former name of MTS-Bank is Joint Stock Commercial Bank “Moscow Bank for Reconstruction and Development” (Open Joint Stock Company) (“MBRD”). The name was changed by the decision of the shareholders’ meeting held on 16 December 2011. In accordance with the change in Russian Federation legislation in 2014, the MTS-Bank changed its legal form from OJSC to PJSC.

MTS-Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under general license number 2268. MTS-Bank’s primary business consists of commercial banking activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at: Russian Federation, 115432, Moscow, Andropova Avenue 18, bld. 1.

As at 30 June 2021 and 31 December 2020, MTS-Bank had 1 operating office and 5 operating offices in the Russian Federation (the “RF”), respectively.

MTS-Bank is a parent company of a banking group (the “Group”), which as at 30 June 2021 and 31 December 2020 includes the following companies consolidated for the purposes of these financial statements:

Name	Country of incorporation	Type of activity
CJSC Mortgage Agent MTSB	RF	Financial services
LLC VektorA	RF	Real estate lease
LLC Skyfreight	RF	Aircraft lease and rent

In addition, as at 30 June 2021 and 31 December 2020, the Group exercises 100% control over the following investment funds:

- Closed unit investment combined fund “Kapitalny 2”;
- Closed unit investment property fund “Uralskaya Nedvizhimost 1”;
- Closed unit investment property fund “Uralskaya Nedvizhimost 2”;
- Closed unit investment property fund “Bashkirskaya Nedvizhimost 2”;
- Closed unit investment annuity fund “Rentny 2”;
- Closed unit investment property fund “Rentny 3”.

As at 30 June 2021 and 31 December 2020, the Group held 59.7% shares of closed-end mutual real estate fund “Sistema – Rentnaya Nedvizhimost 1”. As at the above dates, investments in the fund were accounted for as a joint venture using the equity method.

Public Joint-Stock Company “MTS-Bank”

Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

1. Organization (continued)

Shareholding structure of MTS-Bank as at 30 June 2021 and 31 December 2020:

	30 June 2021 (unaudited)	31 December 2020
Shareholder		
Mobile Telesystems B.V.	99,82	99,80
OJSC Moscow City Telephone Network	0,17	0,19
Other	0,01	0,01
Total	100,00	100,00

As at 30 June 2021 and 31 December 2020 the ultimate beneficiary is the owner of a controlling stake in PJSC “AFK Sistema”, Mr. V. P. Yevtushenkov.

2. Basis of presentation

Basis of preparation of the financial statements. These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. The Group omitted disclosures, which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2020 prepared in accordance with International Financial Reporting Standards (“IFRS”), such as accounting policies and details of accounts, which have not been changed significantly in amount or composition.

As the Group’s performance is closely related and responsive to changes in market conditions, the performance of the Group for an interim period is not necessarily indicative of the performance that can be expected for the year ending 31 December 2021.

Information on presentation of interim condensed consolidated financial statements. The full composition of the Group's interim condensed consolidated financial statements is available on the Bank's website (www.mtsbank.ru) and on the Bank's Internet page of Interfax TSRKI LLC (www.e-disclosure.ru/portal/company.aspx?id=1285) no later than three days after the date of compilation.

These interim condensed consolidated financial statements are presented in thousands of Russian Rubles (unless otherwise indicated).

Public Joint-Stock Company “MTS-Bank”

Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

2. Basis of presentation (continued)

As at 30 June 2021 and 31 December 2020, the functional currency of the Group is Russian Ruble. As at 30 June 2021 and 31 December 2020 the official exchange rates used for translating foreign currency balances are shown in the table below.

	30 June 2021 (unaudited)	31 December 2020
RUB/USD	72,3723	73,8757
RUB/EUR	86,2026	90,6824
RUB/Gold (1 gram)	4 109,9300	4 491,6600

The exchange rates used by the Group in the preparation of the interim condensed consolidated financial statements as at periods end are as follows:

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Average exchange rate for the period for revaluation of foreign currency account balances		
RUB/USD	74,2781	68,4318
RUB/EUR	89,5471	75,2646

3. Significant accounting policies

These interim condensed consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain buildings and financial instruments.

The same accounting policies, presentation and methods of computation have been followed in this condensed consolidated financial statements, as applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2020, except for the Standards and Interpretations effective for annual periods beginning on or after 1 January 2021:

- Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16.

The Group has adopted the Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2. These amendments relate to the impact of the interest rate benchmark reform on recording modifications of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosure requirements according to IFRS 7. This amendment is mandatory for adoption for annual reporting periods beginning on and after 1 January 2021.

In the current period, the Group adopted all new and revised standards and interpretations, approved by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”), effective on 1 April 2021:

- COVID-19-Related Rent Concessions, beyond 30 June 2021 - Amendment to IFRS 16.

Public Joint-Stock Company “MTS-Bank”

Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

3. Significant accounting policies (continued)

This amendment extends, by one year, the May 2020 amendment COVID-19-Related Rent Concessions - Amendment to IFRS 16 that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The Group's management analyzed the above standards and interpretations and concluded that they have no material impact on the Group's condensed consolidated financial statements.

New and revised IFRSs in issue, but not yet effective

At the time of approval of these interim condensed consolidated financial statements, the Group has not applied the following new and revised IFRSs that have been issued, but are not yet effective:

New or amended standard or interpretation	Effective date - for annual periods beginning on or after
IFRS 17, <i>Insurance Contracts</i>	1 January 2023
Amendments to IFRS 17, <i>Insurance Contracts</i>	1 January 2023
Amendments to IAS 1, <i>Classification of Liabilities as Short-Term or Long-Term</i> (as part of the project to formulate Annual Improvements to IFRS 2010 -2012 Cycle).	1 January 2023
Amendments to IAS 8, <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, <i>Disclosure of Accounting Policy</i>	1 January 2023
Annual Improvements to IFRSs 2018-2020 Cycle:	
Amendments to IFRS 3, <i>Business Combinations – Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IAS 16, <i>Property, Plant and Equipment – Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets – Onerous contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Amendments to IFRS 1, IFRS 9, IAS 41 and Illustrative Examples accompanying IFRS 16, <i>Annual Improvements to IFRS Standards</i>	1 January 2022
Amendments to IAS 12 – <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to IFRS 10 and IAS 28 – <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined by the IASB

The Group does not expect that the application of the Standards above will have a significant impact on consolidated financial statements of the Group in subsequent periods.

4. Change in accounting policy

In these interim condensed consolidated financial statements, the Group voluntarily revised its accounting policies for recording deposit insurance expenses. The Group believes that the revised accounting policy contributes to more reliable and relevant presentation of information for users.

The following changes have been made in the interim condensed consolidated financial statements for the six months ended 30 June 2020 to conform to the changes in the accounting policy in 2021:

	Initially recorded for the six months ended 30 June 2020 (unaudited)	Reclassification amount	Six months ended 30 June 2020 (unaudited) (revised)
Deposit insurance expenses	-	(228 627)	(228 627)
Operating expenses	(5 494 200)	228 627	(5 265 573)

Public Joint-Stock Company “MTS-Bank”

Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

5. Net interest income

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)	Three months ended 30 June 2021 (unaudited)	Three months ended 30 June 2020 (unaudited)
Interest income				
<i>Interest income calculated using the effective interest rate method</i>				
Loans to customers	10 981 090	9 645 165	5 940 821	4 800 887
Investments in securities at amortized cost	349 038	577 319	174 822	286 357
Due from banks	30 646	456 305	1 938	265 567
<i>Other interest income</i>				
Investments in securities at fair value through profit or loss	508 915	408 607	255 017	221 457
Total interest income	11 869 689	11 087 396	6 372 598	5 574 268
Interest expense				
<i>Interest expense calculated using the effective interest rate method</i>				
Customer accounts	(2 673 277)	(3 657 714)	(1 430 907)	(1 832 584)
Debt securities issued	(53 579)	(99 340)	(44 433)	(48 445)
Due to banks and other financial institutions	(189 918)	(34 422)	(90 133)	(7 856)
Lease liabilities	(16 772)	(19 868)	(8 282)	(9 784)
Total interest expense	(2 933 546)	(3 811 344)	(1 573 755)	(1 898 669)
Deposit insurance expenses	(219 994)	(228 627)	(110 692)	(60 722)
Net interest income before allowance for expected credit losses on interest bearing assets	8 716 149	7 047 425	4 688 151	3 614 877

6. Allowance for expected credit losses, other reserves

Information on the allowance for expected credit losses on interest bearing assets for the six months ended 30 June 2021 and 30 June 2020 were as follows:

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)	Three months ended 30 June 2021 (unaudited)	Three months ended 30 June 2020 (unaudited)
Allowance for expected credit losses on loans to individuals (Note 12)	5 258 293	5 421 176	2 670 578	3 546 526
(Recovery of allowance)/allowance for expected credit losses on loans to legal entities (Note 12)	(875 631)	356 918	(282 695)	400 758
Allowance for expected credit losses on due from banks (Note 11)	4 916	4 515	5 139	6 196
Allowance for expected credit losses on securities at amortized cost (Note 10)	3 095	1 706	3 121	2 028
Allowance for expected credit losses on interest bearing assets	4 390 673	5 784 315	2 396 143	3 955 508

Public Joint-Stock Company “MTS-Bank”

Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

6. Allowance for expected credit losses, other reserves (continued)

The effect of the Group’s operating environment on the assessment of allowance for expected credit losses is disclosed in Note 19.

Information on the allowance for expected credit losses on other transactions for the six months ended 30 June 2021 and 30 June 2020 is as follows:

	Other assets	Guarantees issued	Loan commitments	Provision for legal claims	Total
31 December 2019	503 122	90 540	312 068	20 073	925 803
Allowance/(recovery of allowance)	250 792	370	65 445	1 661	318 268
Write-off against allowance	(58 488)	-	-	(1 015)	(59 503)
30 June 2020 (unaudited)	695 426	90 910	377 513	20 719	1 184 568
31 December 2020	715 718	218 429	366 779	336 175	1 637 101
Allowance/(recovery of allowance)	(2 167)	(44 599)	(5 766)	(292 987)	(345 519)
Write-off against allowance	(131 249)	-	-	-	(131 249)
30 June 2021 (unaudited)	582 302	173 830	361 013	43 188	1 160 333

Movements in the allowance for impairment losses on other transactions for the three months ended 30 June 2021 and 30 June 2020 are disclosed as follows:

	Other assets	Guarantees issued	Loan commitments	Provision for legal claims and contingent liabilities	Total
31 March 2020 (unaudited)	530 924	65 573	241 376	14 045	851 918
Allowance	181 916	25 337	136 137	6 674	350 064
Write-off against allowance	(17 414)	-	-	-	(17 414)
30 June 2020 (unaudited)	695 426	90 910	377 513	20 719	1 184 568
31 March 2021 (unaudited)	590 323	169 269	310 765	346 394	1 416 751
Allowance/(recovery of allowance)	57 803	4 559	50 248	(303 206)	(190 596)
Write-off against allowance	(65 824)	2	-	-	(65 822)
30 June 2021 (unaudited)	582 302	173 830	361 013	43 188	1 160 333

Allowances for expected credit losses on interest bearing assets and allowances for impairment losses on other assets are deducted from the respective asset items. Allowances for guarantees, loan commitments and legal claims are accounted for as other liabilities.

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

7. Fee and commission income and expenses

Fee and commission income and expenses comprised:

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)	Three months ended 30 June 2021 (unaudited)	Three months ended 30 June 2020 (unaudited)
Fee and commission income:				
Acquiring and plastic card transactions	2 697 366	1 545 015	1 179 125	772 548
Agent fees on insurance products	3 672 234	1 194 581	2 323 140	513 261
Maintenance of accounts	561 476	672 946	281 422	342 688
Settlement transactions	501 386	549 445	256 915	223 572
Cash operations with plastic cards	1 025 311	489 950	620 326	214 321
Maintenance of plastic cards	411 465	382 928	201 624	185 094
Documentary operations	242 678	261 345	102 060	138 819
Other cash operations	70 104	148 417	25 439	54 787
Foreign currency agent and controller operations	34 052	24 612	18 547	12 519
Other	377 460	188 929	198 787	95 039
Total fee and commission income	9 593 532	5 458 168	5 207 385	2 552 648
Fee and commission expenses:				
Settlement transactions	(2 200 775)	(1 390 632)	(1 047 658)	(647 775)
Information and technical interaction	(936 589)	(854 848)	(446 028)	(414 008)
Debt collection expenses	(168 908)	(216 518)	(73 185)	(123 326)
Cash transactions	(48 910)	(115 318)	(16 164)	(53 749)
Documentary operations	(210)	(4 397)	(1 104)	(1 600)
Other	(9 523)	(1 545)	(8 551)	(630)
Total fee and commission expenses	(3 364 915)	(2 583 258)	(1 592 690)	(1 241 088)

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

8. Operating expenses

Operating expenses comprised:

	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)	Three months ended 30 June 2021 (unaudited)	Three months ended 30 June 2020 (unaudited)
Staff costs	2 642 871	2 079 774	1 404 485	1 008 443
Social security contributions	653 531	524 796	308 609	227 072
Total personnel expenses	3 296 402	2 604 570	1 713 094	1 235 515
Communications services	625 024	642 929	390 381	289 980
Depreciation and amortization of property, plant and equipment and intangible assets	639 687	404 865	314 831	197 568
Call center services	528 536	436 848	282 857	228 789
Advertising costs	410 933	147 078	274 192	61 363
Property, plant and equipment maintenance	224 152	186 360	108 084	84 708
Professional services	226 119	150 338	114 008	69 025
Software maintenance	218 274	203 696	114 710	105 236
Depreciation of right-of-use assets	130 755	116 777	66 520	60 156
Office expenses	103 559	54 613	69 713	36 665
Taxes other than income tax	49 038	45 734	23 659	22 322
Security costs	24 604	26 503	13 093	13 162
Plastic cards	34 120	75 430	23 195	21 171
Travel expenses	16 887	10 305	9 042	4 595
Disposals of property, plant and equipment	-	-	-	-
Fines and penalties	4 657	7 264	1 370	4 146
Other expenses	155 695	152 263	23 197	78 677
Total operating expenses	6 688 442	5 265 573	3 541 946	2 513 078

The Group approved motivation programs that give Group employees the right to receive payments as a result of repaying phantom and virtual shares due to them or receiving an equivalent amount of PJSC MTS shares. The number of allocated shares is determined by the terms of the programs and decisions of the collective bodies of the Group, and the transfer of the right depends on the achievement of certain performance indicators, the continuation of labor relations until the end of the periods established by the program and the approval of payment by the appropriate collective body. The Group accounts these motivation programs in accordance with *IFRS 2 Share-based Payment* as transactions based on the shares with cash settlements. For the six months ended 30 June 2021, the Group recorded expenses on these motivation programs in the amount of RUB 175 400 thousand (30 June 2020: RUB 146 140 thousand) as part of staff costs and in the amount of RUB 27 000 thousand (30 June 2020: RUB 22 360 thousand) within social security contributions.

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9. Cash and balances with the Central Bank

Cash and balances with Central Bank comprised:

	30 June 2021 (unaudited)	31 December 2020
Balances with the Central Bank of the Russian Federation	5 818 189	14 901 116
Cash	1 892 881	2 583 219
Total cash and balances with the Central Bank	7 711 070	17 484 335

As at 30 June 2021 and 31 December 2020, balances with the Central Bank of the Russian Federation include RUB 1 390 265 thousand and RUB 1 180 309 thousand, respectively, which represent the mandatory reserve deposits with the Central Bank. The Group is required to maintain mandatory reserve deposits with the Central Bank on a constant basis.

Cash and cash equivalents presented in the statement of cash flows comprised:

	30 June 2021 (unaudited)	31 December 2020
Cash and balances with the Central Bank	7 711 070	17 484 335
Reverse repurchase agreements with financial institutions with initial maturities of less than three months	129 340	15 106 960
Correspondent accounts with banks and other financial institutions	4 460 823	5 970 435
Short-term bank deposits	37 425	47 300
	12 338 658	38 609 030
Less mandatory reserve deposits with the Central Bank of the Russian Federation	(1 390 265)	(1 180 309)
Less allowance for expected credit losses	(13 868)	(8 962)
Total cash and cash equivalents	10 934 525	37 419 759

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

10. Investments in securities

Investments in securities comprised:

	30 June 2021 (unaudited)	31 December 2020
Debt securities measured at amortized cost		
Corporate bonds	3 055 309	3 176 692
Debt securities of the constituent members of the Russian Federation	6 424 591	6 411 013
Less allowance for expected credit losses	(7 528)	(4 433)
	9 472 372	9 583 272
Debt securities at fair value through profit and loss		
Corporate and bank bonds	12 662 672	13 706 515
Government debt securities	8 450 116	8 112 578
Debt securities of the constituent members of the Russian Federation	5 326	5 172
	21 118 114	21 824 265
Total investments in securities	30 590 486	31 407 537

As at 30 June 2021, securities at amortized cost amount of RUB 5 521 251 thousand (31 December 2020: RUB 1 557 390 thousand) and securities at fair value amounting to RUB 7 075 146 thousand (31 December 2020: RUB 9 675 552 thousand) were transferred as collateral under repurchase agreements.

Movements in the allowance for expected credit losses on securities for the six months ended 30 June 2021 are disclosed as follows:

	Stage 1	Total
Debt securities measured at amortized cost		
31 December 2020	4 433	4 433
Changes due to changes in credit risk, net	3 101	3 101
Assets redeemed or derecognized (except for write-off)	(6)	(6)
30 June 2021 (unaudited)	7 528	7 528

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

10. Investments in securities (continued)

Movements in the allowance for expected credit losses on securities for the six months ended 30 June 2020 are disclosed as follows:

	Stage 1	Total
Debt securities measured at amortized cost		
31 December 2020	3 502	3 502
Changes due to changes in credit risk, net	1 855	1 855
Assets redeemed or derecognized (except for write-off)	(149)	(149)
30 June 2020 (unaudited)	5 208	5 208

Movements in the allowance for expected credit losses on securities for the three months ended 30 June 2021 are disclosed as follows:

	Stage 1	Total
Debt securities measured at amortized cost		
31 March 2021 (unaudited)	4 408	4 408
Changes due to changes in credit risk, net	3 120	3 120
30 June 2021 (unaudited)	7 528	7 528

Movements in the allowance for expected credit losses on securities for the three months ended 30 June 2020 are disclosed as follows:

	Stage 1	Total
Debt securities measured at amortized cost		
31 March 2020 (unaudited)	3502	3502
Changes due to changes in credit risk, net	1 855	1 855
Assets redeemed or derecognized (except for write-off)	(149)	(149)
30 June 2020 (unaudited)	5 208	5 208

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

10. Investments in securities (continued)

Information on the quality of securities at amortized cost as at 30 June 2021 and 31 December 2020 is presented below:

	Stage 1
<i>Debt securities rated (Fitch or equivalent):</i>	
BBB	9 449 154
BB	30 746
Less allowance for expected credit losses	(7 528)
30 June 2021 (unaudited)	9 472 372

	Stage 1
<i>Debt securities rated (Fitch or equivalent):</i>	
BBB	9 556 167
BB	31 539
Less allowance for expected credit losses	(4 434)
31 December 2020	9 583 272

11. Due from banks

Due from banks comprised:

	30 June 2021 (unaudited)	31 December 2020
Reverse REPO agreements with financial institutions	129 340	15 106 960
Correspondent accounts with banks and other financial institutions	4 460 823	5 970 435
Guarantee deposits in payment systems	1 734 302	1 769 998
Short-term bank deposits	37 425	47 300
	6 361 890	22 894 693
Less allowance for expected credit losses	(13 869)	(8 961)
Total due from banks	6 348 021	22 885 732

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

11. Due from banks (continued)

As at 30 June 2021 and 31 December 2020 due from banks comprised guarantee deposits in the amount of RUB 1 734 302 thousand and RUB 1 769 998 thousand, respectively, which are collateral for transactions with payment systems.

As at 30 June 2021 and 31 December 2020, fair value of assets pledged and carrying amount of loans granted under the reverse REPO agreements comprised:

	30 June 2021 (unaudited) Carrying amount of loans	30 June 2021 (unaudited) Fair value of collateral	31 December 2020 Carrying amount of loans	31 December 2020 Fair value of collateral
Corporate bonds	129 340	143 630	15 106 960	15 342 916
Total	129 340	143 630	15 106 960	15 342 916

The movements in the allowance for expected credit losses on balances due from banks for the six months ended 30 June 2021 were as follows:

	Stage 1	Stage 2	Stage 3	Total
31 December 2020	3 404	-	5 557	8 961
Transfer to Stage 3	(4 201)	-	4 201	-
New assets originated or purchased	4 470	-	-	4 470
Changes due to changes in credit risk	263	-	175	438
30 June 2021 (unaudited)	3 936	-	9 933	13 869

The movements in the allowance for expected credit losses on balances due from banks for the six months ended 30 June 2020 were as follows:

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	1 233	-	5 652	6 885
New assets originated or purchased	50	-	-	50
Changes due to changes in credit risk	3 951	-	514	4 465
Recoveries of the assets previously written off	-	-	1 270	1 270
30 June 2020 (unaudited)	5 234	-	7 436	12 670

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

11. Due from banks (continued)

The movements in the allowance for expected credit losses on balances due from banks for the three months ended 30 June 2021 were as follows:

	Stage 1	Stage 2	Stage 3	Total
31 March 2021 (unaudited)	2 661	-	6 074	8 735
Transfer to Stage 3	(3 805)	-	3 805	-
New assets originated or purchased	3 962	-	-	3 962
Changes due to changes in credit risk	1 115	-	54	1 169
Write-off against allowance	-	-	3	3
30 June 2021 (unaudited)	3 933	-	9 936	13 869

The movements in the allowance for expected credit losses on balances due from banks for the three months ended 30 June 2020 were as follows:

	Stage 1	Stage 2	Stage 3	Total
31 March 2020 (unaudited)	1 010	-	5 464	6 474
New assets originated or purchased	49	-	-	49
Changes due to changes in credit risk	4 174	-	1 973	6 147
30 June 2020 (unaudited)	5 233	-	7 437	12 670

Information about the quality of the amounts due from banks as at 30 June 2021 is presented below:

	Stage 1	Stage 2	Stage 3	Total
<i>Due from banks rated:</i>				
AA	1 145 105	-	-	1 145 105
A	1 715 827	-	-	1 715 827
BBB	2 094 044	-	-	2 094 044
BB	835 141	-	-	835 141
B	16 325	-	-	16 325
<B / Not rated	544 085	-	11 363	555 448
Less allowance for expected credit losses	(3 936)	-	(9 933)	(13 869)
30 June 2021 (unaudited)	6 346 591	-	1 430	6 348 021

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

11. Due from banks (continued)

Information about the quality of the amounts due from banks as at 31 December 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total
<i>Due from banks rated:</i>				
AA	1 177 867	-	-	1 177 867
A	1 421 365	-	-	1 421 365
BBB	17 894 583	-	-	17 894 583
BB	1 887 752	-	-	1 887 752
B	11	-	-	11
<B / Not rated	506 189	-	6 926	513 115
Less allowance for expected credit losses	(3 404)	-	(5 557)	(8 961)
31 December 2020	22 884 363	-	1 369	22 885 732

Amounts due from banks, which are not rated, represent unsettled operations on balances with credit institutions.

As at 30 June 2021 and 31 December 2020, there are no overdue amounts due from banks in Stage 1, which are not rated.

12. Loans to customers

Loans to customers comprised:

	30 June 2021 (unaudited)	31 December 2020
Loans to customers	190 385 714	147 894 225
Less allowance for expected credit losses	(19 720 684)	(18 031 803)
Total loans to customers	170 665 030	129 862 422

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

12. Loans to customers (continued)

The table below summarizes the carrying value of loans to customers by type of collateral received:

	30 June 2021 (unaudited)	31 December 2020
Loans collateralized by guarantees	22 699 692	19 103 005
Loans collateralized by pledge of property	19 500 268	18 473 580
Loans collateralized by pledge of equipment	384 601	370 320
Loans collateralized by pledge of securities	-	255 836
Unsecured loans	147 801 153	109 691 484
Loans to customers	190 385 714	147 894 225
Less allowance for expected credit losses	(19 720 684)	(18 031 803)
Total loans to customers	170 665 030	129 862 422

Amounts presented in the table above are the carrying amounts of loans issued and do not necessarily represent the fair value of collateral received.

As at 30 June 2021 and 31 December 2020, loans to legal entities included loans amounting to RUB 268 383 thousand and RUB 155 828 thousand, respectively, secured by the Group's own debt securities issued in the amount of RUB 111 500 thousand and RUB 251 155 thousand, respectively. The contractual maturities of debt securities issued exceed the contractual maturities of the secured loans.

	30 June 2021 (unaudited)	31 December 2020
Analysis by economic sector:		
Individuals	158 198 890	117 603 898
Commerce	14 685 221	12 423 371
Real estate and construction	9 300 239	9 062 660
Financial sector	1 786 711	3 426 614
Transport and communications	1 935 097	1 538 959
Agriculture	939 542	1 154 565
Finance leases	1 048 817	1 085 262
Manufacturing	946 715	752 140
Other	1 544 482	846 756
Loans to customers	190 385 714	147 894 225
Less allowance for expected credit losses	(19 720 684)	(18 031 803)
Total loans to customers	170 665 030	129 862 422

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

12. Loans to customers (continued)

Loans to individuals comprised the following products:

	30 June 2021 (unaudited)	31 December 2020
Consumer loans	111 252 162	80 923 014
Credit cards	31 288 339	21 873 579
Mortgage loans	15 352 190	14 384 153
Other	306 199	423 152
Loans to individuals	158 198 890	117 603 898
Less allowance for expected credit losses	(16 409 624)	(14 287 844)
Total loans to individuals	141 789 266	103 316 054

As at 30 June 2021 and 31 December 2020, loans to individuals comprised mortgage loans of RUB 603 746 thousand and RUB 812 630 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2014.

As at 30 June 2021 the Group granted loans to two groups of borrowers in the total amount of RUB 9 082 607 thousand (31 December 2020: 1 group of borrowers in the total amount of RUB 4 055 234 thousand), which individually exceeded 10% of the Group's equity.

Loans to customers included loans, the terms of which were renegotiated under own restructuring programs (undertaken either due to an increase of credit risk or not) and credit holidays. As at 30 June 2021 these loans included loans in the amount of RUB 2 780 864 thousand (31 December 2020: RUB 815 414 thousand), the allowance for which is estimated based on expected credit losses for 12 months, and loans in the amount of RUB 4 351 532 thousand (31 December 2020: RUB 5 134 607 thousand), the allowance for which is estimated over lifetime. The renegotiation of loan terms did not result in significant modifications and did not have a material impact on the amortized cost of these loans.

The Bank regularly monitors the dynamics of existing restructured loans. Specific monitoring of cash settlements is carried out for these loans.

In 2021 and 2020, the Group sold certain loans to third parties at full cost (31 December 2020: with a discount to nominal value) with no regression and without any service obligations associated with the loans. As at 30 June 2021 write-off against allowance upon sale of such loans amounted to RUB 0 thousand (31 December 2020: RUB 279 434 thousand), the total revenue from the sales was RUB 285 447 thousand (31 December 2020: income of RUB 235 060 thousand). During the six months of 2021 the receivable in the amount of RUB 279 434 thousand from the sale of loans due from third parties was offset for the equivalent amount by the Group's debt securities issued belonging to third parties.

As at 30 June 2021 and 31 December 2020, loans in the amount of RUB 2 422 775 thousand and RUB 2 641 469 thousand, respectively, assessed on an individual basis in Stage 3, were secured by collateral of real estate, equipment, inventory, bills of exchange, as well as guarantees with a fair value of RUB 588 176 thousand and RUB 669 483 thousand, respectively.

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12. Loans to customers (continued)

Collateral for due from banks (Note 11), and collateral for Loans to customers is stated at minimum of fair value of collateral and carrying amount of loans.

The effect of the Group's operating environment on the assessment of allowance for expected credit losses is disclosed in Note 19.

When disclosing transfers within stages in the movement in the allowance for expected credit losses for the reporting period, the Group discloses the final stage of a financial instrument as at the reporting date.

Information about the movement in the allowance for expected credit losses on loans to legal entities for the six months ended 30 June 2021 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2020	886 677	540 228	2 317 054	3 743 959
Transfer to Stage 1	88 702	(88 702)	-	-
Transfer to Stage 2	(23 549)	26 749	(3 200)	-
Transfer to Stage 3	(38 223)	(19 116)	57 339	-
New assets originated or purchased	173 657	-	-	173 657
Changes due to changes in credit risk	(176 663)	(107 765)	(764 862)	(1 049 290)
Assets redeemed or derecognized (except for write-off)	-	-	(1 003)	(1 003)
Write-off against allowance	-	-	(12 341)	(12 341)
Recoveries of the assets previously written off	-	-	456 078	456 078
30 June 2021 (unaudited)	910 601	351 394	2 049 065	3 311 060

Information about the movement in the allowance for expected credit losses on loans to legal entities for the six months ended 30 June 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	566 093	76 541	3 199 009	3 841 643
Transfer to Stage 1	626	(626)	-	-
Transfer to Stage 2	(116 899)	116 899	-	-
Transfer to Stage 3	(10 236)	(21 607)	31 843	-
New assets originated or purchased	77 378	-	-	77 378
Changes due to changes in credit risk	267 174	235 842	(223 476)	279 540
Write off of allowance upon sale	-	-	(250 115)	(250 115)
Write-off against allowance	-	-	(16 205)	(16 205)
Recoveries of the assets previously written off	-	-	77 877	77 877
30 June 2020 (unaudited)	784 136	407 049	2 818 933	4 010 118

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

12. Loans to customers (continued)

Information about the movement in the allowance for expected credit losses on loans to legal entities for the three months ended 30 June 2021 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 March 2021 (unaudited)	927 257	397 788	2 051 131	3 376 176
Transfer to Stage 1	51 002	(51 002)	-	-
Transfer to Stage 2	(14 820)	18 020	(3 200)	-
Transfer to Stage 3	(21 967)	(10 561)	32 528	-
New assets originated or purchased	43 470	-	-	43 470
Changes due to changes in credit risk	(74 341)	(2 850)	(248 974)	(326 165)
Write-off against allowance	-	-	(12 341)	(12 341)
Recoveries of the assets previously written off	-	-	229 920	229 920
30 June 2021 (unaudited)	910 601	351 395	2 049 064	3 311 060

Information about the movement in the allowance for expected credit losses on loans to legal entities for the three months ended 30 June 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 March 2020 (unaudited)	559 525	91 946	3 216 570	3 868 041
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(87 808)	87 808	-	-
Transfer to Stage 3	(3 283)	(16 205)	19 488	-
New assets originated or purchased	15 383	-	-	15 383
Changes due to changes in credit risk	300 389	243 500	(158 512)	385 377
Write off of allowance upon sale	-	-	(250 115)	(250 115)
Write-off against allowance	-	-	(16 205)	(16 205)
Recoveries of the assets previously written off	-	-	7 707	7 707
Exchange differences	(70)	-	-	(70)
30 June 2020 (unaudited)	784 136	407 049	2 818 933	4 010 118

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

12. Loans to customers (continued)

Information about the movement in the allowance for expected credit losses on loans to individuals for the six months ended 30 June 2021 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2020	2 838 590	1 838 534	9 610 720	14 287 844
Transfer to Stage 1	780 476	(686 618)	(93 858)	-
Transfer to Stage 2	(275 112)	435 513	(160 401)	-
Transfer to Stage 3	(6 666)	(2 011 554)	2 018 220	-
New assets originated or purchased	1 636 844	-	-	1 636 844
Changes due to changes in credit risk	(764 273)	3 014 890	1 370 832	3 621 449
Write-off against allowance	-	-	(3 521 583)	(3 521 583)
Recoveries of the assets previously written off	-	-	385 070	385 070
30 June 2021 (unaudited)	4 209 859	2 590 765	9 609 000	16 409 624

Information about the movement in the allowance for expected credit losses on loans to individuals for the six months ended 30 June 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	1 925 065	1 101 838	4 344 644	7 371 547
Transfer to Stage 1	512 963	(390 305)	(122 658)	-
Transfer to Stage 2	(263 778)	381 528	(117 750)	-
Transfer to Stage 3	(831)	(1 755 143)	1 755 974	-
New assets originated or purchased	624 246	-	-	624 246
Changes due to changes in credit risk	(103 500)	3 378 064	1 522 366	4 796 930
Write-off against allowance	-	-	(623 883)	(623 883)
Recoveries of the assets previously written off	-	-	121 233	121 233
30 June 2020 (unaudited)	2 694 165	2 715 982	6 879 926	12 290 073

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

12. Loans to customers (continued)

Information about the movement in the allowance for expected credit losses on loans to individuals for the three months ended 30 June 2021 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 March 2021 (unaudited)	3 449 213	2 090 364	9 677 554	15 217 131
Transfer to Stage 1	470 839	(417 274)	(53 565)	-
Transfer to Stage 2	(159 755)	253 518	(93 763)	-
Transfer to Stage 3	(3 491)	(1 062 879)	1 066 370	-
New assets originated or purchased	973 295	-	-	973 295
Changes due to changes in credit risk	(520 242)	1 727 036	490 486	1 697 280
Write-off against allowance	-	-	(1 769 005)	(1 769 005)
Recoveries of the assets previously written off	-	-	290 923	290 923
30 June 2021 (unaudited)	4 209 859	2 590 765	9 609 000	16 409 624

Information about the movement in the allowance for expected credit losses on loans to individuals for the three months ended 30 June 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 March 2020 (unaudited)	2 145 931	1 406 431	5 530 626	9 082 988
Transfer to Stage 1	234 412	(172 001)	(62 411)	-
Transfer to Stage 2	(166 890)	242 410	(75 520)	-
Transfer to Stage 3	(829)	(1 017 186)	1 018 015	-
New assets originated or purchased	288 856	-	-	288 856
Changes due to changes in credit risk	192 685	2 256 328	808 657	3 257 670
Write-off against allowance	-	-	(395 675)	(395 675)
Recoveries of the assets previously written off	-	-	56 233	56 233
30 June 2020 (unaudited)	2 694 165	2 715 982	6 879 926	12 290 073

Public Joint-Stock Company “MTS-Bank”

Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

12. Loans to customers (continued)

Information about the quality of loans to legal entities as at 30 June 2021 and 31 December 2020 is presented in tables below:

	Stage 1	Stage 2	Stage 3	30 June 2021 (unaudited)
<i>Assessed on a collective basis</i>				
Not past due	1 092 626	20 706	-	1 113 332
Past due:				
up to 30 days	-	49 149	2 676	51 825
from 31 to 60 days	-	203	15 289	15 492
from 61 to 90 days	-	476	2 332	2 808
from 91 to 180 days	-	-	34 967	34 967
over 180 days	-	-	641 014	641 014
Total loans to legal entities assessed on a collective basis	1 092 626	70 534	696 278	1 859 438
<i>Assessed on an individual basis</i>				
Current	21 872 978	1 455 753	-	23 328 731
Under monitoring	3 843 454	1 592 117	-	5 435 571
Default	-	-	1 563 084	1 563 084
Total loans to legal entities assessed on an individual basis	25 716 432	3 047 870	1 563 084	30 327 386
Less allowance for expected credit losses	(910 601)	(351 397)	(2 049 062)	(3 311 060)
TOTAL	25 898 457	2 767 007	210 300	28 875 764
	Stage 1	Stage 2	Stage 3	31 December 2020
<i>Assessed on a collective basis</i>				
Not past due	1 001 566	22 685	-	1 024 251
Past due:	-	-	-	-
up to 30 days	-	26 436	2 257	28 693
from 31 to 60 days	-	6 919	1 100	8 019
from 61 to 90 days	-	7 298	733	8 031
from 91 to 180 days	-	-	22 085	22 085
over 180 days	-	-	644 573	644 573
Total loans to legal entities assessed on a collective basis	1 001 566	63 338	670 748	1 735 652
<i>Assessed on an individual basis</i>				
Current	13 087 510	2 898 088	-	15 985 598
Under monitoring	6 105 554	4 511 739	-	10 617 293
Default	-	-	1 951 784	1 951 784
Total loans to legal entities assessed on an individual basis	19 193 064	7 409 827	1 951 784	28 554 675
Less allowance for expected credit losses	(885 314)	(541 591)	(2 317 054)	(3 743 959)
TOTAL	19 309 316	6 931 574	305 478	26 546 368

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

12. Loans to customers (continued)

Information about the quality of loans to individuals as at 30 June 2021 and 31 December 2020 is presented below:

	Stage 1	Stage 2	Stage 3	30 June 2021 (unaudited)
<i>Assessed on a collective basis</i>				
Not overdue	138 261 979	1 046 084	-	139 308 063
Past due:				
Up to 30 days	-	4 917 374	195 101	5 112 475
From 31 to 60 days	-	1 155 420	89 106	1 244 526
From 61 to 90 days	-	919 370	83 713	1 003 083
From 91 to 180 days	-	-	2 267 722	2 267 722
Over 180 days	-	-	8 403 330	8 403 330
Total loans to individuals assessed on a collective basis	138 261 979	8 038 248	11 038 972	157 339 199
<i>Assessed on an individual basis</i>				
Under monitoring	-	-	547 710	547 710
Default	-	-	311 981	311 981
Total loans to individuals assessed on an individual basis	-	-	859 691	859 691
Less allowance for expected credit losses	(4 209 859)	(2 590 765)	(9 609 000)	(16 409 624)
TOTAL	134 052 120	5 447 483	2 289 663	141 789 266

	Stage 1	Stage 2	Stage 3	31 December 2020
<i>Assessed on a collective basis</i>				
Not overdue	99 647 413	2 340 696	-	101 988 109
Past due:				
Up to 30 days	-	2 476 674	225 914	2 702 588
From 31 to 60 days	-	808 389	136 138	944 527
From 61 to 90 days	-	571 219	100 188	671 407
From 91 to 180 days	-	-	1 928 239	1 928 239
Over 180 days	-	-	8 679 343	8 679 343
Total loans to individuals assessed on a collective basis	99 647 413	6 196 978	11 069 822	116 914 213
<i>Assessed on an individual basis</i>				
Under monitoring	-	-	305 962	305 962
Default	-	-	383 723	383 723
Total loans to individuals assessed on an individual basis	-	-	689 685	689 685
Less allowance for expected credit losses	(2 838 590)	(1 838 534)	(9 610 720)	(14 287 844)
TOTAL	96 808 823	4 358 444	2 148 787	103 316 054

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

13. Derivative financial instruments

The tables below show the fair values and nominal values of derivative financial instruments recorded as assets or liabilities. The nominal value shown on a gross basis represents the value to which the rate or index is applied, and serves as the basis for estimating changes in the value of derivatives. Nominal value refers to the amount for the deals that have not been settled by year-end and is not equal to the exposure to market or credit risk.

As at 30 June 2021, derivative financial instruments comprise:

	RUB-denominated nominal value			Fair value	
	Receivable	Payable	Redemption	Asset	Liability
Derivative financial instruments:					
Foreign currencies					
Foreign exchange put/call options					
Forward foreign exchange contracts	108 875	105 504	July-September, 2021	2 115	21
Currency swaps	105 504	108 588	July-September, 2021	100	1 917
Total derivative financial instruments				2 215	1 938

As at 31 December 2020 derivative financial instruments comprise:

	RUB-denominated nominal value		Redemption	Fair value	
	Receivable	Payable		Asset	Liability
Derivative financial instruments:					
Forward foreign exchange contracts	74 704	74 759	January-March, 2021	212	996
Currency swaps	185 161	184 976	January-March, 2021	1 568	656
Total derivative financial instruments held for trading				1 780	1 652

The amounts receivable and payable are presented in the RUB-denominated nominal value under contracts at the exchange rate effective at the specified reporting dates.

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

14. Customer accounts

Customer accounts comprise:

	30 June 2021 (unaudited)	31 December 2020
Time deposits	110 918 911	108 041 860
Current accounts	42 888 357	41 697 379
Total customer accounts	153 807 268	149 739 239

As at 30 June 2021 and 31 December 2020, customer accounts, individually exceeding 10% of the Group's equity, were received from four (4) customers amounting of RUB 56 414 437 thousand (37% of total customer accounts) and RUB 50 175 788 thousand (34% of total customer accounts), respectively.

	30 June 2021 (unaudited)	31 December 2020
Economic sectors analysis:		
Individuals	106 149 018	107 083 984
Transport and communications	8 655 646	8 493 273
Financial sector	16 549 201	7 546 365
Healthcare	1 507 167	5 932 792
Trade	4 838 125	4 451 898
Real estate and construction	2 837 312	2 906 800
Manufacturing	2 874 140	2 479 314
Science and education	216 261	152 663
Oil and gas industry	3 900	1 438
Other	10 176 498	10 690 712
Total customer accounts	153 807 268	149 739 239

15. Debt securities issued

As at 30 June 2021 and as at 31 December 2020, debt securities issued are as follows:

	Maturity month/year	Annual interest rate, %	30 June 2021 (unaudited)	Maturity month/year	Annual interest rate, %	31 December 2020
Promissory notes	November 2019 - June 2023	1.50%-6.40%	720 655	November 2019 - March 2024	0.01%-6.45%	1 839 813
Bonds	May 2023	7.45%	5 035 700	-	-	-
Total debt securities issued			5 756 355			1 839 813

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

16. Share capital

As at 30 June 2021, the approved share capital consisted of 30 029 493 ordinary shares (31 December 2020: 26 872 429 ordinary shares) with par value of RUB 500 each and 600 preference shares (31 December 2020: 1 000 preference shares) with par value of RUB 500 each.

All ordinary shares are of the same class and bear one vote.

Owners of preferred shares have the right to receive a fixed annual dividend and to participate in the General Shareholders' Meeting on matters of reorganization, liquidation and amendments to the Charter affecting the rights of such owners. Also in case of a decision on non-payment or incomplete payment of dividends on such shares, holders have the same voting rights as ordinary shares until the payment of dividends is in full.

As at 30 June 2021 and 31 December 2020, share premium totaling RUB 15 062 433 thousand and RUB 12 640 965 thousand, respectively, represents an excess of contributions received over the nominal value of shares.

17. Contingent financial liabilities

In the normal course of business, the Group becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The maximum credit risk exposure of the Group under contingent financial liabilities and loan commitments is equivalent to the contractual value of these instruments.

The Group applies the same credit policy for financial contingent liabilities as it does for on-balance credit operations.

As at 30 June 2021 and 31 December 2020, contingent liabilities comprised:

	30 June 2021 (unaudited)	31 December 2020
Credit related contingent liabilities		
Loan commitments	27 155 960	23 194 610
Guarantees issued	11 312 446	23 756 961
Total credit-related contingent liabilities	38 468 406	46 951 571
Less allowance for expected credit losses	(534 843)	(585 208)
Total contingent financial liabilities	37 933 563	46 366 363

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

17. Contingent financial liabilities (continued)

Information on the movement of the allowance for expected credit losses on loan commitments and guarantees issued for the six months ended 30 June 2021 and 30 June 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2020	339 309	32 985	212 914	585 208
Transfer to Stage 1	4 595	(4 595)	-	-
Transfer to Stage 2	(613)	613	-	-
Transfer to Stage 3	(8 870)	-	8 870	-
Net change in allowance for expected credit losses	8 324	(16 919)	(41 770)	(50 365)
30 June 2021 (unaudited)	342 745	12 084	180 014	534 843

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	338 968	16 472	47 168	402 608
Transfer to Stage 1	(7 190)	7 190	-	-
Transfer to Stage 2	(1 836)	1 836	-	-
Transfer to Stage 3	(13 204)	-	13 204	-
Net change in allowance for expected credit losses	42 516	23 003	296	65 815
30 June 2020 (unaudited)	359 254	48 501	60 668	468 423

Extension of loans to customers within credit line limits is made by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 30 June 2021 and 31 December 2020, unused credit line commitments totaled RUB 3 065 304 thousand and RUB 4 019 874 thousand, respectively.

The Group also provides depositary services to its customers. As at 30 June 2021 and 31 December 2020, the Group had 1 207 483 916 and 1 885 146 479 customer securities, respectively, in its nominal holder accounts.

The Group has contingent credit liabilities in the form of unused bank guarantee in the amount of RUB 10 422 443 thousand as at 30 June 2021 (RUB 9 809 755 thousand as at 31 December 2020). The Group is not exposed to credit risk for such liabilities.

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

17. Contingent financial liabilities (continued)

Information about the quality of loan commitments and guarantees issued as at 30 June 2021 and 31 December 2020 is presented below:

	Stage 1	Stage 2	Stage 3	30 June 2021 (unaudited)
<i>Assessed on a collective basis</i>				
Current	29 827 462	-	-	29 827 462
Requiring monitoring	-	86 700	-	86 700
Default	-	-	85 802	85 802
Total contingent liabilities assessed on a collective basis	29 827 462	86 700	85 802	29 999 964
<i>Assessed on an individual basis</i>				
Current	5 688 583	809 744	-	6 498 327
Under monitoring	26 932	1 783 984	-	1 810 916
Default	-	-	159 199	159 199
Total contingent liabilities assessed on an individual basis	5 715 515	2 593 728	159 199	8 468 442
Less allowance for expected credit losses	(342 744)	(12 083)	(180 016)	(534 843)
TOTAL	35 200 233	2 668 345	64 985	37 933 563
	Stage 1	Stage 2	Stage 3	31 December 2020
<i>Assessed on a collective basis</i>				
Current	28 650 836	-	-	28 650 836
Requiring monitoring	-	81 344	-	81 344
Default	-	-	143 322	143 322
Total contingent liabilities assessed on a collective basis	28 650 836	81 344	143 322	28 875 503
<i>Assessed on an individual basis</i>				
Current	13 784 850	900 825	-	14 685 675
Under monitoring	218 172	3 013 023	-	3 231 195
Default	-	-	159 199	159 199
Total contingent liabilities assessed on an individual basis	14 003 022	3 913 848	159 199	18 076 068
Less allowance for expected credit losses	(339 309)	(32 985)	(212 914)	(585 208)
TOTAL	42 314 550	3 962 207	89 607	46 366 363

Legal claims. The movements in the provision for legal claims are disclosed in Note 6. As at 30 June 2021 and 31 December 2020, there are no unreserved claims for which the risk is assessed as “probable”. There are also no undisclosed claims for which the risk is assessed as “possible”.

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

18. Segment reporting

Operating segments are components of the Group that are involved in activities from which the Group can generate revenue or incur expenses, the operating results of which are regularly reviewed by management making operational decisions, and for which discrete financial information is available. The management that makes operational decisions can be a person or a group of individuals who are engaged in the allocation of resources and the evaluation of the results of the Group's activities. The Group's Management Board performs the functions of chief operating decision-maker.

The Group's Management Board reviews the results of each of the segments when making decisions about allocation of resources and assessing their performance.

The Group separates operating segments based on its organizational structure. Operating segments are presented on the basis of management accounting in accordance with Russian rules for the preparation of annual accounting (financial) statements of credit organizations, except for:

- Use of intersegment transfer pricing system;
- Different classification of certain income and expense items.

Under the Group's transfer pricing system, resources are generally reallocated using internal interest rates. These rates are determined on the basis of basic market interest rates.

Segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

For management purposes, the Group is divided into the following operating segments:

- **Retail banking** - includes private banking services, credit and debit card services, time deposits and current accounts, retail lending (consumer loans, credit cards, mortgage loans and other).
- **Corporate and investment banking** - includes granting loans to corporate customers and small and medium-sized companies, project and commodity financing, as well as financing structured transactions of corporate customers, maintenance of current accounts and time deposits of corporate customers, trading operations with securities, foreign currencies and derivative financial instruments, custody services.
- **Other and unallocated activities** - represents funding activities and other activities as well as balances and/or income and expense items not allocated to any of the Group's business segments in the internal management reporting systems, as they are not initiated by any of the business units and represent part of the Group's routine headquarter activities.

The Group performs its continuing operations in the Russian Federation. Revenue received from non-resident counterparties constitutes an insignificant part of the Group's total revenue from continuing operations. All of the Group's non-current assets are concentrated in the Russian Federation.

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

18. Segment reporting (continued)

Operating segment information for the six month ended 30 June 2021 is presented below.

	Retail banking	Corporate and investment banking	Other unallocated	30 June 2021 (unaudited)
Interest income	8 901 128	2 163 573	30 331	11 095 032
Interest expense	(2 056 339)	(813 015)	(504 091)	(3 373 445)
Transfer pricing	(464 917)	(6 417)	471 334	-
Change in allowances	(5 746 419)	1 027 643	367 802	(4 350 974)
Fee and commission income	10 469 690	714 299	118 864	11 302 853
Fee and commission expenses	(3 855 639)	(167 611)	(47 591)	(4 070 841)
Administrative and general expenses	(4 455 557)	(1 134 219)	(983 906)	(6 573 682)
Other operating income /(loss)	90 246	(288 536)	(70 677)	(268 967)
Net profit/(loss) before income tax	2 882 193	1 495 717	(617 934)	3 759 976
Income tax	-	-	(582 275)	(582 275)
Net profit/(loss)	2 882 193	1 495 717	(1 200 209)	3 177 701
Total assets	144 622 334	62 071 920	28 048 773	234 743 027
Total equity and liabilities	112 063 763	41 233 005	45 192 559	198 489 327

Operating segment information for the six month ended 30 June 2020 is presented below.

	Retail banking	Corporate and investment banking	Other unallocated	30 June 2020 (unaudited)
Interest income	6 764 633	2 454 802	442 668	9 662 103
Interest expense	(3 277 540)	(591 853)	(383 942)	(4 253 335)
Transfer pricing	928 050	(725 560)	(202 490)	-
Change in allowances	(5 801 759)	(521 145)	(102)	(6 323 006)
Fee and commission income	5 980 730	747 835	251 412	6 979 977
Fee and commission expenses	(2 681 242)	(218 740)	(41 543)	(2 941 525)
Administrative and general expenses	(3 382 158)	(936 734)	(873 864)	(5 192 756)
Other operating income /(loss)	453 534	168 354	(3 246)	618 642
Net (loss)/profit before income tax	(1 015 752)	376 959	(811 107)	(1 449 900)
Income tax	-	-	(122)	(122)
Net (loss)/profit	(1 015 752)	376 959	(811 229)	(1 450 022)
Total assets	89 710 687	59 678 594	67 135 525	216 524 806
Total equity and liabilities	116 546 969	56 949 424	15 552 592	189 048 985

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18. Segment reporting (continued)

Operating segment information for the three months ended 30 June 2021 is presented below.

				Three months ended 30 June 2021 (unaudited)
	Retail banking	Corporate and investment banking	Other unallocated	
Interest income	4 858 738	1 098 760	1 819	5 959 317
Interest expense	(1 034 433)	(493 884)	(268 211)	(1 796 528)
Transfer pricing	(359 889)	81 705	278 184	-
Change in allowances	(3 071 444)	298 419	344 414	(2 428 611)
Fee and commission income	5 542 590	348 364	53 969	5 944 923
Fee and commission expenses	(1 932 322)	(82 905)	(27 570)	(2 042 797)
Administrative and general expenses	(2 402 901)	(576 364)	(509 750)	(3 489 015)
Other operating income /(loss)	195 124	(91 521)	111 323	214 926
Net profit/(loss) before income tax	1 795 463	582 574	(15 822)	2 362 215
Income tax	-	-	(536 679)	(536 679)
Net profit/(loss)	1 795 463	582 574	(552 501)	1 825 536

Operating segment information for the three months ended 30 June 2020 is presented below.

				Three months ended 30 June 2020 (unaudited)
	Retail banking	Corporate and investment banking	Other unallocated	
Interest income	3 457 699	1 202 863	264 378	4 924 940
Interest expense	(1 580 999)	(303 306)	(182 763)	(2 067 068)
Transfer pricing	486 871	(327 974)	(158 897)	-
Change in allowances	(3 834 606)	(488 930)	(11 524)	(4 335 060)
Fee and commission income	2 813 870	356 077	104 442	3 274 389
Fee and commission expenses	(1 256 521)	(117 518)	(22 315)	(1 396 354)
Administrative and general expenses	(1 633 258)	(465 602)	(406 082)	(2 504 942)
Other operating income /(loss)	155 783	427 194	(57 172)	525 805
Net (loss)/profit before income tax	(1 391 161)	282 804	(469 933)	(1 578 290)
Income tax	-	-	(65 018)	(65 018)
Net (loss)/profit	(1 391 161)	282 804	(534 951)	(1 643 308)

“Depreciation and amortization of property, plant and equipment and intangible assets and right-of-use assets” as well as “Property, plant and equipment and intangible assets” and “Right-of-use assets” are not allocated to segments.

“Share of profit of a joint venture” is recorded in operating segments as “other operating income/(loss)” and together with “investment in a joint venture” which is recognized as “other unallocated”.

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18. Segment reporting (continued)

Reconciliation of profit or loss, assets and liabilities of reportable segments

A reconciliation of net profit for the reportable segments for the six months ended 30 June 2021 and 30 June 2020 is as follows:

	30 June 2021 (unaudited)	30 June 2020 (unaudited)
Total segment result	3 177 701	(1 450 022)
Consolidation of subsidiaries and joint ventures (including the effect of intragroup eliminations)	7 937	7 585
Reclassification of interest expense on perpetual bonds, recognized in equity	235 548	312 890
Other adjustments from national standards to IFRS	(25 500)	(18 951)
Net profit/(loss)	3 395 686	(1 148 498)

The reconciliation of reportable segment assets and liabilities is presented below:

	30 June 2021 (unaudited) Total assets	30 June 2021 (unaudited) Total liabilities	30 June 2020 (unaudited) Total assets	30 June 2020 (unaudited) Total liabilities
Total segment result	234 743 026	198 489 326	216 524 806	189 048 985
Consolidation of subsidiaries and joint ventures (including the effect of intragroup eliminations)	(807 648)	(1 075 449)	44 058	(338 264)
Different classification of some items of assets and liabilities	(2 723 227)	(2 687 663)	(1 356 833)	(1 319 254)
Reclassification of perpetual bonds into equity	-	(5 000 000)	-	(5 000 000)
Other adjustments from national standards to IFRS	(120 363)	(8 265)	(309 368)	(39 891)
Total consolidated result	231 091 788	189 717 950	214 902 664	182 351 576

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19. Operating environment

The Russian Federation displays certain characteristics of an emerging market. Emerging markets including Russia are exposed to economic, political, social, legal and legislative risks which differ from those inherent to more developed markets. Laws and regulations affecting businesses in Russia may change rapidly and are subject to arbitrary interpretations. The future economic trends in Russia depend to a large extent on fiscal and monetary policies adopted by the government, as well as changes in the legal, regulatory, and political environment.

As Russia produces and exports large volumes of oil and gas, Russia's economy is particularly sensitive to the price of oil and gas on the world market. In 2020 oil prices on the global market dropped drastically, causing an immediate depreciation of the Russian Ruble against major foreign currencies.

The political situation and new packages of sanctions imposed by the US and the European Union against a number of Russian officials, businessmen and organizations continue to have a negative impact on the Russian economy.

Russian consumers and corporations continue to face increasing economic difficulties, which elevates the risk of default in the retail and commercial banking sectors. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and current expectations and estimates could significantly differ from actual results.

In addition, the beginning of 2020 saw the outbreak of a new coronavirus (COVID-19) around the world, with the World Health Organization (WHO) announcing a pandemic in March 2020. The measures taken by many countries to curb the spread of COVID-19 have led to significant operational difficulties for many companies, including a significant impact on global financial markets. COVID-19 has had a significant effect on business of many companies across a wide range of sectors, including, but not limited to impacts such as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantine of personnel, reduced demand and difficulties in raising financing.

Moreover, the effects of COVID-19 have had a negative impact on the global economy and major financial markets.

Despite the fact that vaccination of the population began in 2021, the epidemiological situation remains uncertain. However, most sectors of the economy have started to recover, world prices for raw materials are stabilizing, and most companies are showing positive results in the first half of the year. Further economic recovery is closely related to the epidemiological situation as well as the level of strict measures enforced.

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19. Operating environment (continued)

At the moment Russia does not apply strict quarantine measures. However, estimates of the scale and prospects for the end of the pandemic crisis have varied throughout the period, and today a high level of uncertainty remains. There remains high uncertainty about the speed of global economic recovery, especially given the re-introduction by a number of countries of restrictive measures to prevent the spread of COVID-19, both due to the newly increasing number of diseases and the identification of new strains of the virus.

The Group conducts stress tests to determine its exposure to significant types of risk, as well as to assess the risks of the threat of the global COVID-19 pandemic.

The next scheduled stress testing of the loan portfolio will be conducted in the third quarter of 2021 on the Bank's loan portfolio as at 1 July 2021.

In July 2021, the rating agency Fitch Ratings changed the outlook on the Bank's rating from “Stable” to “Positive”. The revision of the Bank's forecast follows similar to its parent company, PJSC MTS.

The agency also highlighted the strengthening of the bank's synergy with the parent telecommunications company.

Based on the above analysis, these interim condensed consolidated financial statements have been prepared on going concern basis, as management believes that the above events do not impact the Group's ability to continue as a going concern in the foreseeable future.

Thus, taking into account the stable financial position of the Group, it can be concluded that the current economic situation did not have a significant impact on the Group's financial ratios in the first half of 2021.

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Related party transactions

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. The Group had the following transactions outstanding with related parties as at 30 June 2021 and 31 December 2020:

	30 June 2021 (unaudited)		31 December 2020	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Investments in securities	2 755 508	30 590 486	2 289 817	31 407 537
- the parent	151 470		47	
- entities with joint control or significant influence over the Group	1 715 111		1 829 018	
- entities under common control with the Group	247 735		460 752	
- other related parties	641 192		-	
Loans to customers before allowance for expected credit losses	11 404 827	190 385 714	7 670 764	147 894 225
- the parent	639 003		8 464	
- entities under common control with the Group	6 320 155		3 423 350	
- key management personnel of the entity or its parent	85 631		25 337	
- other related parties	4 360 038		4 213 613	
Allowance for expected credit losses on loans to customers	(74 440)	(19 720 684)	(122 293)	(18 031 803)
- the parent	(3 324)		(63)	
- entities under common control with the Group	(35 303)		(51 158)	
- key management personnel of the entity or its parent	(491)		(96)	
- other related parties	(35 322)		(70 976)	
Investments in a joint venture	558 190	558 190	635 755	635 755
- entities under common control with the Group	558 190		635 755	
Right-of-use assets	50 962	633 129	49 528	559 126
- the parent	25 303		9 317	
- entities under common control with the Group	25 659		40 211	
Other assets before allowance for expected credit losses	174 394	2 593 665	93 410	2 132 900
- the parent	123 168		28 563	
- entities under common control with the Group	46 183		58 383	
- other related parties	5 043		6 464	

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Related party transactions (continued)

	30 June 2021 (unaudited)		31 December 2020	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Due to banks and other financial institutions	485 863	23 493 992	1 589 994	24 461 813
- entities under common control with the Group	485 863		1 589 994	
Customer accounts	64 022 832	153 807 268	59 951 176	149 739 239
- the parent	3 289 980		2 941 984	
- entities with joint control or significant influence over the Group	3 513 735		3 217 777	
- entities under common control with the Group	21 957 939		16 121 580	
- key management personnel of the entity or its parent	33 240 029		34 114 837	
- other related parties	2 021 149		3 554 998	
Debt securities issued	214 228	5 756 355	805 581	1 839 813
- entities under common control with the Group	214 228		805 581	
Lease liabilities	56 979	674 188	52 733	586 112
- the parent	27 436		9 584	
- entities under common control with the Group	29 543		43 149	
Other liabilities	918 351	5 959 395	800 566	5 904 469
- the parent	244 881		279 038	
- entities under common control with the Group	285 758		115 409	
- key management personnel of the entity or its parent	382 257		399 753	
- other related parties	5 455		6 366	
Loan commitments	237 635	27 155 960	226 918	23 194 610
- entities under common control with the Group	220 000		220 000	
- key management personnel of the entity or its parent	4 635		6 767	
- other related parties	13 000		151	
Guarantees issued	377 179	11 312 446	1 023 398	23 756 961
- entities under common control with the Group	169 939		343 914	
- other related parties	207 240		679 484	
Guarantees received	-	22 699 692	545 673	19 103 005
- other related parties	-		545 673	

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Related party transactions (continued)

Remuneration of directors and other members of key management personnel for the six months ended 30 June 2021 and 30 June 2020 is presented as follows:

	Six months ended 30 June 2021 (unaudited)		Six months ended 30 June 2020 (unaudited)	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Remuneration of key management personnel:	500 520	3 296 402	379 244	2 604 570
- short-term compensation	298 120		210 744	
- long-term compensation	202 400		168 500	

Remuneration of directors and other members of key management personnel for the three months ended 30 June 2021 and 30 June 2020 is presented as follows:

	Three months ended 30 June 2021 (unaudited)		Three months ended 30 June 2020 (unaudited)	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Remuneration of key management personnel:	285 646	1 713 094	184 137	1 235 515
- short-term compensation	184 446		99 887	
- long-term compensation	101 200		84 250	

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Related party transactions (continued)

Included in the statement of profit or loss for the six months ended 30 June 2021 and 30 June 2020 are the following amounts which were recognized in transactions with related parties:

	Six months ended 30 June 2021 (unaudited)		Six months ended 30 June 2020 (unaudited)	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	368 773	11 869 689	296 892	11 087 396
- the parent	1 935		-	
- entities with joint control or significant influence over the Group	57 655		54 678	
- entities under common control with the Group	121 900		108 397	
- key management personnel of the entity or its parent	4 046		2 168	
- other related parties	183 237		131 649	
Interest expense	(1 307 371)	(2 933 546)	(1 810 883)	(3 811 344)
- the parent	(140 347)		(111 861)	
- entities with joint control or significant influence over the Group	(108 605)		(75 980)	
- entities under common control with the Group	(328 339)		(502 256)	
- key management personnel of the entity or its parent	(672 807)		(1 028 137)	
- other related parties	(57 273)		(92 649)	
Allowance for expected credit losses on interest bearing assets	(61 274)	(4 390 673)	31 898	(5 784 315)
- entities under common control with the Group	(25 786)		18 320	
- key management personnel of the entity or its parent	(7)		(26)	
- other related parties	(35 481)		13 604	
Net gain/(loss) on derivative financial instruments	29 019	41	-	4 204
- the parent	29 019		-	

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Related party transactions (continued)

	Six months ended 30 June 2021 (unaudited)		Six months ended 30 June 2020 (unaudited)	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Net (loss)/gain on foreign exchange operations	(21 837)	(22 551)	17 482	107 027
- the parent	(58 717)		-	
- entities with joint control or significant influence over the Group	(8 530)		4 733	
- entities under common control with the Group	45 793		12 454	
- other related parties	(383)		295	
Fee and commission income	393 672	9 593 532	382 995	5 458 168
- the parent	292 229		215 251	
- entities with joint control or significant influence over the Group	7 568		5 017	
- entities under common control with the Group	86 843		150 752	
- key management personnel of the entity or its parent	2 117		1 313	
- other related parties	4 915		10 662	
Fee and commission expenses	(676 828)	(3 364 915)	(994 499)	(2 583 258)
- the parent	(334 179)		(662 910)	
- entities under common control with the Group	(342 649)		(331 552)	
- other related parties	-		(37)	
Recovery of allowance/(allowance) for expected credit losses on other transactions	9	345 519	9 276	(318 268)
- entities under common control with the Group	-		12 874	
- key management personnel of the entity or its parent	7		-	
- other related parties	2		(3 598)	
Other income	34 741	129 164	35 038	186 921
- the parent	19 466		15 072	
- entities with joint control or significant influence over the Group	10		11	
- entities under common control with the Group	15 110		19 081	
- key management personnel of the entity or its parent	59		491	
- other related parties	96		383	
Operating expenses (net of staff costs)	(739 333)	(3 392 040)	(701 856)	(2 661 003)
- the parent	(639 584)		(637 325)	
- entities under common control with the Group	(97 311)		(63 078)	
- key management personnel of the entity or its parent	(2)		-	
- other related parties	(2 436)		(1 453)	

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Related party transactions (continued)

Included in the statement of profit or loss for the three months ended 30 June 2021 and 30 June 2020 are the following amounts which were recognized in transactions with related parties:

	Three months ended 30 June 2021 (unaudited)		Three months periods ended 30 June 2020 (unaudited)	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income	188 826	6 372 598	149 452	5 574 268
- the parent	1 733		-	
- entities with joint control or significant influence over the Group	28 752		25 665	
- entities under common control with the Group	56 790		57 643	
- key management personnel of the entity or its parent	2 516		961	
- other related parties	99 035		65 183	
Interest expense	(747 958)	(1 573 755)	(1 106 435)	(1 898 669)
- the parent	(104 800)		(64 537)	
- entities with joint control or significant influence over the Group	(72 411)		(36 272)	
- entities under common control with the Group	(201 394)		(440 673)	
- key management personnel of the entity or its parent	(338 472)		(517 194)	
- other related parties	(30 881)		(47 759)	
Allowance for expected credit losses on interest bearing assets	(96 820)	(2 396 143)	24 595	(3 955 508)
- entities under common control with the Group	(41 982)		9 111	
- key management personnel of the entity or its parent	161		(141)	
- other related parties	(54 999)		15 625	
Net gain/(loss) on derivative financial instruments	37 528	139	-	2 870
- the parent	37 528		-	

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Related party transactions (continued)

	Three months ended 30 June 2021 (unaudited)		Three months ended 30 June 2020 (unaudited)	
	Related parties transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Net (loss)/gain on foreign exchange operations	(16 734)	(28 665)	61 451	(47 049)
- the parent	(15 264)		43 189	
- entities with joint control or significant influence over the Group	(769)		5 794	
- entities under common control with the Group	(467)		11 979	
- other related parties	(234)		489	
Fee and commission income	194 806	5 207 385	177 404	2 552 648
- the parent	150 335		108 975	
- entities with joint control or significant influence over the Group	1 743		1 337	
- entities under common control with the Group	38 439		60 630	
- key management personnel of the entity or its parent	1 386		712	
- other related parties	2 903		5 750	
Fee and commission expenses	(381 431)	(1 592 690)	(466 695)	(1 241 088)
- the parent	(165 557)		(365 661)	
- entities under common control with the Group	(215 874)		(101 009)	
- other related parties	-		(25)	
Recovery of allowance/(allowance) for expected credit losses on other transactions	21	185 291	11 721	(350 064)
- entities under common control with the Group	-		13 870	
- key management personnel of the entity or its parent	20		-	
- other related parties	1		(2 149)	
Other income	13 225	52 329	7 434	91 377
- the parent	8 079		1 180	
- entities with joint control or significant influence over the Group	3		3	
- entities under common control with the Group	5 093		5 922	
- key management personnel of the entity or its parent	8		261	
- other related parties	42		68	
Operating expenses (net of staff costs)	(384 007)	(1 828 852)	(330 739)	(1 277 563)
- the parent	(343 774)		(306 866)	
- entities under common control with the Group	(39 168)		(22 650)	
- other related parties	(1 065)		(1 223)	

As at 30 June 2021 and 31 December 2020, PJSC MTS was the intermediate parent and PJSC AFK Sistema was the ultimate parent.

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

21. Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following tables provide an analysis of financial assets and financial liabilities that are measured on a recurring basis at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 30 June 2021 and 31 December 2020.

	Level 1	Level 2	Level 3	30 June 2021 (unaudited)
Financial assets				
Debt securities at fair value through profit and loss	20 871 179	246 935	-	21 118 114
Derivative financial instruments	-	2 215	-	2 215
Financial liabilities				
Derivative financial instruments	-	1 938	-	1 938

	Level 1	Level 2	Level 3	31 December 2020
Financial assets				
Debt securities at fair value through profit and loss	21 824 265	-	-	21 824 265
Derivative financial instruments	-	1 780	-	1 780
Financial liabilities				
Derivative financial instruments	-	1 652	-	1 652

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021 (unaudited) Fair value		Valuation technique	Key inputs
	Assets	Liabilities		
Derivative financial instruments	2 215	1 938	Black-Scholes option pricing model	Effective interest rates on asset
Total recurring fair value measurements at level 2	2 215	1 938		

	31 December 2020 Fair value		Valuation technique	Key inputs
	Assets	Liabilities		
Derivative financial instruments	1 780	1 652	Black-Scholes option pricing model	Effective interest rates on asset
Total recurring fair value measurements at level 2	1 780	1 652		

21. Fair value of financial instruments (continued)

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equity securities classified as measured at fair value through other comprehensive income are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- For financial assets and liabilities that have a short-term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption also applies to current accounts.
- Loans to individuals have both variable and fixed interest rates. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before the reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity.

If under the Group assessment interest rates for the loans issued before the reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

- Liabilities carried at amortized cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.
- The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group’s credit risk and also depend on currency and maturity of the instrument.
- The fair value of derivative instruments are based on Black-Scholes option pricing model, other valuation methods and performed using the management’s best estimates and applicable interest rates.

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21. Fair value of financial instruments (continued)

Except as detailed in the following table, the management consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated statement of financial position and not measured at fair value on a recurring basis approximate their fair value.

	30 June 2021 (unaudited)		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans to customers	170 665 030	178 144 366	129 862 422	138 096 943
Securities at amortized cost	9 472 372	9 551 104	9 583 272	10 026 835
Financial liabilities				
Customer accounts	153 807 268	154 020 995	149 739 239	151 079 085
Debt securities issued	5 756 355	5 956 770	1 839 813	1 839 813

The following tables provide an analysis of financial instruments the fair value of which differs from their carrying amount as at 30 June 2021 and 31 December 2020. There were no transfers between Levels during 2021 and 2020.

	Level 1	Level 2	Level 3	30 June 2021 (unaudited)
Financial assets				
Loans to customers	-	-	178 144 366	178 144 366
Securities at amortized cost	9 551 104	-	-	9 551 104
Financial liabilities				
Customer accounts	-	-	154 020 995	154 020 995
Debt securities issued	5 236 115	-	720 655	5 956 770

	Level 1	Level 2	Level 3	31 December 2020
Financial assets				
Loans to customers	-	-	138 096 943	138 096 943
Securities at amortized cost	10 026 835	-	-	10 026 835
Financial liabilities				
Customer accounts	-	-	151 079 085	151 079 085
Debt securities issued	-	-	1 839 813	1 839 813

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

22. Capital management

The Group manages its capital to cover risks associated with the Group's business. In addition to other controls, the Group uses the CBR principles and approaches to control capital adequacy.

The primary objective of capital management is to ensure that the Group complies with externally imposed capital requirements as well as control over the maintenance of reliable credit ratings and capital ratios to ensure the Group's operations and maximize shareholder value.

Capital adequacy in accordance with the CBR requirements. The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and the CBR regulations.

In accordance with the CBR Regulation No. 646-P On Methods of Calculation of Equity (Capital) by Credit Institution (“Basel III”) the Group's capital (equity) as at 30 June 2021 and 31 December 2020 was as follows:

	30 June 2021 (unaudited)	31 December 2020
Base capital	28 196 750	23 705 191
Core capital	33 196 750	28 705 191
Additional capital	10 503 058	8 266 413
Equity (capital)	43 699 808	36 971 604

Base and core capital comprises share capital, share premium, reserves and retained earnings, including current year profit.

Additional capital includes subordinated debt, current year profit not included in the core capital and revaluation reserves.

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) *(in thousands of Russian Rubles, unless otherwise indicated)*

22. Capital management (continued)

In November 2015, the Bank received a subordinated debt of RUB 7 246 000 thousand in the form of Federal Loan Bonds (OFZ) from the state corporation Deposit Insurance Agency (DIA). In accordance with the contract, the Bank should return the securities to the creditor at the end of the contract period. The Bank pays interest on the principal amount in the amount of comprehensive coupon income on OFZ plus fixed interest rate. In accordance with the contract in the reporting period, the Bank should have complied with certain covenants with respect to capital, loan portfolio, employee benefits. The contract also includes certain restrictions on sale or repledge of the securities by the Bank. The transaction represents a securities lending transaction. The Group does not recognize the received securities and subordinated obligation to return them to the creditor in the consolidated statement of financial position of the Group. The obligation to return the securities received from DIA is subordinated with respect to other liabilities of the Group. The debt conditions meet the criteria of the Central Bank of the Russian Federation for inclusion of the loan in additional capital. In this case, the instrument is convertible and can be included in the core capital. Its conversion into the core capital can be full or partial and carried out in the amount of the market value of the securities. Conversion conditions are as follows:

- the common equity adequacy ratio (H1.1), calculated in accordance with the Instruction of the Bank of Russia dated 28 June 2017 No. 180-I “Obligatory banking ratios”, has decreased below the level determined by the Regulation for the exchange of a subordinated loan, which at the date of conclusion of the Agreement is 2%, for the period established by the Regulation, or
- approval by the Committee on Banking Supervision of the Bank of Russia of the Lender's participation plan in the implementation of measures to prevent the bankruptcy of the Borrower Bank, providing by the lender the financial assistance prescribed by the Federal Law on Insolvency (Bankruptcy).

The CBR requires that the banks comply with the minimum capital adequacy ratios of 8% calculated on the basis of the statutory financial statements of the banks.

During the periods, ended 31 March 2021 and 31 December 2020 the Group met the capital adequacy requirements established by the CBR. As at 31 March 2021 and 31 December 2020, the Group's capital adequacy ratio in accordance with CBRF requirements was 12.9% and 12.8% respectively. In 2020, the Group decided not to use the exemptions to the calculations of regulatory ratios proposed by the Bank of Russia and indicated in a series of information letters.

23. Risk management policy

The Group's risk management is carried out in relation to the following significant types of risks: credit, market and liquidity risk. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. The principal task of risk management is to identify and analyze these risks, establish risk limits and further ensure compliance with the established limits.

Changes in the operating environment in 2021 did not have an impact on risk management. The policy and methods adopted by the Group for financial risks management are consistent with the policy and methods used and described in the Group's financial statements for 2020, except for the changes in credit risk management disclosed in Note 19.

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23. Risk management policy (continued)

Liquidity risk. The following tables, based on the information provided to the management of the Group, reflect the structure of assets and liabilities in accordance with the contractual maturity, with the exception of trading securities at fair value through profit or loss (classified as up to 1 month) and cash placed in the Central Bank of the Russian Federation as obligatory reserve deposits (FOR). Obligatory reserve deposits are allocated by age pro rate to customer accounts.

In the liquidity analysis, the deposits of individuals are disclosed by maturities in accordance with the agreement. According to Russian legislation these deposits can be withdrawn upon a request within 1 month. However, on the basis of the analysis of the Group's history and experience, such deposits are extended rather than withdrawn. Additionally, on the ground of the Group's forecasts based on different behavior of deposit holders, the scenario of withdrawing all deposits within a horizon up to 1 month is considered as extremely stressed and is not used for liquidity management and, thus, for financial statements disclosures.

Securities classified as financial assets held to maturity are included in the analysis of the liquidity based on expected contractual maturities. Most of these securities under the category are included in the Lombard list of the Central Bank of the Russian Federation and, if necessary, can be used to obtain financing in the form of repurchase agreements from the Central Bank of the Russian Federation.

Loans to customers classified as “maturity undefined/overdue” are disclosed to Stage 2 just as overdue parts of the debt less expected credit losses, without considering payments which maturity date has not come yet. Loans classified under Stage 3, are calculated as the total amount of all debt less expected credit losses.

At the same time, the Group considers stable sources of financing as:

- OFZ received from the Deposit Insurance Agency State Corporation are reflected on off-balance accounts, but recorded in the report as stable sources of financing with a maturity of up to 1 month (a 5% discount from the current market price is applied to these OFZ, as at 31 December 2020: 15%);
- Investments into debt securities measured at fair value. The amount of investments attributed in the table is adjusted for up to 30 days, based on the following approach: for securities included in the Lombard List of the CBR, 85% of the amount of investments is assigned for a period of up to 30 days; all others - to maturity. The possibility of attracting liquidity for direct REPO transactions with an effective discount of 15% is simulated;
- Investments into securities measured at amortized cost: for investments included in the CBR Lombard List, which are adjusted for a 15% discount, are allocated to a period of up to 1 month and recognized as stable sources of financing. These securities are classified as measured at amortized cost. The Group does not plan to dispose of these securities under the current business model, but can sell them with a repurchase obligation (under a direct REPO transaction) to satisfy liquidity needs in times of stress;
- Time deposits of individuals: a part of the planned deposits amounts is reflected within stable sources of funding, as the Group expects that they will be either prolonged or replaced. Shares are determined in accordance with the conservative estimate based on scenario modeling, which does not contradict current historical statistics;

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Notes to the Interim Condensed Consolidated Financial Statements for the Six Months Ended 30 June 2021 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

23. Risk management policy (continued)

- Settlement accounts of individuals and legal entities: a part of small account amounts in accordance with the conservative estimate of the level of settling balances are reflected under stable sources of funding, as the Group expects that there will be neither movement nor replacement among these amounts. Shares are determined in accordance with the conservative estimate based on scenario modeling, which does not contradict current historical statistics.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined/ overdue	30 June 2021 (unaudited)
FINANCIAL ASSETS							
Investments in securities	21 375 831	54 718	4 191 578	4 968 358	-	-	30 590 485
Due from banks	1 900 821	-	-	-	-	-	1 900 821
Loans to customers	9 852 840	19 872 973	45 896 159	83 044 050	9 793 268	2 205 739	170 665 029
Total interest bearing financial assets	33 129 492	19 927 691	50 087 737	88 012 408	9 793 268	2 205 739	203 156 335
Cash and balances with the Central Bank	6 320 805	-	-	-	-	1 390 265	7 711 070
Due from banks	4 447 200	-	-	-	-	-	4 447 200
Derivative financial instruments	1 434	781	-	-	-	-	2 215
Other financial assets	1 126 417	108 059	24 996	-	-	59 844	1 319 316
Total financial assets	45 025 348	20 036 531	50 112 733	88 012 408	9 793 268	3 655 848	216 636 137
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	22 695 252	250 000	-	-	-	-	22 945 252
Customer accounts	19 286 924	7 251 617	81 109 899	3 270 471	-	-	110 918 911
Debt securities issued	226 812	-	290 052	5 239 491	-	-	5 756 355
Lease liabilities	19 632	46 584	191 096	415 526	1 350	-	674 188
Total interest-bearing financial liabilities	42 228 620	7 548 201	81 591 047	8 925 488	1 350	-	140 294 706
Derivative financial instruments	1 365	573	-	-	-	-	1 938
Due to banks and other financial institutions	548 741	-	-	-	-	-	548 741
Customer accounts	42 888 357	-	-	-	-	-	42 888 357
Other financial liabilities	1 706 355	1 159 482	988 003	-	-	-	3 853 840
Total financial liabilities	87 373 438	8 708 256	82 579 050	8 925 488	1 350	-	187 587 582
Liquidity gap	(42 348 090)	11 328 275	(32 466 317)	79 086 920	9 791 918		
Stable sources of funding	39 228 312	(6 307 425)	51 407 534	(8 491 730)	(75 836 691)		
Net liquidity gap	(3 119 778)	5 020 850	18 941 217	70 595 190	(66 044 773)		
Cumulative liquidity gap	(3 119 778)	1 901 072	20 842 289	91 437 479	25 392 706		
Cumulative interest sensitivity gap	(9 099 128)	3 280 362	(28 222 948)	50 863 972	60 655 890		
Cumulative interest sensitivity gap as a percentage of total financial assets	-4.20%	1.51%	-13.03%	23.48%	28.00%		

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23. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined/ overdue	31 December 2020
FINANCIAL ASSETS							
Investments in securities	21 839 007	165 801	642 906	8 759 822	-	-	31 407 536
Due from banks	16 915 299	-	-	-	-	-	16 915 299
Loans to customers	6 454 680	15 949 487	38 916 205	57 421 763	8 970 537	2 149 750	129 862 422
Total interest bearing financial assets	45 208 986	16 115 288	39 559 111	66 181 585	8 970 537	2 149 750	178 185 257
Cash and balances with the Central Bank	16 304 026	-	-	-	-	1 180 309	17 484 335
Due from banks	5 970 433	-	-	-	-	-	5 970 433
Derivative financial instruments	1 246	534	-	-	-	-	1 780
Other financial assets	914 693	98 259	34 796	-	-	47 348	1 095 096
Total financial assets	68 399 384	16 214 081	39 593 907	66 181 585	8 970 537	3 377 407	202 736 901
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	22 962 347	-	127 000	-	-	-	23 089 347
Customer accounts	21 826 225	15 109 226	69 683 562	1 422 605	-	-	108 041 618
Debt securities issued	1 203 597	-	340 853	295 363	-	-	1 839 813
Lease liabilities	10 533	47 429	196 087	332 063	-	-	586 112
Total interest-bearing financial liabilities	46 002 702	15 156 655	70 347 502	2 050 031	-	-	133 556 890
Derivative financial instruments	1 129	523	-	-	-	-	1 652
Due to banks and other financial institutions	1 372 465	-	-	-	-	-	1 372 465
Customer accounts	41 697 622	-	-	-	-	-	41 697 622
Other financial liabilities	2 236 618	492 172	1 206 203	-	-	-	3 934 993
Total financial liabilities	91 310 536	15 649 350	71 553 705	2 050 031	-	-	180 563 622
Liquidity gap	(22 911 152)	564 731	(31 959 798)	64 131 554	8 970 537		
Stable sources of funding	42 377 580	1 823 267	30 813 603	(15 969 836)	(59 044 613)		
Net liquidity gap	19 466 428	2 387 998	(1 146 195)	48 161 718	(50 074 076)		
Cumulative liquidity gap	19 466 428	21 854 426	20 708 231	68 869 949	18 795 873		
Cumulative interest sensitivity gap	(793 716)	164 917	(30 623 474)	33 508 080	42 478 617		
Cumulative interest sensitivity gap, %	-039%	0.08%	-15.11%	16.53%	20.95%		

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23. Risk management policies (continued)

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a stable source of funding for the Group. Customer accounts on demand are split into the groups by type of client and allocated per expected time of funds outflow based on statistical data accumulated during the previous year.

A maturity analysis for financial guarantees issued and loan commitments is presented in the following tables. These contingencies are recognized in accordance with the contractual terms, however they can be provided to the customers earlier upon their request. The analysis of the Group's historical events and experience shows that contingencies are not realized within 1 month and they are allocated on a contractual basis. Additionally, the Group regularly monitors counterparties (including their financial position and the results of their activity) and if they detect any negative indications, the unused credit facilities can be blocked. The Group does not include the analysis given below for liquidity management purposes. If contingent liabilities were included in the liquidity analysis above, the liquidity gap would increase by RUB 38 468 406 thousand and RUB 46 951 571 thousand as at 30 June 2021 and 31 December 2020, respectively.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	30 June 2021 (unaudited)
Guarantees issued	929 048	885 572	7 821 605	1 671 911	4 310	11 312 446
Loan commitments	210 080	3 708 822	11 263 573	11 973 486	-	27 155 960
Total commitments and contingencies	1 139 128	4 594 394	19 085 178	13 645 397	4 310	38 468 406

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2020
Guarantees issued	5 004 662	3 102 671	12 815 540	2 829 554	4 534	23 756 961
Loan commitments	494 364	2 978 344	9 723 870	9 998 031	-	23 194 610
Total commitments and contingencies	5 499 026	6 081 015	22 539 411	12 827 584	4 534	46 951 571

The above amounts for guarantees issued represent the contractual value of these guarantees, excluding estimated credit losses.

Significant part of the Group's current accounts refers to related parties. Management believes that these accounts (including time deposits) will remain within the Group and support the Group's liquidity position.

The Group's medium-term liquidity needs are managed through interbank and customer deposits (new borrowings and renewal of existing deposits), repurchase agreements and in the form of collateralized loans.

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24. Subsequent events

As at 30 June 2021, the Bank owned 59.7% of the shares of the closed unit investment real estate fund “Sistema – Rentnaya Nedvizhimost 1” (the “Fund”). As at the above date, investments in the fund were accounted for as a joint venture using the equity method in the amount of RUB 558 198 thousand.

Based on the decision dated 15 March 2021 of the Fund's management company - LandProfit Management Company LLC - the Fund's activities are subject to termination. In July 2021, the Bank received monetary compensation for the shares. As of the date of signing of these interim condensed consolidated financial statements, the Fund has not been excluded from the register of unit investment funds.