PJSC “MTS-Bank”

Consolidated Financial Statements and
Independent Auditor’s Report for 2020

Public Joint-Stock Company “MTS-Bank”

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Public Joint-Stock Company “MTS-Bank”

Statement of Management’s Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2020

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Public Joint-Stock Company “MTS-Bank” (the “Bank”) and its subsidiaries (the “Group”) as at 31 December 2020, and the accompanying consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year than ended, and the disclosure of significant accounting policies and notes to the consolidated financial statements (the “consolidated financial statements”) in compliance with International Financial Reporting Standards (“IFRSs”).

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies and applying them consistently;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and consolidated financial performance;
- An assessment of the Group’s ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy the consolidated financial position of the Group as at specific date, and which enable to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation (“RF”);
- Taking such steps that are reasonably available to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved by the Bank’s Management Board on 31 March 2021.

These consolidated financial statements are subject to approval by the Board of Directors of the Bank based on the decision of the Management Board and are presented to the General Annual Meeting of Shareholders of the Bank, which is scheduled for June 2021.

On behalf of the Management Board of the Bank:

I.V. Filatov
Chairman of the Management Board

31 March 2021
Moscow

A. V. Yeltyshev
Chief Accountant

31 March 2021
Moscow

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Moscow, 125047,
Russia

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Public Joint-Stock Company "MTS-Bank"

Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company "MTS-Bank" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Loans to customers - allowances for expected credit losses - see Notes 3, 4, 17 and 35 to the consolidated financial statements The Group applies an 'expected loss' model to determine the impairment of loans to customers of the Group. As described in Note 17 *Loans to customers*, the Group reported the allowance for expected credit losses on loans to customers in the amount of RUB 18,031,803 thousand as at 31 December 2020 (2019: RUB 11,213,190 thousand). Due to the underlying assumptions and estimations, in particular in light of negative impact of COVID-19 on the loan portfolios and increased credit defaults, the determination of expected credit losses is one of the most significant management estimates. Key areas of judgment and estimates related to the auditing of the allowance for expected credit losses on loans to customers included the following: • determination of the impairment stage for loans assessed on an individual basis which is based on timely identification and appropriate evaluation of events indicating default or significant increases in credit risk; • evaluation of the probability of default of loans assessed on an individual basis at the first and the second stages of impairment as well as loans assessed on a collective basis. We identified this area as a key audit matter because models and	Our audit procedures related to the assessment and measurement of expected credit losses of loans to customers included the following, among others: • We tested the design and the effectiveness of internal controls over classification of the loan portfolio between stages of credit risk and the use of key assumptions in the assessment of probability of default of customers; • We evaluated compliance of the methodology, models and techniques, used by the Group management to determine the expected credit losses, with the requirements of IFRS 9, "Financial Instruments"; • We tested the completeness and accuracy of data used in the estimation of expected credit losses, including historical data, using external and internal sources of information; • For individually assessed loans, we obtained the Group's schedule of loans classified between stages of credit risk and testing, on a sample basis, the completeness of management's identification of events indicating customer default or significant increase in credit risk, based on information from internal and external sources, as well as evaluation of management assessment of such events, with a particular focus on the treatment of forbearance for customers operating in sectors that are significantly affected by the COVID-19 pandemic; • For the evaluation of probability of default of individually assessed loans, with the involvement of our actuarial specialists, we obtained the validation report and tested the outcome of the model against observed losses; and • For collectively assessed loans, with the assistance of actuarial specialists, we performed an analysis of the integrity and logic of the models and assessed the most critical underlying assumptions against historical data and recent trends of default ratios as well as evaluated judgements made by management when assessing the effect of restructuring of

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
techniques used in identifying defaults and significant increases in credit risk and for calculating expected credit losses requires the use of data from both external and internal sources, as well as the application of complex and subjective judgments by management. Therefore, a high degree of auditor judgment and an increased extent of effort was required in this area, including the need to involve our actuarial specialists and to perform focused audit procedures to evaluate management judgements made in estimating the allowance for expected credit losses to customers.	customer loans due to economic downturn on expected credit losses. We also assessed the compliance of the disclosures in the consolidated financial statements with the requirements of IFRS 9 "Financial Instruments".

Other Information

Management is responsible for the other information. The other information comprises the information included in the 2020 Annual report and the issuer's report for the 1st quarter of 2021, but does not include the consolidated financial statements and our auditor's report thereon. The mentioned reports are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the 2020 Annual report and the issuer's report for the 1st quarter of 2021, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the procedures performed in accordance with the requirements of Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

The management of the Bank is responsible for compliance with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Bank's internal control and risk management systems with the Bank of Russia (the "CBR") requirements.

According to Article 42 of Federal Law No. 395- 1 "On Banks and Banking Activities" dated 2 December 1990 (the "Federal Law") in the course of our audit of the Group's consolidated financial statements for 2020 we performed procedures with respect to the Bank's compliance with the obligatory ratios as at 1 January 2021 and compliance of its internal control and risk management systems with the CBR requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures and methodologies with the CBR requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. With respect to the Bank's compliance with the obligatory ratios: the obligatory ratios as at 1 January 2021 were within the limits established by the CBR.

   We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the consolidated financial statements of the Group present fairly, in all material respects, the financial position of the Group as at 31 December 2020, its financial performance and its cash flows for 2020 in accordance with IFRSs and Russian reporting rules for annual financial statements of credit organizations.

2. With respect to compliance of the Bank's internal control and risk management systems with the CBR requirements:

   (a) In accordance with the CBR requirements and recommendations as at 31 December 2020 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBR;
   (b) As at 31 December 2020, the Bank's effective internal policies governing the identification and management of significant credit, market, operational, and liquidity risks, and the performance of stress-testing were approved by the Bank's competent management bodies in accordance with the CBR requirements and recommendations;
   (c) As at 31 December 2020, the Bank had a reporting system with regard to the Bank's significant credit, market, operational, liquidity risks and with regard to the Bank's capital;
   (d) Frequency and sequential order of reports prepared by the Bank's risk management and internal audit departments in 2020 on management of credit, market, operational and liquidity risks were in compliance with the Bank's internal policies; these reports included the results of monitoring of the effectiveness of the Bank's respective methodologies and improvement recommendations;
   (e) As at 31 December 2020, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control the efficiency and consistency of how the Bank's risk management policies were applied during 2020, the Bank's Board of Directors and the Bank's executive bodies regularly discussed reports prepared by the risk management and internal audit departments and considered proposed corrective measures.

We have carried out procedures with respect to the Bank's internal control and risk management systems solely to report on the findings related to compliance of the Bank's internal control and risk management systems with the CBR requirements.

Zdanevych Anna Mikhailovna,
Engagement Partner

31 March 2021

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

State Registration Certificate No. 2268 dated 29 January 1993.

Certificate of registration in the Unified State Register for Legal Entities №1027739053704 of 8 August 2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

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

Audit firm: AO Deloitte & Touche CIS

State Registration Certificate No. 018.482 issued by 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 Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No. 39 on 13 November 2002.

Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

Public Joint-Stock Company “MTS-Bank”

Consolidated Statement of Profit and Loss for the Year Ended 31 December 2020
(in thousands of Russian Rubles)

	Note	2020	2019
Interest income	5, 32	22 236 942	18 632 791
Interest expense	5, 32	(6 802 268)	(7 038 673)
Net interest income before allowance for expected credit losses on interest bearing assets		**15 434 674**	**11 594 118**
Allowance for expected credit losses on interest bearing assets	6, 32	(9 223 537)	(4 028 410)
Net interest income		**6 211 137**	**7 565 708**
Net (loss)/gain from operations with securities at fair value through profit or loss	7	(99 045)	736 715
Net (loss)/gain on operations with derivative financial instruments	8, 32	(536)	352 034
Net gain/(loss) on foreign exchange operations	9, 32	138 744	(572 203)
Fee and commission income	10, 32	12 459 940	11 008 767
Fee and commission expense	10, 32	(5 402 698)	(5 402 494)
Allowance for expected credit losses on other transactions	6, 32	(939 712)	(3 667)
Changes in the value of property for resale	20	(231 800)	(364 362)
Net gain/(loss) on the sale of property for resale		9 207	(108 788)
Revaluation of property, plant and equipment	19	13 102	(34 050)
Share of profits in joint venture	18	46 307	35 946
Other income	11, 32	326 564	353 422
Net non-interest income		**6 320 073**	**6 001 320**
Operating income		**12 531 210**	**13 567 028**
Operating expenses	12, 32	(11 641 123)	(11 321 604)
Profit before tax		**890 087**	**2 245 424**
Income tax expense	13	(61 872)	(426 677)
NET PROFIT		**828 215**	**1 818 747**
Attributable to:			
Shareholders of the parent Bank		828 215	1 818 747

On behalf of the Bank’s Management Board:

I.V. Filatov
Chairman of the Management Board

31 March 2021
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2021
Moscow

Notes from 1 to 36 are an integral part of these consolidated financial statements.

Public Joint-Stock Company “MTS-Bank”

Consolidated Statement of Other Comprehensive Income for the Year Ended 31 December 2020
(in thousands of Russian Rubles)

	Notes	2020	2019
Net profit for the period		828 215	1 818 747
OTHER COMPREHENSIVE INCOME			
Items that will not be subsequently reclassified to profit or loss:			
Revaluation of property, plant and equipment	19	119	(12 450)
Income tax		(24)	2 490
Other comprehensive income/(loss) after income tax		95	(9 960)
TOTAL COMPREHENSIVE INCOME		**828 310**	**1 808 787**
Attributable to:			
Shareholders of the parent Bank		828 310	1 808 787

On behalf of the Bank’s Management Board:

I.V. Filatov
Chairman of the Management Board

31 March 2021
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2021
Moscow

Notes from 1 to 36 are an integral part of these consolidated financial statements.

Public Joint-Stock Company "MTS-Bank"

Consolidated Statement of Financial Position
as at 31 December 2020
(in thousands of Russian Rubles)

	Notes	31 December 2020	31 December 2019
ASSETS:			
Cash and balances with the Central Bank	14	17 484 335	23 365 171
Investments in securities	15, 32	31 407 537	28 726 697
Due from banks	16	22 885 732	6 012 463
Loans to customers	17, 32	129 862 422	107 437 605
Investments in joint venture	18, 32	635 755	658 467
Derivative financial instruments	26, 32	1 780	26 277
Property, plant and equipment and intangible assets	19	6 713 930	5 206 162
Right-of-use assets	21	559 126	596 958
Property for resale	20	2 523 619	2 836 514
Deferred income tax assets	13	3 253 195	3 250 523
Other assets	22, 32	1 437 475	1 415 795
TOTAL ASSETS		**216 764 906**	**179 532 632**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	23, 32	24 461 813	12 305 308
Customer accounts	24, 32	149 739 239	129 097 349
Debt securities issued	25, 32	1 839 813	2 429 216
Lease liabilities	21, 32	586 112	627 781
Derivative financial instruments	26	1 652	25 257
Obligations on securities return		-	271 645
Current income tax liabilities		16 807	126 508
Other liabilities	27, 32	5 904 469	5 608 741
TOTAL LIABILITIES		**182 549 905**	**150 491 805**
EQUITY:			
Share capital	28	13 914 423	12 142 288
Treasury shares	28	-	(77 285)
Share premium	28	12 640 965	9 440 950
Perpetual bonds	28	5 000 000	5 000 000
Property, plant and equipment revaluation reserve		49 531	51 607
Retained earnings		2 610 082	2 483 267
TOTAL EQUITY		**34 215 001**	**29 040 827**
TOTAL LIABILITIES AND EQUITY		**216 764 906**	**179 532 632**

On behalf of the Bank's Management Board:

I.V. Filatov
Chairman of the Management Board

31 March 2021
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2021
Moscow

Notes from 1 to 36 are an integral part of these consolidated financial statements.

Public Joint-Stock Company “MTS-Bank”

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2020
(in thousands of Russian Rubles)

	Notes	Share capital	Treasury shares	Share premium	Perpetual bonds	Property, plant and equipment revaluation reserve	Retained earnings	TOTAL EQUITY
31 December 2018		**10 882 298**	**(77 285)**	**7 200 940**	**-**	**61 567**	**1 005 421**	**19 072 941**
Issue of ordinary shares	28	1 259 990	-	2 240 010	-	-	-	3 500 000
Issue of perpetual bonds	28	-	-	-	5 000 000	-	-	5 000 000
Interest paid on perpetual bonds		-	-	-	-	-	(301 671)	(301 671)
Dividends paid		-	-	-	-	-	(39 230)	(39 230)
Total comprehensive income		-	-	-	-	(9 960)	1 818 747	1 808 787
31 December 2019		**12 142 288**	**(77 285)**	**9 440 950**	**5 000 000**	**51 607**	**2 483 267**	**29 040 827**
Issue of ordinary shares	28	1 799 986	-	3 200 015	-	-	-	5 000 001
Interest paid on perpetual bonds		-	-	-	-	-	(654 137)	(654 137)
Redemption of treasury shares	28	(27 851)	77 285	-	-	-	(49 434)	-
Transfer of property, plant and equipment revaluation reserve as a result of disposal of property		-	-	-	-	(2 171)	2 171	-
Total comprehensive income		-	-	-	-	95	828 215	828 310
31 December 2020		**13 914 423**	**-**	**12 640 965**	**5 000 000**	**49 531**	**2 610 082**	**34 215 001**

On behalf of the Bank’s Management Board:

I.V. Filatov
Chairman of the Management Board

31 March 2021
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2021
Moscow

Notes from 1 to 36 are an integral part of these consolidated financial statements.

Public Joint-Stock Company “MTS-Bank”

Consolidated Statement of Cash Flows
for the Year Ended 31 December 2020
(in thousands of Russian Rubles)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		20 994 370	18 271 061
Interest paid		(6 773 005)	(6 401 103)
Realized (loss)/gain from operations with securities at fair value through profit or loss		(16 018)	572 027
Realized gain on operations with derivative financial instruments		357	205 929
Realized gain/(loss) from operations with foreign currency		464 217	(2 436 776)
Fee and commission received		12 051 440	11 078 051
Fee and commission paid		(5 696 860)	(5 436 667)
Other operating income received		291 503	259 680
Administrative and other operating expenses paid		(10 851 128)	(10 819 359)
Income tax paid		(174 269)	(230 647)
Cash inflow from operating activities before changes in operating assets and liabilities		**10 290 607**	**5 062 196**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Bank		121 979	(326 441)
Securities at fair value through profit or loss		(7 199 143)	9 133 716
Due from banks		80 033	(201 704)
Loans to customers		(30 440 822)	(38 685 933)
Property for resale		650 411	468 252
Other assets		(294 870)	135 502
Increase/(decrease) in operating liabilities:			
Obligations on securities return		(271 277)	(119 605)
Due to banks and other financial institutions		12 075 164	4 571 263
Customer accounts		16 007 152	15 099 588
Debt securities issued, other than bonds issued		(4 243)	1 072 879
Other liabilities		962 760	670 269
Net cash inflow /(outflow) from operating activities		**1 977 751**	**(3 120 018)**

Public Joint-Stock Company “MTS-Bank”

Consolidated Statement of Cash Flows (continued)
for the Year Ended 31 December 2020
(in thousands of Russian Rubles)

	Notes	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Development/purchase of property, plant and equipment and intangible assets		(2 515 185)	(2 333 743)
Proceeds from sale of property, plant and equipment and intangible assets		53 800	18 860
Repayment of securities at amortized cost		6 056 013	14 424 884
Proceeds from investments in joint venture		69 019	67 581
Net cash inflow from investing activities		**3 663 647**	**12 177 582**
CASH FLOW FROM FINANCING ACTIVITIES			
Lease payments		(243 074)	(280 136)
Redemption of bonds issued		(198 915)	(363 864)
Proceeds from issue of ordinary shares	28	5 000 001	3 500 000
Repurchase of own bonds issued	25	(762 974)	-
Dividends paid		-	(39 230)
Proceeds from issue of perpetual bonds		-	5 000 000
Redemption of perpetual bonds issued		(654 137)	(301 671)
Net cash inflow from financing activities		**3 140 901**	**7 515 099**
Change in interest accrued on cash and cash equivalents		7 215	(382)
Change in allowance for expected credit losses on cash and cash equivalents		(2 275)	33 139
Effect of foreign exchange rate revaluations on cash and cash equivalents		2 115 303	(647 173)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**10 902 542**	**15 958 247**
CASH AND CASH EQUIVALENTS, beginning of the period	**14**	**26 517 217**	**10 558 970**
CASH AND CASH EQUIVALENTS, end of the period	**14**	**37 419 759**	**26 517 217**

As at 31 December 2020 and 31 December 2019, the Group did not have significant non-cash movements within changes in liabilities arising from financing activities.

On behalf of the Bank’s Management Board:

I.V. Filatov
Chairman of the Management Board

31 March 2021
Moscow

A.V. Yeltyshev
Chief Accountant

31 March 2021
Moscow

Notes from 1 to 36 are an integral part of these consolidated financial statements.

1. Organization

Public Joint Stock Company “MTS-Bank” (“MTS-Bank”) is a joint-stock Bank. The Bank was incorporated in the Russian Federation as an open joint stock company in 1993. Former title of MTS-Bank is Joint Stock Commercial Bank Moscow Bank for Reconstruction and Development (Open Joint Stock Company) (“MBRD”). The title was changed under a 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” or the Central Bank) and conducts its business under general license number 2268. MTS-Bank’s primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

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

As at 31 December 2020 and 31 December 2019, MTS-Bank had 5 and 6 operating offices in the Russian Federation (the “RF”), respectively.

The Bank is a parent company of a banking group (hereinafter the “Group”). As at 31 December 2020 and 31 December 2019 the Group fully controlled the following companies: CJSC “Mortgage Agent MTSB”, LLC “VektorA”, LLC “Skyfreight”.

In addition, as at 31 December 2020 and 31 December 2019 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 31 December 2020 and 31 December 2019, the Group held 59,7% of units of closed unit investment 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.

1. Organization (continued)

As at 31 December 2020 and 31 December 2019, the shareholding structure of MTS-Bank was as follows:

	31 December 2020, %	31 December 2019, %
Shareholder		
Mobile TeleSystems B.V.	99,80	99,53
OJSC “Moscow City Telephone Network”	0,19	0,21
PJSC “MTS-Bank” (treasury shares)	-	0,24
Other	0,01	0,02
Total	**100,00**	**100,00**

As at 31 December 2020 and 31 December 2019, PJSC AFK “Sistema” through its subsidiaries owned 44.36% of the share capital of MTS-Bank. Mr. V.P. Evtushenkov is ultimate beneficiary owner of PJSC AFK “Sistema”.

In March 2020, as a result of the additional issue of shares, the share of PJSC “MTS” in the capital of MTS-Bank increased from 99,74% to 99,78% (including the share of PJSC “MGTS” in the amount of 0,21%).

In July 2020, there was a redemption of treasury shares owned by the Bank. As a result, the share of PJSC “MTS” in the capital of MTS-Bank increased to 99.99% (including the share of PJSC “MGTS” in the amount of 0.19%).

2. Basis of presentation

Key accounting principles

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”).

Going concern. These financial statements have been prepared on the assumption that the Group is a going concern and will continue its operation for the foreseeable future. The management of the Group believes that the going concern assumption is fully applied to the Group.

Other basis of presentation criteria. These consolidated financial statements are presented in thousands of Russian Rubles (“RUB thousand”), unless otherwise stated. These consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

2. Basis of presentation (continued)

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. In these consolidated financial statements, fair value measurements and/or fair value disclosures are made on the basis above, except for measurements that have some similarities to fair value but are not fair value (e.g. net realizable value in IAS 2 or value in use in IAS 36).

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3. Levels correspond to the possibility of direct fair value determination on the basis of market data and reflect the significance of the inputs used in course of the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are prices, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank and its subsidiaries, which are registered in the Russian Federation, maintain their accounting records in accordance with the Russian Accounting Standards ("RAS"). These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Group is the Russian Ruble ("RUB"). The Russian Ruble is the presentation currency of the consolidated financial statements of the Group. All values are rounded to the nearest thousand Rubles, except where otherwise stated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when the Group has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

3. Significant accounting policies

The Group applied the same principles of the accounting policies, presentation and methods of computation to prepare these financial statements for the year ended 31 December 2020, as for the preparation of the financial statements of the Group for the year ended 31 December 2019, except for the impact of the adoption of new and amended standards and interpretations.

New and amended IFRSs effective in the current year

The following amendments to the standards and interpretations became effective for the Group starting from 1 January 2020 and did not have a significant impact on the Group:

Amendments to IFRS 9, IFRS 7	*Basic interest rate reform*
Amendments to IFRS 3	*Definition of Business*
Amendments to IAS 1 and IAS 8	*Definition of Materiality*
Conceptual framework	Amendments to References to the Conceptual Framework in IFRS Standards

The application of the new standards and interpretations did not lead to significant changes in the Group's accounting policies affecting the current and prior period's disclosures.

Basis of consolidation. The consolidated financial statements incorporate the financial statements of MTS-Bank and entities controlled by MTS-Bank (its subsidiaries).

Control is achieved when the Bank:

- Has power over an investee;
- Is exposed, or has rights, to variable returns from its involvement with an investee; and
- Has the ability to use its power to affect its returns.

MTS-Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When MTS-Bank has less than a majority of the voting rights of an investee, it has power over an investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. MTS-Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

3. Significant accounting policies (continued)

Consolidation of a subsidiary begins when MTS-Bank obtains control over a subsidiary and ceases when the Bank loses control over a subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control a subsidiary.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring its accounting policies in line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions among members of the Group are eliminated on consolidation.

Changes in the Group’s ownership interests in the existing subsidiaries. Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 “Financial Instruments” or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

When the Group loses control over a subsidiary due to a related party transaction, the difference between the fair value of the transferred interest and the consideration received is recognized in equity.

Net interest income. Interest income and expense for all financial instruments except for those measured or designated as at fair value through profit or loss (FVTPL) are recognized in “Net interest income” as “Interest income” and “Interest expense” in the profit or loss using the effective interest method. Interest on financial instruments of FVTPL category are included in “Net interest income” and are calculated according to the contractual terms for the accrual of interest income/expense.

3. Significant accounting policies (continued)

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities.

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for any expected credit losses (ECL)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECL in determining the future cash flows expected to be received from the financial asset.

Recognition of fee and commission income and expense. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment.

Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized as services are rendered. Fee and commission expenses with regards to services are accounted for as the services are received.

Recognition of dividend income. Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Classification and measurement of financial assets. All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured *at amortized cost* at the end of subsequent accounting periods. Debt instruments held within a business model, whose objective is achieved both by obtaining contractual cash flows and selling a financial asset, are recorded as measured *at fair value through other comprehensive income (FVTOCI)*. All other debt and equity instruments are measured *at fair value through profit or loss*. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.

3. Significant accounting policies (continued)

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal).

Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to receive cash flows. The Group’s business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Debt securities and loans to customers are held by the Group within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. These financial assets are accounted for by the Group in accordance with IFRS 9 at amortized cost.

Investments in fund units and equity securities are accounted for in accordance with IFRS 9 at fair value through profit or loss.

At initial recognition of a financial asset, the Group determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Group has not identified a change in its business models.

Impairment. The Group recognizes allowances for ECL on financial instruments that are not measured at FVTPL.

3. Significant accounting policies (continued)

The Group developed a valuation technique of allowances based on the analysis of expected credit losses. In accordance with it, depending on the change in the level of credit risk of a financial instrument since its initial recognition, financial instruments are divided into 3 groups:

- Stage 1 of credit quality - financial instruments with a low level of credit risk, that is, the borrower has a stable ability to fulfill liabilities under the contract in the near future, adverse changes in economic and commercial conditions in the long term can, but not necessarily, reduce its ability to fulfill liabilities under the loan agreement;
- Stage 2 of credit quality - financial instruments for which there is a significant deterioration of credit risk as compared with the moment of initial recognition;
- Stage 3 of credit quality - financial instruments that have at least one of the signs of default.

When disclosing the transfers between stages for financial instruments during the reporting periods, the Group discloses the transfer to the stage applicable as at the reporting date.

For financial instruments in Stage 1 of credit quality, the allowance is valued based on expected credit losses for 12 months. For financial instruments for which there is a significant increase in credit risk from the time of initial recognition, the allowance is valued taking into account expected credit losses over the entire life of an instument.

The financial instrument is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets.

Signs of deterioration in credit quality, indicating an increase in credit risk on financial instuments evaluated on an individual basis, resulting in the transfer of financial instruments from Stage 1 to Stage 2 of credit quality are presented below:

Loans to corporate borrowers

- Relative increase in probability of default (PD) compared with the moment of initial recognition by 100 or more percentage points;
- Presence of overdue principal and/or interest for more than 30 calendar days in banks;
- Risk restructuring, in which the debtor is able to repay at the expense of its own financial and economic activities;
- Identifying other factors indicating an increase in credit risk.

Debt securities

- Technical default (at least for one of the issuer's bond issues);
- Restructuring of the issuer's liabilities on a bonded loan (at least on one of the issuer's bonds issues), except the case of a change in its conditions that meets the criteria for risk-free restructuring;
- Identifying other factors indicating an increase in credit risk.

3. Significant accounting policies (continued)

Due from credit institutions

- Restructuring of the credit institution’s liability to the Group, except the case of a change in its conditions that meets the criteria for risk-free restructuring;
- Identifying other factors indicating an increase in credit risk.

Description of the signs of default on corporate borrowers and debt securities is given below:

Corporate borrowers

- Presence of overdue principal and/or interest for more than 90 days;
- Presence of overdue principal and/or interest for a period of less than 90 calendar days in banks if there are other facts indicating that it is impossible to fulfill liabilities to the Group;
- Appeal to creditors (including the Group) for restructuring due to the inability to service liabilities;
- Default on bond loans (except for technical default);
- The introduction of bankruptcy proceedings;
- Bank filing a claim/claims for declaring a borrower bankrupt;
- Appeal of the borrower to court with a statement of bankruptcy or taking measures aimed at non-fulfillment of its liabilities to the creditor bank (for example, challenging the borrower in court of the terms of a credit transaction (subject to refusal to service and pay liabilities to the bank);
- Writing-off by the Group of a part of the borrower’s debt;
- Implementation of a credit claim with significant economic losses due to the deterioration in the quality of the credit claim;
- Repayment of liabilities to the Group due to the provision of other loans by the Group (excluding cases when such payments are stipulated by the terms of loan agreements);
- Introduction by the borrower of the moratorium on repayment of debt liabilities to creditors;
- Revocation from the borrower of licenses/permits necessary for the principal activity;
- Provision by the Group of critical (forced) restructuring for economic or legal reasons related to the financial difficulties of the borrower, which the lender would not have decided under any other circumstances in which the borrower’s operational activity is no longer the source of repayment, i.e. the borrower is not able to repay at the expense of own financial and economic activities (for example, the source of redemption is the sale of assets, the funds of the guarantor, etc.);
- Other credit risk factors indicating the impossibility of meeting liabilities to the Group.

3. Significant accounting policies (continued)

For debt securities the delay for more than 10 business days in the fulfillment of liabilities by the issuer (if a shorter period is not provided for with the issuing documents), or a refusal to fulfill the specified liability in the following cases:

- Payment of the next interest income (coupon) on the bonds;
- Redemption of the nominal value of the bond (redemption of the part of the nominal value in the event that the redemption of the nominal value is carried out in parts);
- Fulfillment of the liability to purchase bonds, if such a liability is provided for by the terms of the issue (redemption on an offer).

The event of default of a bank or non-banking credit institution - counterparty is the fact that it has failed to fulfill its obligations to the Group (except for those arising from the terms of bond loans issued by them) for more than 5 business days.

As part of collective valuation, retail loans, as well as loans issued to small and medium-sized businesses, are divided into stages of credit quality, depending on the period of overdue debts.

Stage 1 contains only non-overdue loans, Stage 2 contains loans with overdue debts from 1 to 90 days, Stage 3 of credit quality contains loans with overdue debts more than 90 days.

The Group may also use additional factors to move a financial instrument to the stage with a higher level of credit risk, for example, the existence of facts of loan restructuring.

The allowance for expected credit losses within the collective valuation is calculated in the context of product groups of retail loans and loans provided to small and medium-sized businesses.

As part of an individual valuation of the quality of retail loans and loans of small and medium-sized businesses, assignment to one of the credit quality stages occurs as a result of a cumulative valuation of the duration of overdue debt or its absence, valuation of the payment flow for a financial instrument, as well as the market value of collateral (if available).

Purchased impaired financial assets are attributed to the POCI stage. When a financial instrument is modified, the credit impairment stage is determined in the same way as the initial instrument stage.

If the Group does not have reasonable expectations regarding the recovery of a financial asset in full or partially, the gross carrying amount of such a financial asset should be reduced. Such a decrease represents (partial) derecognition of a financial asset.

3. Significant accounting policies (continued)

The mechanism for calculating expected credit losses (Expected Credit Loss - hereinafter ECL) is described below:

ECL = PD*LGD*EAD

The probability of default (PD) is calculated on the basis of statistical data and reflects the estimated value of the probability of default occurring within a certain period of time (12 months or the entire life of a financial instrument). Loss given default (LGD) reflects the calculated on the basis of statistical data estimated value of losses that occur in the event of default. Based on the available information on the level of losses, the Group uses different models to estimate the level of LGD. If sufficient information on the level of losses is available, this parameter is valued by comparing the exposure at default (EAD) and the amount of expected fees.

EAD is the amount at risk, defined as the sum of the debt under IFRS and the amount of the unused credit facility limit, taking into account the credit conversion rate, determined on the basis of internal bank statistics and updated on an annual basis.

Provision valuation for financial guarantees provided by the Group is made in accordance with the approaches outlined above with the inclusion in the calculation of an additional parameter of the probability of guarantee disclosure.

Evaluation of provision for investment (construction) projects is carried out on the basis of a scenario analysis of projects discounted cash flows. Discounting is carried out at the effective interest rate. Cash flows are calculated according to several scenarios. The net present value (“NPV”), based on the sum of the cash flows from investing and operating activities, is used as the cash flows on the basis of which the ECL is subsequently determined. The Group calculates the total weighted cash flow taking into account the weights for several scenarios. Negative weighted cash flow is equal to the investment (construction) project reserve. If all scenarios give positive values for the project NPVs, the Group uses the rate obtained as a market benchmark for the industry as the minimum reserve rate. The industry’s average default rate is used as such benchmark which is based on the Moody’s annual reports.

For other financial assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. These assets are classified in Stage 2.

Write-off of loans and advances. Loans and advances are written off against the allowance for ECL when deemed uncollectible, including by means of foreclosure on the provision. Write off of loans and advances takes place when the Group has no reasonable expectations of recovering the financial asset either in its entirety or a portion of it. Subsequent recoveries of amounts previously written off are included in allowance for expected credit losses in the consolidated statement of profit and loss in the period of recovery.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable, as well as the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

3. Significant accounting policies (continued)

Share-based payments. The liability is initially recognized at fair value for share-based payments with settlements in cash. The fair value of the liability is estimated at the reporting date until the liability is settled, as well as at the date of settlement. At the same time, changes in fair value are recorded within profit and loss for the period.

Due from banks. In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Due from banks are carried net of any allowance for ECL.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with banks, the Central Bank of the Russian Federation, term deposits with the Central Bank of the Russian Federation with original maturity less than 90 days, reverse repurchase agreements and short-term deposits with banks with an original maturity of less than 90 days.

The minimum provision deposits with the CBR are subject to restrictions to their availability and therefore are not included in cash and cash equivalents.

Property for resale. Property not used by the Group in its operating activities and received by the Group primarily as compensation for loans to customers is recorded in the line item “Property for resale” in the consolidated statement of financial position in accordance with IAS 2 “Inventories” at the lower of cost and net selling price.

Modification and derecognition of financial assets. A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group’s policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors. For example, after changing the conditions, the contractual cash flows include not only payments on the principal amount of the debt and interest; the contract currency or counterparty has changed. The extent of change in interest rates, maturity, covenants are also analyzed.

3. Significant accounting policies (continued)

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate.

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss provision measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in overdue status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; and
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss provision will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

3. Significant accounting policies (continued)

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain/loss that had been recognized in equity is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, In this case the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Investments in joint venture. A joint venture is a joint arrangement whereby the parties that have joint control over the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require unanimous consent.

The results and assets and liabilities of a joint venture are incorporated in these financial statements using the equity method of accounting.

Under the equity method, investments in a joint venture are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Investments in a joint venture are accounted for using the equity method from the date on which the investee becomes a joint venture. Any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

3. Significant accounting policies (continued)

The Group ceases to use the equity method when the entity ceases to be a joint venture.

When Group reduces its ownership interest in a joint venture but continues to use the equity method, the Group reclassifies the proportion of the gain or loss that had previously been recognized in other comprehensive income to profit or loss relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Profit and losses resulting from the transactions with the joint venture are recognized in the Group’s consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Derivative financial instruments

Forwards and futures. Forward and futures contracts are contractual arrangements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The differences in the risk associated with forward and futures contracts are mainly due to credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange helps ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps. Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Options. Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 26.

3. Significant accounting policies (continued)

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is immediately recognized in profit or loss.

Property, plant and equipment and intangible assets. Property, plant and equipment (other than buildings) and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property, plant and equipment (except for buildings) and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is recognized so as to write off the cost or deemed cost (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	2%
Furniture and equipment	20%
Intangible assets	10-33%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation.

Any revaluation increase arising on the revaluation of property, plant and equipment is credited to the property, plant and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease from the same asset recognized previously in the consolidated statement of profit or loss. In this case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense to the extent that it exceeds the positive balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property, plant and equipment revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In this case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Recovery of impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In this case the recovery of impairment loss is treated as a revaluation increase.

***Taxation*.** Income tax expense comprises current tax and deferred tax.

Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit and loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank’s current income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. Significant accounting policies (continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred income tax for the year. Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity. In this case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes. The Group operates in the Russian Federation, where there are requirements for the assessment and payment of various taxes that are applicable to the Group’s operations. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. Significant accounting policies (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial liabilities. Financial liabilities are classified as either financial liabilities “at fair value through profit or loss” or “other financial liabilities”.

Financial liabilities at fair value through profit or loss. A financial liability is classified as a financial liability at fair value through profit or loss when (i) it is either held for trading or (ii) it is designated as measured at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis;
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the “Interest expense” line item in the statement of profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability’s credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

3. Significant accounting policies (continued)

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities. Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group and the existing lender exchange debt instruments with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification isn't material, then the difference between: (1) the carrying amount of the liability before modification; and (2) the present value of the cash flows after the modification is charged to profit or loss as other income or expenses.

The Group as a lessor. Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as a lessee. The Group forms operating leases by types of underlying assets and types of lease. The Group applies IFRS 16 "Leases" to the portfolio of leases with similar characteristics.

In accordance with IFRS 16, for all leases, except for short-term leases (up to 12 months), the Group recognizes:

(a) Right-of-use assets and lease liabilities, initially valued at the present value of future lease payments;
(b) Depreciation of the right-of-use assets and interest on lease liabilities;

The Group uses the permitted practical simplification, which allows not to separate components that are not leases from the components of leases and recognize them as a single asset.

3. Significant accounting policies (continued)

Assets and liabilities arising from the lease are initially measured at their present value. Lease payments are discounted using the lessee's incremental borrowing rate, which is the rate that the lessee would have to pay to raise the funds needed to obtain the asset of similar value in a similar economic environment with similar conditions. Right-of-use assets are measured at cost, which includes the following components: the amount of the cost of the lease liability; any lease payments made on or before the commencement date of the lease, less any lease incentive payments received; any initial direct costs incurred by the lessee and the estimated restoration and dismantling costs.

In assessing the lease term and analyzing the length of the non-terminating lease period for contracts where both the lessee and the lessor have the right to terminate the lease without the permission of the other party with the payment of no more than a minor penalty, the Group considers business practices for each group of underlying assets. If the cases of contract termination at the initiative of the lessor are rare, then the contract is considered protected.

The rights to use the underlying asset in contracts where the Group is a lessee are accounted for using the historical cost model with subsequent depreciation in accordance with IFRS 16 "Property, Plant and Equipment". The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and its useful life.

Contingent liabilities. Contingent liabilities are not recognized in the consolidated statement of financial position (excluding loan commitments and financial guarantee contracts) but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Financial guarantee contracts. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under the performance guarantee contract represents the possibility that an insured event will occur (i.e. another party to the contract fails to perform a contractual obligation). Warranty claims must be made prior to the expiration of the contract. The Group uses historical data and statistical methods to forecast the level of payments under guarantee contracts. This allows to reach a high degree of certainty about the estimated payments and, therefore, future cash flows.

Loan commitments. The Group issues loan commitments. Financial commitments to provide loans and borrowings are initially recognized at fair value, which is generally the amount of the fees received. Such fee and commission income related to the loan commitment is deferred and included in the carrying amount of the loan on initial recognition. At the end of each reporting period, the liabilities are measured at the amount of the allowance for credit losses determined using the ECL model. For credit liabilities (when these components can be separated from the loan), a separate allowance for credit losses is recognized as a liability in the consolidated statement of financial position.

Retirement benefit obligations. In accordance with the requirements of the RF legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the pension fund of the RF which transfers them to pension funds selected by employees. The Group does not have an obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the RF state pension system. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

(in thousands of Russian Rubles, unless otherwise stated)

3. Significant accounting policies (continued)

Exchange rate. Below are the year-end exchange rates used by the Group in the preparation of these consolidated financial statements:

	31 December 2020	**31 December 2019**
RUB/USD	73,8757	61,9057
RUB/EUR	90,6824	69,3406
RUB/Gold (1 gram)	3 978,0000	3 008,3600

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Fiduciary activities. The Group provides depositary services to its customers, which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Share capital and share premium. Contributions to share capital, made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Reporting Date" and disclosed accordingly.

Perpetual bonds. The Group accounts for perpetual bonds as an equity instrument if such bonds have an indefinite maturity and the possibility of cancellation of coupon payments (without giving investors the right to accumulate these unpaid coupons). When there's a decision to pay a coupon on perpetual bonds, the payment is recorded in the same way as declared dividends.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- Property, plant and equipment revaluation reserve, which comprises revaluation reserve of buildings;
- Other capital reserve, which includes the portions of compound financial liabilities that qualify for treatment as equity.

(in thousands of Russian Rubles, unless otherwise stated)

3. Significant accounting policies (continued)

New and amended IFRSs in issue but not yet effective. At the time of approval of these consolidated financial statements the Group has not applied the following new and amended IFRSs that have been issued but are not yet effective:

IFRS 17	*Insurance contracts*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-Current*
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	*Basic interest rate reform - Stage 2*
Amendments to IFRS 3	*Business combination - Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, plant, and equipment - Proceeds before Intended Use*
Amendments to IAS 37	*Provisions, Contingent Liabilities and Contingent Assets - Onerous contracts - Contract execution cost*
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IFRS 1, IFRS 9, IAS 41, IFRS 16	*Annual improvements to IFRSs, 2018-2020 Cycle*

The management does not expect that the adoption of the above Standards and amendments will have a significant impact on financial statements of the Group in subsequent periods.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group’s accounting policies management makes judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Critical Accounting Judgments and Key Sources of Estimation Uncertainty*.** The following are listed below:

- Critical judgments that the Group management has made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.
- Key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Expected credit losses:

<u>Significant increase in credit risk.</u> As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable information. Refer to Note 35 for more details.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Establishing groups of assets with similar credit risk characteristics. When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Further details about the characteristics considered within the relevant judgment are given in Note 35. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses). As a result, the assets are moved from the portfolio of 12-month expected credit losses to the portfolio of lifetime expected credit losses, and vice versa. These movements can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECL but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used. The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 35 for more details on ECL and Note 33 for more details on fair value measurement.

Determination of the number and relative value of forward-looking scenarios for each type of product/market and the definition of forward-looking information related to each scenario. When measuring the level of credit losses, the Group uses reasonable forward looking information, which is based on the assumptions about the future movement of various economic factors and how these factors will affect each other. See Note 35 for more details.

Probability of default (PD). PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See Note 35 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Loss given default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 35 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Revaluation of property, plant and equipment and property for resale. Buildings, except for construction in progress recorded at cost and tested for impairment, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation. The property for resale is measured at the lower of the net realizable value, which is the fair value of the property less sales expenses, or its cost.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Fair value is determined based on market data by qualified appraisers, less depreciation and subsequent accumulated impairment losses. Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property, plant and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Deferred tax assets. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Assessment of probability is based on management’s estimates of future taxable profit and involves the exercise of significant judgment from the Group’s management.

The recoverability of the deferred tax asset has been determined using profitability forecasts used in the long-term business strategy of the Group, including the assumption of planned business changes within the Group. These assumptions were tested for sensitivity to confirm that the estimates used are not overestimated or aggressive. The forecast assumptions do not include any incremental tax planning strategies.

The Group believes it will still utilise the deferred tax assets.

Provisions for possible payments. The Group discloses estimated (probable) liabilities under legal or constructive obligations and other conditions defined in IAS 37, clause 14. The Group provides for such liabilities if management believes that the probability of such obligations arising is higher than the probability of an event where such obligations will not arise.

(in thousands of Russian Rubles, unless otherwise stated)

5. Net interest income before allowance for expected credit losses on interest bearing assets

	2020	2019
Interest income		
Interest income calculated using the effective interest rate		
Loans to customers	19 640 021	15 443 231
Investments in securities measured at amortized cost	1 044 210	1 581 010
Due from banks	609 820	748 871
Other interest income		
Investments in securities at fair value through profit or loss	942 891	859 679
Total interest income	**22 236 942**	**18 632 791**
Interest expense		
Interest expense calculated using the effective interest rate		
Customer accounts	(6 549 308)	(6 714 993)
Debt securities issued	(149 705)	(157 226)
Due to banks and other financial institutions	(65 276)	(122 834)
Lease liabilities	(37 979)	(43 620)
Total interest expense	**(6 802 268)**	**(7 038 673)**
Net interest income before allowance for expected credit losses on interest bearing assets	**15 434 674**	**11 594 118**

6. Allowance for expected credit losses

The movements in allowance for ECL on interest bearing assets were as follows:

	2020	2019
Allowance for expected credit losses on loans to individuals (Note 17)	8 708 006	4 015 780
Allowance for expected credit losses on loans to legal entities (Note 17)	512 523	30 392
Allowance/(recovery) for expected credit losses on due from banks (Note 16)	2 076	(17 787)
Allowance for expected credit losses on securities at amortized cost (Note 15)	932	25
Allowance for expected credit losses on interest-bearing assets	**9 223 537**	**4 028 410**

(in thousands of Russian Rubles, unless otherwise stated)

6. Allowance for expected credit losses (continued)

The effect of changes in the Group's operating environment on the assessment of the expected credit losses is disclosed in Note 31.

Information on the movements of the allowance for expected credit losses on other transactions is presented as follows:

	Other assets	Guarantees issued	Loan commitments	Provision for legal claims	Total
31 December 2018	**519 849**	**223 597**	**221 191**	**167 630**	**1 132 267**
Provision /(recovery)	49 563	(133 056)	90 876	(3 716)	3 667
Write-off against provision	(66 290)	-	-	(143 841)	(210 131)
31 December 2019	**503 122**	**90 541**	**312 067**	**20 073**	**925 803**
Provision	441 010	127 889	54 711	316 102	939 712
Write-off against provision	(228 414)	-	-	-	(228 414)
31 December 2020	**715 718**	**218 429**	**366 779**	**336 175**	**1 637 101**

Allowances for expected credit losses on interest bearing assets and other assets are deducted from the gross carrying amounts of the mentioned assets. Provision for guarantees, loan commitments and legal claims are accounted for as other liabilities.

7. Net (loss)/gain from operations with securities at fair value through profit or loss

Net (loss)/gain from operations with securities at fair value through profit or loss is presented in the table below:

	2020	2019
Realized (loss)/gain on trading operations	(15 651)	574 318
Fair value adjustment	8 189	162 397
Repurchase of own bonds issued (Note 25)	(91 583)	-
Net (loss)/gain from operations with securities at fair value through profit or loss	**(99 045)**	**736 715**

(in thousands of Russian Rubles, unless otherwise stated)

8. Net (loss)/gain on operations with derivative financial instruments

Net (loss)/gain on operations with derivative financial instruments is presented below:

	2020	2019
Realized (loss)/gain on derivatives	(663)	351 014
Fair value adjustment	127	1 020
Net (loss)/gain on operations with derivative financial instruments	**(536)**	**352 034**

9. Net gain/(loss) on foreign exchange operations

Net gain/(loss) on foreign exchange operations comprises:

	2020	2019
Trading, net	471 214	(2 436 776)
Foreign exchange revaluation differences, net	(332 470)	1 864 573
Net gain/(loss) on foreign exchange operations	**138 744**	**(572 203)**

10. Fee and commission income and expense

Fee and commission income and expense comprise:

	2020	2019
Fee and commission income:		
Acquiring and plastic card transactions	3 924 565	2 937 309
Agent fees on insurance products	2 944 341	3 093 351
Servicing accounts	1 242 335	1 076 708
Settlement operations	1 125 679	1 051 654
Cash operations with plastic cards	1 032 194	826 323
Maintenance of bank cards	809 073	681 104
Documentary operations	609 332	389 191
Other cash operations	292 535	466 563
Foreign currency agent and controller operations	56 014	55 822
Other	423 872	430 742
Total fee and commission income	**12 459 940**	**11 008 767**
Fee and commission expense:		
Settlement operations	(3 114 450)	(2 903 251)
Information and technical interaction	(1 593 463)	(1 696 515)
Debt collection expenses	(467 088)	(240 997)
Cash operations	(215 095)	(261 926)
Documentary operations	(8 410)	(187 240)
Other	(4 192)	(112 565)
Total fee and commission expense	**(5 402 698)**	**(5 402 494)**

(in thousands of Russian Rubles, unless otherwise stated)

11. Other income

Other income comprises:

	2020	**2019**
Operating lease income	221 542	195 928
Gain on write-off of liabilities	21 738	91 936
Information and advisory services	12 853	7 732
Penalties and fines	2 188	-
Other	68 243	57 826
Total other income	**326 564**	**353 422**

12. Operating expenses

Operating expenses comprise:

	2020	**2019**
Payroll	4 330 126	4 767 456
Social security costs	993 318	960 362
Total personnel expenses	**5 323 444**	**5 727 818**
Telecommunication services	1 226 590	1 244 331
Call-center services	983 994	668 339
Depreciation and amortization	974 156	738 920
Software maintenance	488 206	460 910
Payments to the Deposit Insurance Agency	452 923	531 485
Property, plant and equipment maintenance	442 483	403 973
Advertising costs	421 428	247 152
Professional services	344 248	289 126
Amortization of the right-of-use assets	242 311	310 996
Office expenses	203 044	103 307
Taxes, other than income tax	91 333	89 362
Plastic cards	86 099	85 555
Security services	52 408	61 637
Penalties and fines	37 924	22 738
Business trip expenses	24 125	47 447
Disposals of property, plant and equipment	5 926	4 015
Other expenses	240 481	284 493
Total operating expenses	**11 641 123**	**11 321 604**

The Group approved motivation programs that give the Group employees' rights to receive cash payments determined based on number fantom and virtual shares awarded to them or an equivalent amount of PJSC "MTS" shares. The member of share awards is determined by the plan, and awards are contingent on the achievment of certain performance indicators, continuous employment until the end of the periods established by the plan and the approval awards by the appropriate collective body.
The Group records these motivation programs in accordance with IFRS 2 "Share-based Payments" as transactions based on the shares with cash settlements. In 2020, the Group recorded expenses for such remuneration programs of RUB 138 150 thousand (2019: RUB 372 551 thousand) as part of payroll and of RUB 21 140 thousand (2019: RUB 57 373 thousand) within social security costs.

(in thousands of Russian Rubles, unless otherwise stated)

13. Income tax

The Group calculates tax payments based on the tax accounts maintained and prepared in accordance with the tax regulations of RF where the Group and its subsidiaries operate. As certain income and expense are tax-free or tax non-deductible the Group is subject to certain permanent tax differences.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Temporary differences as at 31 December 2020 and 31 December 2019 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits under tax law in that jurisdiction.

Tax effect of temporary differences as at 31 December 2020 and 31 December 2019 comprises:

	31 December 2020	31 December 2019
Deferred tax assets / (liabilities):		
Due from banks and loans to customers	1 265 102	1 350 217
Other assets	123 522	257 331
Property for resale	548 873	559 195
Investments in securities	(80 834)	47 193
Investments in joint venture	(9 301)	(7 220)
Derivative financial instruments	(356)	(204)
Property, plant and equipment and intangible assets	16 414	12 097
Other financial liabilities	242 490	105 584
Tax losses carried forward	5 937 960	5 704 909
Unrecognized deferred tax assets	(4 790 674)	(4 778 579)
Net deferred tax assets	**3 253 195**	**3 250 523**

Reconciliation between income tax expense and consolidated profit before income tax for the years ended 31 December 2020 and 31 December 2019 is presented in the table below:

	2020	2019
Profit before tax	890 087	2 245 424
Tax at the statutory tax rate (20%)	178 017	449 085
Change in unrecognized deferred tax asset	12 095	(3 449)
Effect of income taxed at a different rate (15%)	(82 260)	(64 297)
Tax effect of permanent differences	91 536	40 647
Effect relating to prior periods	(107 520)	4 691
Recovery of prior periods overpayments	(29 996)	-
Income tax expense	**61 872**	**426 677**
Current income tax expense	64 544	432 785
Changes in the amount of deferred tax assets	(2 672)	(6 108)
Income tax expense	**61 872**	**426 677**

(in thousands of Russian Rubles, unless otherwise stated)

13. Income tax (continued)

As at 31 December 2020 and 31 December 2019, the Group did not recognize a part of deferred tax assets in the amount of RUB 4 790 674 thousand and RUB 4 778 579 thousand accordingly, as the Management of the Group does not expect these tax losses to be realized. The measurement of a deferred tax asset is largely dependent on professional judgment and is disclosed in Note 4.

For unrecognized tax assets there is no restriction on the period of their use in accordance with the effective Russian legislation.

Deferred tax assets/(liabilities)	2020	2019
Deferred tax assets as at 1 January	**3 250 523**	**3 244 416**
Deferred tax liabilities as at 1 January	-	-
Change in deferred income tax recognized in profit or loss	2 696	3 617
Changes in deferred income taxes recognized in other comprehensive income	(24)	2 490
Deferred tax assets as at 31 December	**3 253 195**	**3 250 523**
Deferred tax liabilities as at 31 December	-	-

14. Cash and balances with the Central Bank

Cash and balances with the Central Bank comprise:

	31 December 2020	31 December 2019
Balances with the Central Bank of the Russian Federation	14 901 116	20 078 217
Cash	2 583 219	3 286 954
Total cash and balances with the Central Bank	**17 484 335**	**23 365 171**

As at 31 December 2020 and 31 December 2019, mandatory cash balances with the Central Bank of the Russian Federation included in balances with the Central Bank amounted to RUB 1 180 309 thousand and RUB 1 302 287 thousand, respectively. The Group is required to deposit mandatory cash balances with the Central Bank on a permanent basis.

(in thousands of Russian Rubles, unless otherwise stated)

14. Cash and balances with the Central Bank (continued)

Cash and cash equivalents presented in the consolidated statement of cash flows comprise:

	31 December 2020	31 December 2019
Cash and balances with the Central Bank	17 484 335	23 365 171
Reverse repurchase agreements with financial institutions with initial maturities of less than three months	15 106 960	257 588
Correspondent accounts with banks and other financial institutions	5 970 435	4 181 146
Short-term deposits with banks	47 300	22 286
	38 609 030	**27 826 191**
Less minimum reserve deposits with the Central Bank of the Russian Federation	(1 180 309)	(1 302 287)
Less allowance for expected credit losses	(8 962)	(6 687)
Total cash and cash equivalents	**37 419 759**	**26 517 217**

15. Investments in securities

Investments in securities comprise:

	31 December 2020	31 December 2019
Debt securities at amortised cost		
Corporate bonds	3 176 692	8 225 041
Debt securities of the RF constituent entities	6 411 014	7 231 735
Less allowance for expected credit losses	(4 434)	(3 502)
	9 583 272	**15 453 274**
Debt securities at fair value through profit or loss		
- corporate and bank bonds	13 706 515	11 194 780
- government debt securities	8 112 578	2 068 111
- debt securities of the RF constituent entities	5 172	10 532
	21 824 265	**13 273 423**
Total investments in securities	**31 407 537**	**28 726 697**

As at 31 December 2020, securities measured at amortized cost in the amount of RUB 1 557 390 thousand (2019: RUB 8 719 222 thousand) and measured at fair value in the amount of RUB 9 675 552 thousand (2019: RUB 1 065 069 thousand) were pledged as collateral under direct repurchase agreement (REPO) transactions (Note 23).

(in thousands of Russian Rubles, unless otherwise stated)

15. Investments in securities (continued)

Information about the movement in the allowance for expected credit losses on securities for the year ended 31 December 2020 is presented below:

	Stage 1	Total
Debt securities at amortized cost		
31 December 2019	**3 502**	**3 502**
Changes due to changes in credit risk, net	1 081	1 081
Assets redeemed or derecognised (except for write-off)	(149)	(149)
31 December 2020	**4 434**	**4 434**

Information about the movement in the allowance for expected credit losses on securities for the year ended 31 December 2019 is presented below:

	Stage 1	Total
Debt securities at amortized cost		
31 December 2018	**3 477**	**3 477**
Changes due to changes in credit risk, net	126	126
Assets redeemed or derecognised (except for write-off)	(101)	(101)
31 December 2019	**3 502**	**3 502**

Changes in the gross carrying amount of securities measured at amortized cost, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2020, are presented below:

	Stage 1	Total
31 December 2019	**15 456 776**	**15 456 776**
Assets redeemed	(6 056 013)	(6 056 013)
Repayment of interest and other changes	186 943	186 943
31 December 2020	**9 587 706**	**9 587 706**

Changes in the gross carrying amount of securities measured at amortized cost, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2019, are presented below:

	Stage 1	Total
31 December 2018	**30 518 106**	**30 518 106**
Assets redeemed	(14 424 884)	(14 424 884)
Repayment of interest and other changes	(636 446)	(636 446)
31 December 2019	**15 456 776**	**15 456 776**

(in thousands of Russian Rubles, unless otherwise stated)

15. Investments in securities (continued)

Information on the quality of securities valued at amortized cost as at 31 December 2020 is presented below:

	Stage 1
Debt securities rated (Fitch or equivalent):	
BBB	9 556 167
BB	31 539
Less allowance for expected credit losses	(4 434)
31 декабря 2020 года	**9 583 272**

Information on the quality of securities valued at amortized cost as at 31 December 2019 is presented below:

	Stage 1
Debt securities rated (Fitch or equivalent):	
BBB	15 281 160
BB	175 616
Less allowance for expected credit losses	(3 502)
31 December 2019	**15 453 274**

16. Due from banks

Due from banks comprise:

	31 December 2020	**31 December 2019**
Reverse repurchase agreements with financial institutions	15 106 960	257 588
Correspondent accounts with banks and other financial institutions	5 970 435	4 181 146
Guarantee deposits in payment systems	1 769 998	1 558 328
Short-term deposits with banks	47 300	22 286
	22 894 693	**6 019 348**
Less allowance for expected credit losses	(8 961)	(6 885)
Total due from banks	**22 885 732**	**6 012 463**

(in thousands of Russian Rubles, unless otherwise stated)

16. Due from banks (continued)

As at 31 December 2020 and 31 December 2019, due from banks included guarantee deposits in the amount of RUB 1 769 998 thousand and RUB 1 558 328 thousand respectively, which are collateral for transactions with payment systems.

Fair value of assets pledged and carrying amount of loans under the reverse repurchase agreements as at 31 December 2020 and 31 December 2019 comprise:

	31 December 2020	31 December 2020	31 December 2019	31 December 2019
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Corporate bonds	15 106 960	15 342 916	257 588	271 645
Total	**15 106 960**	**15 342 916**	**257 588**	**271 645**

As at 31 December 2019 due from banks included due from banks of RUB 142 143 thousand as collateral for mortgage-backed bonds issued by the Group in 2014.

Information about the movement in the allowance for expected credit losses on the amounts due from banks for the year ended 31 December 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	**1 233**	**-**	**5 652**	**6 885**
New assets received or acquired	1 243	-	-	1 243
Changes due to changes in credit risk	928	-	(95)	833
31 December 2020	**3 404**	**-**	**5 557**	**8 961**

Information about the movement in the allowance for expected credit losses on the amounts due from banks for the year ended 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**1 809**	**-**	**38 193**	**40 002**
New assets received or acquired	518	-	136	654
Changes due to changes in credit risk	(1 094)	-	(17 347)	(18 441)
Write-off against allowance	-	-	(16 601)	(16 601)
Recoveries of the assets previously written off	-	-	1 271	1 271
31 December 2019	**1 233**	**-**	**5 652**	**6 885**

(in thousands of Russian Rubles, unless otherwise stated)

16. Due from banks (continued)

Changes in the gross carrying amount of the amounts due from banks, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2020, are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	**6 012 188**	**-**	**7 160**	**6 019 348**
New assets received or acquired	15 169 649	-	-	15 169 649
Repayment and other changes	1 705 930	-	(234)	1 705 696
31 December 2020	**22 887 767**	**-**	**6 926**	**22 894 693**

Changes in the gross carrying amount of the amounts due from banks, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2019, are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	**4 394 638**	**-**	**38 193**	**4 432 831**
New assets received or acquired	2 573 267	-	182	2 573 449
Write-off against allowance	-	-	(16 601)	(16 601)
Repayment and other changes	(955 717)	-	(14 614)	(970 331)
31 December 2020	**6 012 188**	**-**	**7 160**	**6 019 348**

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

	Stage 1	Stage 2	Stage 3	Total
Due from banks rated:				
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**

(in thousands of Russian Rubles, unless otherwise stated)

16. Due from banks (continued)

Information about the quality of due from banks as at 31 December 2019 is presented below:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Due from banks rated:				
AA	22 362	-	-	22 362
A	2 277 361	-	-	2 277 361
BBB	2 518 980	-	-	2 518 980
BB	683 838	-	-	683 838
B	2 329	-	-	2 329
<B / Not rated	507 318	-	7 160	514 478
Less allowance for expected credit losses	(1 233)	-	(5 652)	(6 885)
31 December 2019	**6 010 955**	**-**	**1 508**	**6 012 463**

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

As at 31 December 2020 and 31 December 2019, there are no outstanding amounts concerning due from banks on Stage 1 for which no credit rating has been assigned.

17. Loans to customers

Loans to customers comprise:

	31 December 2020	**31 December 2019**
Loans to customers	147 894 225	118 650 795
Less allowance for expected credit losses	(18 031 803)	(11 213 190)
Total loans to customers	**129 862 422**	**107 437 605**

The table below summarizes carrying amount of loans to customers analyzed by type of collateral obtained by the Group:

	31 December 2020	**31 December 2019**
Loans collateralized by guarantees	19 103 005	12 830 562
Loans collateralized by pledge of real estate	15 224 376	15 237 292
Loans collateralized by pledge of equipment	370 320	752 761
Loans collateralized by pledge of securities	255 836	1 224 232
Loans collateralized by pledge of rights of claim	-	14 859
Unsecured loans	112 940 688	88 591 088
Loans to customers	147 894 225	118 650 795
Less allowance for expected credit losses	(18 031 803)	(11 213 190)
Total loans to customers	**129 862 422**	**107 437 605**

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

Amounts, presented in the table above, are carrying amount of loans issued and do not necessary reflect the fair value of collateral received.

As at 31 December 2020 and 31 December 2019, loans to legal entities included loans totaling RUB 155 828 thousand and RUB 1 315 166 thousand, respectively, which were secured by a pledge of the Group's own issued debt securities in the amount of RUB 251 155 thousand and RUB 998 143 thousand, respectively. The contractual maturities of the securities issued exceed the contractual maturities of the loans under which the securities are issued.

	31 December 2020	31 December 2019
Analysis by economic sectors:		
Individuals	117 603 898	90 683 601
Trading	12 423 371	11 575 507
Property, plant and construction	9 062 660	6 093 733
Financial sector	3 426 614	2 344 507
Transport and communication	1 538 959	1 807 029
Agriculture and agro-industrial complex	1 154 565	1 269 112
Financial environment	1 085 262	1 188 116
Industrial manufacturing	752 140	1 641 294
Other	846 756	2 047 896
Loans to customers	**147 894 225**	**118 650 795**
Less allowance for expected credit losses	(18 031 803)	(11 213 190)
Total loans to customers	**129 862 422**	**107 437 605**

Loans to individuals comprise the following products:

	31 December 2020	31 December 2019
Consumer loans	80 923 014	63 328 906
Credit cards	21 873 579	15 617 856
Mortgage loans	14 384 153	11 163 930
Other	423 152	572 909
Loans to individuals	117 603 898	90 683 601
Less allowance for expected credit losses	(14 287 844)	(7 371 547)
Total loans to individuals	**103 316 054**	**83 312 054**

17. Loans to customers (continued)

As at 31 December 2019 loans to individuals included mortgage loans of RUB 812 630 thousand as collateral for mortgage-backed bonds issued by the Group in 2014.

As at 31 December 2020, the Group provided loans to 2 groups of borrowers for the total amount of RUB 8 408 582 thousand (31 December 2019: 1 group of borrowers for the total amount of RUB 4 055 234 thousand) each of which exceeded more than 10% of the Group's equity.

Loans to customers include loans the terms of which were renegotiated as part of the Group's own restructuring and repayment holiday programs for the year ended 31 December 2020. As at 31 December 2020, those loans included loans in the amount of RUB 815 414 thousand (31 December 2019: NIL), the allowance for which was estimated based on 12-month expected credit losses, and loans in the amount of RUB 5 134 607 thousand (31 December 2019: RUB 326 176 thousand), the allowance for which was estimated taking into account lifetime expected credit losses. The renegotiation of the terms did not lead to significant modifications and did not have a significant impact on the amortization cost of these loans.

During 2020 and 2019, the Group sold certain loans to third parties at a discount to face value without recourse and without any obligation to service those loans. As at 31 December 2020, the write-off of such loans upon disposal against the allowance was RUB 279 434 thousand (31 December 2019: RUB 39 600 thousand), total income from sale amounted to RUB 235 060 thousand (31 December 2019: loss of RUB 13 635 thousand).

As at 31 December 2020 and 31 December 2019 loans in the amount of RUB 2 641 467 thousand and RUB 3 684 747 thousand, respectively, assessed on an individual basis in Stage 3, were secured by pledges of real estate, equipment, inventories, promissory notes and guarantees with a fair value of RUB 669 483 thousand and RUB 1 098 609 thousand, respectively.

The effect of the changes in Group's operating environment on the assessment of the expected credit Losses is disclosed in Note 31.

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

Information about the movement of the allowance for expected credit losses on loans to legal entities for the year ended 31 December 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	(121 369)	121 369	-	-
Transfer to Stage 3	(30 167)	(23 841)	54 008	-
New assets received or acquired	417 913	-	-	417 913
Changes due to changes in credit risk, including repayments	52 218	368 148	(325 756)	94 610
Sale	-	-	(279 434)	(279 434)
Write-off against allowance	-	-	(514 281)	(514 281)
Recoveries of the assets previously written off	-	-	183 507	183 507
31 December 2020	**885 314**	**541 591**	**2 317 054**	**3 743 959**

Information about the movement of the allowance for expected credit losses on loans to legal entities for the year ended 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**316 561**	**595 143**	**3 408 009**	**4 319 713**
Transfer to Stage 1	19 100	(17 551)	(1 549)	-
Transfer to Stage 2	(47 711)	49 116	(1 405)	-
Transfer to Stage 3	(185 507)	(496 243)	681 750	-
New assets received or acquired	657 842	-	-	657 842
Changes due to changes in credit risk, including repayments	(154 592)	(53 924)	(418 934)	(627 450)
Sale	(39 600)	-	-	(39 600)
Write-off against allowance	-	-	(862 511)	(862 511)
Recoveries of the assets previously written off	-	-	393 649	393 649
31 December 2019	**566 093**	**76 541**	**3 199 009**	**3 841 643**

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

Information about the movement of the allowance for expected credit losses on loans to individuals for the year ended 31 December 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	1 497 407	(1 278 687)	(218 720)	-
Transfer to Stage 2	(540 123)	774 986	(234 863)	-
Transfer to Stage 3	(14 713)	(4 394 984)	4 409 697	-
New assets received or acquired	1 521 790	-	-	1 521 790
Changes due to changes in credit risk, including repayments	(1 550 836)	5 635 381	3 101 671	7 186 216
Write-off against allowance	-	-	(2 410 777)	(2 410 777)
Recoveries of the assets previously written off	-	-	619 068	619 068
31 December 2020	**2 838 590**	**1 838 534**	**9 610 720**	**14 287 844**

Information about the movement of the allowance for expected credit losses on loans to individuals for the year ended 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**962 288**	**449 109**	**3 532 164**	**4 943 561**
Transfer to Stage 1	819 773	(629 595)	(190 178)	-
Transfer to Stage 2	(230 284)	309 996	(79 712)	-
Transfer to Stage 3	(1 853)	(1 585 361)	1 587 214	-
New assets received or acquired	1 706 678	-	-	1 706 678
Changes due to changes in credit risk, including repayments	(1 331 537)	2 557 689	1 082 950	2 309 102
Write-off against allowance	-	-	(2 139 180)	(2 139 180)
Recoveries of the assets previously written off	-	-	551 386	551 386
31 December 2019	**1 925 065**	**1 101 838**	**4 344 644**	**7 371 547**

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

Changes in the gross carrying amount of loans to legal entities, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2020, are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	**20 923 333**	**3 329 404**	**3 714 457**	**27 967 194**
Transfer to Stage 1	3 638	(3 638)	-	-
Transfer to Stage 2	(5 520 921)	5 520 921	-	-
Transfer to Stage 3	(73 552)	(125 147)	198 699	-
New assets received or acquired	11 830 356	-	-	11 830 356
Sale	-	-	(514 494)	(514 494)
Write-off against allowance	-	-	(514 281)	(514 281)
Repayments and other changes	(6 968 224)	(1 248 375)	(261 849)	(8 478 449)
31 December 2020	**20 194 630**	**7 473 165**	**2 622 532**	**30 290 327**

Changes in the gross carrying amount of loans to legal entities, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2019, are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**22 083 265**	**3 425 806**	**3 845 986**	**29 355 057**
Transfer to Stage 1	387 341	(384 789)	(2 552)	-
Transfer to Stage 2	(2 289 303)	2 291 928	(2 625)	-
Transfer to Stage 3	(521 478)	(1 175 903)	1 697 381	-
New assets received or acquired	13 109 964	-	-	13 109 964
Sale	(2 000 000)	-	-	(2 000 000)
Write-off against allowance	-	-	(862 511)	(862 511)
Repayments and other changes	(9 846 456)	(827 638)	(961 222)	(11 635 316)
31 December 2019	**20 923 333**	**3 329 404**	**3 714 457**	**27 967 194**

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

Changes in the gross carrying amount of loans to individuals, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2020, are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	**81 590 589**	**3 559 644**	**5 533 368**	**90 683 601**
Transfer to Stage 1	6 844 043	(6 474 850)	(369 193)	-
Transfer to Stage 2	(16 983 219)	17 317 994	(334 775)	-
Transfer to Stage 3	(185 051)	(8 875 692)	9 060 743	-
New assets received or acquired	85 243 364	-	-	85 243 364
Write-off against allowance	-	-	(2 410 777)	(2 410 777)
Repayments and other changes	(56 862 313)	669 882	280 141	(55 912 290)
31 December 2020	**99 647 413**	**6 196 978**	**11 759 507**	**117 603 898**

Changes in the gross carrying amount of loans to individuals, which resulted in a change in the allowance for expected credit losses for the year ended 31 December 2019, are presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**46 424 574**	**1 553 560**	**4 501 299**	**52 479 433**
Transfer to Stage 1	2 363 976	(2 112 851)	(251 125)	-
Transfer to Stage 2	(8 622 763)	8 762 286	(139 523)	-
Transfer to Stage 3	(109 434)	(3 788 100)	3 897 534	-
New assets received or acquired	77 634 868	-	-	77 634 868
Write-off against allowance	-	-	(2 139 180)	(2 139 180)
Repayments and other changes	(36 100 632)	(855 251)	(335 637)	(37 291 520)
31 December 2019	**81 590 589**	**3 559 644**	**5 533 368**	**90 683 601**

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

Information about the quality of loans to legal entities as at 31 December 2020 is presented below:

	Stage 1	Stage 2	Stage 3	31 December 2020
Loans collectively assessed for impairment				
Not overdue	1 001 566	22 685	-	1 024 251
Overdue:	-	-	-	
Up to 30 days	-	26 436	2 257	28 693
31 - 60 days	-	6 919	1 100	8 019
61 - 90 days	-	7 298	733	8 031
91 - 180 days	-	-	22 085	22 085
More than 180 days	-	-	644 573	644 573
Total loans to legal entities collectively assessed for impairment	**1 001 566**	**63 338**	**670 748**	**1 735 652**
Loans individually assessed for impairment				
Current	13 087 510	2 898 088	-	15 985 598
Requiring monitoring	6 105 554	4 511 739	-	10 617 293
Default	-	-	1 951 784	1 951 784
Total loans to legal entities individually assessed for impairment	**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**

As at 31 December 2020 and 31 December 2019, loans in Stage 1, assessed on an individual basis, included loans to finance a construction project, for which the allowance for expected credit losses was estimated based on a scenario analysis of the project's future discounted cash flows. As at 31 December 2020 and 31 December 2019, the ECL rate for such loans was 18,4% and 26,2%, respectively.

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

Information about the quality of loans to legal entities as at 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	31 December 2019
Loans collectively assessed for impairment				
Not overdue	1 182 283	30 786	-	1 213 069
Overdue:				
Up to 30 days	14 931	6 645	7 902	29 478
31 - 60 days	-	24 229	6 107	30 336
61 - 90 days	-	-	226	226
91 - 180 days	-	-	13 556	13 556
More than 180 days	-	-	672 364	672 364
Total loans to legal entities collectively assessed for impairment	**1 197 214**	**61 660**	**700 155**	**1 959 029**
Loans individually assessed for impairment				
Current	12 344 732	1 803 043	-	14 147 775
Requiring monitoring	7 381 387	1 464 701	-	8 846 088
Default	-	-	3 014 302	3 014 302
Total loans to legal entities individually assessed for impairment	**19 726 119**	**3 267 744**	**3 014 302**	**26 008 165**
Less allowance for expected credit losses	(566 093)	(76 541)	(3 199 009)	(3 841 643)
TOTAL	**20 357 240**	**3 252 863**	**515 448**	**24 125 551**

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

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

	Stage 1	Stage 2	Stage 3	31 December 2020
Loans collectively assessed for impairment				
Not overdue	99 647 413	2 340 696	-	101 988 109
Overdue:				
Up to 30 days	-	2 476 674	225 914	2 702 588
31 - 60 days	-	808 389	136 138	944 527
61 - 90 days	-	571 219	100 188	671 407
91 - 180 days	-	-	1 928 239	1 928 239
More than 180 days	-	-	8 679 343	8 679 343
Total loans to individuals collectively assessed for impairment	**99 647 413**	**6 196 978**	**11 069 822**	**116 914 213**
Loans individually assessed for impairment				
Requiring monitoring	-	-	305 962	305 962
Default	-	-	383 723	383 723
Total loans to individuals individually assessed for impairment	**-**	**-**	**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**

(in thousands of Russian Rubles, unless otherwise stated)

17. Loans to customers (continued)

Information about the quality of loans to individuals as at 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	31 December 2019
Loans collectively assessed for impairment				
Not overdue	81 590 589	-	-	81 590 589
Overdue:				
Up to 30 days	-	2 237 674	-	2 237 674
31 - 60 days	-	644 105	-	644 105
61 - 90 days	-	540 044	-	540 044
91 - 180 days	-	-	1 368 855	1 368 855
More than 180 days	-	-	3 494 068	3 494 068
Total loans to individuals collectively assessed for impairment	**81 590 589**	**3 421 823**	**4 862 923**	**89 875 335**
Loans individually assessed for impairment				
Requiring monitoring	-	137 821	49 420	187 241
Default	-	-	621 025	621 025
Total loans to individuals individually assessed for impairment	**-**	**137 821**	**670 445**	**808 266**
Less allowance for expected credit losses	(1 925 065)	(1 101 838)	(4 344 644)	(7 371 547)
TOTAL	**79 665 524**	**2 457 806**	**1 188 724**	**83 312 054**

18. Investments in joint venture

As at 31 December 2020 and 31 December 2019, the Group classified its interest in the fund as an investment in a joint venture.

In accordance with the rules of trust management of the Fund, decisions of the general meeting are accepted by 75% of the votes of the total number of votes given to their owners in accordance with the number of investment shares owned by them at the date of the decision to convene a general meeting.

The Group cannot unilaterally manage the significant activities of the Fund, and the adoption of the decision of the general meeting can only be taken jointly with another investor.

(in thousands of Russian Rubles, unless otherwise stated)

18. Investments in joint venture (continued)

Summarized financial information for the joint venture is presented below:

	31 December 2020	31 December 2019
Fund assets		
Real estate investment	938 700	949 800
Due from banks	94 372	62 322
Other assets	50 830	108 915
Fund liabilities	(19 785)	(18 905)
Net assets of the fund	**1 064 117**	**1 102 132**
Group's share in the fund	59,74%	59,74%
Carrying amount of the Group's share in the fund	**635 755**	**658 467**

	2020	2019
Comprehensive income of the fund		
Income from the rental of property	173 388	165 790
Write-off of the value of investment property	(11 100)	(29 900)
Other income	16 982	20 402
Other expenses	(17 087)	(20 137)
Operating expenses	(84 674)	(75 990)
Net profit	**77 509**	**60 165**
Group's share in the fund	59,74%	59,74%
Share of the joint venture's profit	**46 307**	**35 946**

	2020	2019
Reconciliation of the movement of the net assets of the fund		
As at 1 January	1 102 132	1 155 082
Net profit	77 509	60 166
Dividends paid	(115 524)	(113 116)
As at 31 December	**1 064 117**	**1 102 132**

(in thousands of Russian Rubles, unless otherwise stated)

19. Property, plant and equipment and intangible assets

	Buildings	Capital investments	Furniture and equipment	Construction in progress	Total property, plant and equipment	Intangible assets	Total property, plant and equipment and intangible assets
Book value							
31 December 2018	**1 883 624**	**49 916**	**1 376 605**	**-**	**3 310 145**	**3 298 345**	**6 608 490**
Acquisitions	26 861	14 178	704 071	122 516	**867 625**	1 466 551	**2 334 176**
Reclassification to property for resale	(1 573)	-	-	-	**(1 573)**	-	**(1 573)**
Disposals	-	(3 404)	(148 793)	-	**(152 197)**	(806 009)	**(958 206)**
Elimination of accumulated depreciation on revaluation	(41 823)	-	-	-	**(41 823)**	-	**(41 823)**
Revaluation	(45 359)	-	-	-	**(45 359)**	-	**(45 359)**
31 December 2019	**1 821 730**	**60 690**	**1 931 882**	**122 516**	**3 936 818**	**3 958 887**	**7 895 705**
Acquisitions	41 346	3 988	461 279	127 667	**634 280**	1 880 905	**2 515 185**
Transfers	122 516	-		(122 516)	**-**	-	**-**
Disposals	(46 223)	-	(145 969)	-	**(192 192)**	(96 467)	**(288 659)**
Elimination of accumulated depreciation on revaluation	(42 612)	-	-	-	**(42 612)**	-	**(42 612)**
Revaluation	13 221	-	-	-	**13 221**	-	**13 221**
31 December 2020	**1 909 978**	**64 678**	**2 247 192**	**127 667**	**4 349 515**	**5 743 325**	**10 092 840**

	Buildings	Capital investments	Furniture and equipment	Construction in progress	Total property, plant and equipment	Intangible assets	Total property, plant and equipment and intangible assets
Accumulated depreciation							
31 December 2018	**-**	**35 841**	**959 432**	-	**995 273**	**1 949 416**	**2 944 689**
Charge for the year	41 823	11 275	189 676	-	**242 774**	496 146	**738 920**
Disposals	-	(3 404)	(143 740)	-	**(147 145)**	(805 099)	**(952 244)**
Elimination of accumulated depreciation on revaluation	(41 823)	-	-	-	**(41 823)**	-	**(41 823)**
31 December 2019	**-**	**43 712**	**1 005 368**	**-**	**1 049 079**	**1 640 463**	**2 689 542**
Charge for the year	43 795	6 835	220 349	-	**270 979**	703 177	**974 156**
Disposals	(1 183)		(145 321)	-	**(146 504)**	(95 672)	**(242 176)**
Elimination of accumulated depreciation on revaluation	(42 612)	-	-	-	**(42 612)**	-	**(42 612)**
31 December 2020	**-**	**50 547**	**1 080 396**	**-**	**1 130 942**	**2 247 968**	**3 378 910**
Net book value							
31 December 2019	**1 821 730**	**16 979**	**926 514**	**122 516**	**2 887 739**	**2 318 424**	**5 206 162**
31 December 2020	**1 909 978**	**14 131**	**1 166 797**	**127 667**	**3 218 573**	**3 495 357**	**6 713 930**

(in thousands of Russian Rubles, unless otherwise stated)

19. Property, plant and equipment and intangible assets (continued)

As at 31 December 2020 and 31 December 2019, the buildings owned by the Group were recognized at fair value. One of the following methods or their combination was used to measure the fair value: discounted cash flow method (income approach) and method of sales comparison (comparative approach).

When using a combination of approaches, the fair value of buildings is determined by weighting the estimates obtained under these separate scenarios. The fair value of those assets was RUB 1 909 978 thousand and RUB 1 821 730 thousand, respectively. If buildings had been carried at historical cost, restated in accordance with inflation indices, less accumulated depreciation and impairment losses, their carrying amount would have been RUB 1 956 658 thousand and RUB 1 880 790 thousand as at 31 December 2020 and 31 December 2019, respectively.

During 2020 and 2019, the Group recognized as intangible assets its own software developments in the amount of RUB 1 328 867 thousand and RUB 1 006 994 thousand, respectively.

As at 31 December 2020 and 31 December 2019, fully depreciated equipment was included in property, plant and equipment in the amount of RUB 627 437 thousand and RUB 562 618 thousand, respectively. Most of the disposal of property, plant and equipment in 2018-2019 is associated with the write-off of fully depreciated property.

As at 31 December 2020 and 31 December 2019, the fair value of the buildings owned by the Group corresponded to the third level in the hierarchy of fair value.

20. Property for resale

Property for resale comprises:

	2020	**2019**
At 1 January	2 836 514	3 360 620
Property taken in possession under loan agreements	268 119	417 296
Property received as part of the repayment of the debt	291 988	-
Disposals	(641 203)	(577 040)
Change in value of property	(231 800)	(364 362)
As at 31 December	**2 523 619**	**2 836 514**

During 2020 and 2019, operating lease income includes income from the lease of property for resale in the amount of RUB 213 893 thousand and RUB 191 923 thousand respectively.

As at 31 December 2020 and 31 December 2019 the property for resale was measured at the lower of the net realizable value, which is the fair value of the property less sales expenses, or its cost.

The following methods were used for the estimation of the fair value: discounted cash flow method (income approach), method of sales comparison (comparative approach). For estimation of the final value, the results obtained using two approaches were weighted by the following criteria: reliability and completeness of the information and individual characteristics consideration.

The Group has no restrictions as to the sale of the property for resale, or documented obligations to purchase, construct, repair, maintain or improve the property for resale.

(in thousands of Russian Rubles, unless otherwise stated)

21. Leases (the Group as a lessee)

Right-of-use assets comprised:

Right-of-use assets	**31 December 2020**	**31 December 2019**
Land and buildings	558 457	595 794
Furniture and equipment	670	1 164
Total right-of-use assets	**559 126**	**596 958**

The Group leases several assets, including buildings, land and equipment. The average lease term is 5.84 years (2019: 5 years).

As at 31 December 2020 and 31 December 2019, the Group did not have any options to purchase equipment for a nominal amount at the end of the lease term.

During 2020 and 2019, the Group acquired right-of-use assets in the form of new contracts and renewals in the amount of RUB 235 100 thousand and RUB 489 247 thousand, respectively.

During 2020 and 2019, the total cash outflow for the lease was RUB 268 591 thousand and RUB 314 017 thousand, respectively.

The consolidated statement of profit or loss included the following lease-related expenses (the Group as a lessee):

	31 December 2020	**31 December 2019**
Depreciation of right-of-use assets:		
Land and buildings	241 872	310 915
Furniture and equipment	439	81
Total depreciation of right-of-use assets:	**242 311**	**310 996**
Interest expense on lease liabilities	37 979	43 620
Expenses related to short-term leases and low-value asset leases	52 395	29 239

As at 31 December 2020 and 31 December 2019 the Group had no short-term lease liabilities.

At 31 December 2019, the lease for which the term did not commence, but for which the Group had contractual commitments, included fixed payments in the amount of RUB 2 551 thousand per year for the next 5 years. As at 31 December 2020, there were no such contracts.

(in thousands of Russian Rubles, unless otherwise stated)

21. Leases (the Group as a lessee) (continued)

Renewal and termination options are included in a number of the Group's leases. They are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. Most of the available renewal and termination options are only handled by the Group and not by the respective lessor. The lease term upon recognition of the asset is calculated taking into account the renewal options.

Future minimum lease payments and the present value of net minimum lease payments are presented in the table below:

	31 December 2020	31 December 2019
Minimum lease payments:		
Less than 1 year	256 675	260 761
1 year to 5 years	378 317	444 149
Total minimum lease payments	**634 992**	**704 910**
Less discounting effect	(48 880)	(77 129)
Present value of net minimum payments, including:		
Less than one year	252 884	250 406
1 year to 5 years	333 228	377 375
Total present value of net minimum lease payments	**586 112**	**627 781**
Less short-term portion of lease liabilities	(252 884)	(250 406)
Long-term lease liabilities	**333 228**	**377 375**

22. Other assets

Other assets are as follows:

	31 December 2020	31 December 2019
Unsettled transactions with plastic cards	669 505	462 877
Accrued commission income	636 341	447 284
Advances to suppliers and contractors	280 396	407 100
Other financial assets	275 777	259 633
Other non-financial assets	158 656	114 071
Deferred expenses	95 878	63 249
Taxes other than income tax	29 893	25 159
Inventories	6 747	139 543
Total other assets less allowance	**2 153 193**	**1 918 917**
Less allowance for expected credit losses and impairment	(715 718)	(503 122)
Total other assets	**1 437 475**	**1 415 795**

(in thousands of Russian Rubles, unless otherwise stated)

22. Other assets (continued)

Information on the movements in allowances for expected credit losses on other assets is disclosed in Note 6.

As at 31 December 2020 and 31 December 2019, other assets included financial assets at the gross carrying amount less allowance for expected credit losses of RUB 1 095 095 thousand and RUB 848 239 thousand, respectively. Allowance for expected credit losses on financial assets amounted to RUB 486 528 thousand and RUB 321 556 thousand, respectively.

23. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	31 December 2020	31 December 2019
Loans under repurchase agreements	20 540 078	11 994 498
Loans and term deposits from banks and other financial institutions	2 549 269	50 000
Correspondent accounts of other banks	1 372 466	260 810
Total due to banks and other financial institutions	**24 461 813**	**12 305 308**

As at 31 December 2020 and 31 December 2019, securities in the amount of RUB 11 232 942 thousand and RUB 9 784 291 thousand respectively (Note 15), securities received under reverse repurchase agreements in the amount of RUB 4 391 451 thousand (2019: NIL) (Note 16) and securities received from the State Corporation "Deposit Insurance Agency" ("SC DIA") as a subordinated loan in the amount of RUB 6 374 010 thousand and RUB 3 517 906 thousand respectively (Note 34) were pledged as collateral under direct REPO transactions.

24. Customer accounts

Customer accounts comprise:

	31 December 2020	31 December 2019
Term deposits	108 041 860	98 945 680
Current accounts	41 697 379	30 151 669
Total customer accounts	**149 739 239**	**129 097 349**

As at 31 December 2020 and 31 December 2019, customer accounts exceeding 10% of the Group's equity were received from 4 customers in the total amount of RUB 50 175 788 thousand (34% of the total amount of customer accounts) and RUB 43 259 728 thousand (34% of total amount of customer accounts), respectively (Note 32).

(in thousands of Russian Rubles, unless otherwise stated)

24. Customer accounts (continued)

	31 December 2020	31 December 2019
Analysis by economic sectors:		
Individuals	107 083 984	100 851 792
Transport and communications	8 493 273	6 781 690
Financial sector	7 546 365	5 308 913
Medicine	5 932 792	1 629 134
Trade	4 451 898	4 014 870
Real estate and construction	2 906 800	2 495 684
Industrial manufacturing	2 479 314	1 784 038
Science and education	152 663	54 360
Other	10 692 150	6 176 868
Total customer accounts	**149 739 239**	**129 097 349**

25. Debt securities issued

Debt securities issued comprise:

	Maturity month/year	Annual interest rate, %	31 December 2020	Maturity month/year	Annual interest rate, %	31 December 2019
Mortgage-backed securities	-	-	-	November 2041	10,5%	870 435
Promissory notes	April 2019 – March 2024	0,01%-6,45%	1 839 813	April 2019 – April 2023	0,01%-7,26%	1 558 781
Total debt securities issued			**1 839 813**			**2 429 216**

As at 31 December 2019, mortgage-backed securities issued by the Group of RUB 870 435 thousand were secured by loans to individuals for a total amount of RUB 812 630 thousand (Note 17), and by due from banks of RUB 189 059 thousand (Note 16).

In 2020, the Group repurchased its own mortgage-backed securities for RUB 762 974 thousand. Loss from redemption of own securities in the amount of RUB 91 583 thousand was recognized in the statement of profit or loss.

(in thousands of Russian Rubles, unless otherwise stated)

26. 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, it also excludes the exposure to market or credit risk.

As at 31 December 2020, derivative financial instruments comprise:

	RUB-denominated nominal value			Fair value	
	Receivable	**Payable**	**Redemption**	**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				**1 780**	**1 652**

As at 31 December 2019, derivative financial instruments comprised:

	RUB-denominated nominal value				Fair value
	Receivable	**Payable**	**Redemption**	**Asset**	**Liability**
Derivative financial instruments:					
Currency options to buy/sell	212 522	212 522	January - March, 2020	831	831
Forward foreign exchange contracts	1 205 189	1 203 981	January - March, 2020	25 424	24 405
Currency swaps	52 472	52 469	January 2020	22	21
Total derivative financial instruments				**26 277**	**25 257**

(in thousands of Russian Rubles, unless otherwise stated)

27. Other liabilities

Other liabilities consist of the following:

	31 December 2020	31 December 2019
Outstanding settlements on aquiring	1 502 477	909 120
Salaries and other compensations payable to employees	1 101 601	1 438 551
Trade payables	970 882	1 262 391
Taxes payable other than income tax	626 835	573 942
Allowance for expected credit losses on guarantees issued and credit commitments (Note 30)	585 208	402 608
Deferred income	402 979	629 727
Provision for legal claims (Note 9)	336 176	20 073
Contributions to the deposit insurance agency	109 902	145 797
Other financial liabilities	250 131	210 626
Other	18 278	15 906
Total other liabilities	**5 904 469**	**5 608 741**

As at 31 December 2020 and 31 December 2019, other liabilities included financial liabilities in the amount of RUB 3 934 994 thousand and RUB 3 966 485 thousand, respectively.

The movements in provisions for legal claims for the years ended 31 December 2020 and 31 December 2019 are presented in Note 6.

The movements in allowance for expected credit losses on guarantees issued and loan commitments for the years ended 31 December 2020 and 31 December 2019 are presented in Note 30.

28. Share capital

The table below shows the change in the number of shares outstanding for the years ended 31 December 2020 and 31 December 2019:

	Number of preference shares	Number of ordinary shares
31 December 2018	600	20 752 477
Issue of shares	-	2 519 980
31 December 2019	600	23 272 457
Issue of shares	-	3 599 972
31 December 2020	**600**	**26 872 429**

As at 31 December 2020, the authorized share capital consisted of 26 872 429 ordinary shares (31 December 2019: 23 327 760 ordinary shares) with a par value of RUB 500 each and 600 preference shares (31 December 2019: 1 000 preference shares) with a par value of RUB 500 each.

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

28. Share capital (continued)

Owners of preference shares have the right to receive a fixed annual dividend and participate in the General meeting of the shareholders of the Bank on the issues of reorganization, liquidation and amendments to the Articles of Association affecting the rights of such owners. Also, in the event of a decision on non-payment or incomplete payment of the dividends on such shares, the owners have a voting right similar to the ordinary shares until the payment of dividends in full.

As at 31 December 2020 and 31 December 2019, share premium in the amount of RUB 12 640 966 thousand and RUB 9 440 950 thousand respectively, represents the excess of funds received over the par value of shares issued.

In March 2020, the Bank of the Russian Federation registered the Report on the Results of the additional issue of the ordinary shares of PJSC “MTS-Bank” in the amount of 3 599 972 shares with a par value of RUB 500 each. The total amount received as a result of the issue amounted to RUB 5 000 001 thousand. The additional issue shares were acquired by a 100% subsidiary of PJSC “MTS” Mobile TeleSystems B.V.

In November 2019, the Bank of the Russian Federation registered the Report on the results of the additional issue of the ordinary shares of PJSC “MTS-Bank” in the amount of 2 519 980 shares with a par value of RUB 500 each. The total amount received as a result of the issue amounted to RUB 3 500 000 thousand.

In 2018, PJSC “MTS-Bank” repurchased 55 303 ordinary shares and 400 preference shares. The amount of the recognized treasury shares amounted to RUB 77 285 thousand.

In July 2020, Group redeemed its treasury shares in amount of 55 303 ordinary shares with a par value of RUB 500 each and 400 preference shares of RUB 500 each.

In March and October 2019, the Group issued 350 and 150, respectively, perpetual bonds with mandatory centralized storage with par value of RUB 10 000 000 each, without specific maturity. The bonds were issued by closed subscription and can be repaid at the Group’s discretion.

Payment of coupon income on perpetual bonds can be canceled or postponed in accordance with the terms of the mentioned bonds issue.

The Group accounts for perpetual bonds as an equity instrument because according to issue documents:

- The issuer has the right to unilaterally waive its obligations to pay the coupon income without the consent of the owner,
- The possibility of redemption of bonds is provided solely by the issuer’s decision;
- The aquisition for these bonds means the consent of the purchaser with the above conditions.

The Group also received the confirmation of the compliance of the subordinated perpetual bonds with the requirements of Regulation 646-P “On the methodology for determining equity (capital) of Credit institutions (Basel III)” and the consent of the CBR to include the attracted funds as sources of additional capital.

Coupon amount paid on perpetual bonds is recorded similarly to the declared dividends.

(in thousands of Russian Rubles, unless otherwise stated)

29. Transferred financial assets

The Group lends and sells securities under agreements to repurchase (repos) and borrows and purchases securities under agreements to resell (reverse repos).

The securities lent or sold under agreements to repurchase are transferred to a third party in exchange for cash or other financial assets. The Group retains substantially all the risks and rewards in respect of these securities, which include credit risk and market risk, and therefore does not derecognize them. In addition, the Group recognizes a financial liability in respect of cash or other financial assets received.

The Group may sell or re-pledge securities borrowed or purchased under agreements to resell, but has an obligation to return the securities (in case of sale), and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead recognizes a separate asset for the cash received or other financial assets.

Details of transferred financial assets that are not derecognized as at 31 December 2020 and 31 December 2019 are disclosed below:

	Securities at amortized cost (Note 15)
As at 31 December 2020	
Carrying amount of the assets	11 232 942
Carrying amount of associated liabilities (loans received under repurchase agreements, Note 15)	16 106 910
As at 31 December 2019	
Carrying amount of the assets	9 784 291
Carrying amount of associated liabilities (loans received under repurchase agreements, Note 23)	8 692 375

As at 31 December 2020 and 31 December 2019, securities received as a subordinated loan from SC DIA in the amount of RUB 6 170 607 thousand and RUB 3 517 906 thousand, respectively, were transferred as collateral for direct repurchase agreements. The carrying amount of related liabilities was RUB 4 433 168 thousand and RUB 3 302 123 thousand, respectively (Note 23).

30. Commitments and contingencies

In the normal course of business, the Group is 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’s applies the same credit policy for contingent financial liabilities as for its on-balance financial instruments.

(in thousands of Russian Rubles, unless otherwise stated)

30. Commitments and contingencies (continued)

As at 31 December 2020 and 31 December 2019, financial contingent liabilities comprise:

	31 December 2020	31 December 2019
Credit-related contingent liabilities		
Loan commitments	23 194 610	23 811 063
Guarantees issued	23 756 961	19 846 625
Total credit-related contingent liabilities	**46 951 571**	**43 657 688**
Less allowance for expected credit losses	(585 208)	(402 608)
Total contingent financial liabilities	**46 366 363**	**43 255 080**

The movements in the allowance for expected credit losses on loan commitments and guarantees issued for the year ended 31 December 2020 and 31 December 2019 are as follows:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	**201 121**	**24 937**	**218 730**	**444 788**
Transfer to Stage 1	706	(706)	-	-
Transfer to Stage 2	(19 415)	19 415	-	-
Net change in allowance for expected credit losses	156 556	(27 174)	(171 562)	(42 180)
31 December 2019	**338 968**	**16 472**	**47 168**	**402 608**
Transfer to Stage 1	(362)	362	-	-
Transfer to Stage 2	5 644	(5 644)	-	-
Transfer to Stage 3	(1 525)	-	1 525	-
Net change in allowance for expected credit losses	(3 416)	21 795	164 221	182 600
31 December 2020	**339 309**	**32 985**	**212 914**	**585 208**

(in thousands of Russian Rubles, unless otherwise stated)

30. Commitments and contingencies (continued)

Information on the maximum amount of credit risk on guarantees issued and loan commitments is presented below:

	Stage 1	Stage 2	Stage 3	Total
Loan commitments	21 410 017	1 728 887	55 706	23 194 610
Guarantees issued	21 243 841	2 266 305	246 815	23 756 961
Less allowance for expected credit losses	(339 309)	(32 985)	(212 914)	(585 208)
31 December 2020	**42 314 549**	**3 962 207**	**89 607**	**46 366 363**

	Stage 1	Stage 2	Stage 3	Total
Loan commitments	18 889 742	4 908 483	12 838	23 811 063
Guarantees issued	18 203 946	1 398 242	244 437	19 846 625
Less allowance for expected credit losses	(338 968)	(16 472)	(47 168)	(402 608)
31 December 2019	**36 754 720**	**6 290 253**	**210 107**	**43 255 080**

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

	Stage 1	Stage 2	Stage 3	31 December 2020
Collectively assessed for impairment				
Current	28 650 836	-	-	28 650 836
Requiring monitoring	-	81 344	-	81 344
Default	-	-	143 322	143 322
Total loan commitments and guarantees collectively assessed for impairment	28 650 836	81 344	143 322	28 875 503
Individually assessed for impairment				
Current	13 784 850	900 825	-	14 685 675
Requiring monitoring	218 172	3 013 023	-	3 231 195
Default	-	-	159 199	159 199
Total loan commitments and guarantees individually assessed for impairment	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	**42 314 549**	**3 962 206**	**89 607**	**46 366 363**

(in thousands of Russian Rubles, unless otherwise stated)

30. Commitments and contingencies (continued)

Information about the quality of loan commitments and guarantees issued as at 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	31 December 2019
Collectively assessed for impairment				
Current	19 985 595	-	-	19 985 595
Requiring monitoring	-	27 801	-	27 801
Default	-	-	45 776	45 776
Total loan commitments and guarantees collectively assessed for impairment	19 985 595	27 801	45 776	20 059 172
Individually assessed for impairment				
Current	16 449 097	3 824 675	-	20 273 772
Requiring monitoring	658 996	2 454 249	-	3 113 245
Default	-	-	211 499	211 499
Total loan commitments and guarantees individually assessed for impairment	17 108 093	6 278 924	211 499	23 598 516
Less allowance for expected credit losses	(338 968)	(16 472)	(47 168)	(402 608)
TOTAL	**36 754 720**	**6 290 253**	**210 107**	**43 255 080**

The decision to grant loans to customers within the limits of the amounts of open credit lines is made by the Group at each subsequent request of the customer for credit resources and depends on the financial situation of the borrower, credit history and other factors. The amount of loan commitments under such unused credit lines is RUB 4 019 874 thousand and RUB 10 048 835 thousand as at 31 December 2020 and 31 December 2019, respectively.

The Group has contingent credit liabilities in the form of unused bank guarantee lines in the amount of RUB 9 809 755 thousand as at 31 December 2020 (RUB 5 016 610 thousand as at 31 December 2019).

The Group also provides its clients with depository services. As at 31 December 2020 and 31 December 2019, the Group held customer securities in the amount of 1 885 146 479 pieces and 4 795 605 234 pieces respectively, in the nominee holder's accounts.

***Legal proceedings*.** On 18 November 2019, the Group received a claim from PJSC "FSK EEU" to recover funds in the amount of RUB 54 508 thousand under bank guarantee No.G-1-3485/17 dated 13 February 2017 issued by the Group to secure the fulfillment of the obligations of the Principal - JSC Engineering and Construction Company "Soyuz-Seti" to the Beneficiary - PJSC "FSK EEU" under Contract No. 491241 dated 1 November 2011. As at the date of signing these consolidated financial statements, the proceedings were terminated due to the Claimant's refusal from the claim.

On 11 June 2020, the Group received a claim from the Bankruptcy Commissioner JSC "Construction Department No. 1" in the amount of RUB 1 559 751 thousand on recognizing the transaction as invalid. As at the date of signing these consolidated financial statements, there is no information on the court's resolution of the issue of accepting the application for consideration. The Group estimates the likelihood of satisfaction of the stated claims as "remote". As at 31 December 2020, no provisions for possible losses for that claim were created.

30. Commitments and contingencies (continued)

On 28 December 2020, the Group received a claim from LLC “Intertechproekt” (within the bankruptcy case of LLC “MG-Finance”) in the amount of RUB 330 771 thousand on the recognition of the cancellation agreement of 26 August 2019 as invalid. As at 31 December 2020, there was no court decision.
The Group estimates the likelihood of satisfaction of the stated claims as “probable”. As at 31 December 2020, provisions for possible losses under that claim were created in the amount of 100% (RUB 330 771 thousand).

The movements of the provision for legal claims are disclosed in Note 6. As at 31 December 2020 and 31 December 2019, there were no unreserved claims for which the risk was assessed as “probable”, and there were no undisclosed claims for which the risk was assessed as “possible”.

***Taxation*.** Major part of the Group’s business activity is carried out in the Russian Federation. The Russian business legislation continues to be subject to rapid changes. Management’s interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation Therefore, the tax assessment approaches that have not been challenged in the past, might be challenged during further tax audits. As a rule, tax authorities are entitled to review statements for three calendar years preceding the reporting year. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2020, the Tax Code of the RF and certain laws were amended to provide for, among other things, an increase in the base VAT rate to 20%. The 20% rate applies to sales of goods, work and services and property rights effective 1 January 2020. As VAT is not charged on banking operations, management does not expect a significant impact on the consolidated financial statements of the Group, with the exception of a corresponding increase in costs when purchasing goods and paying for services.

As at 31 December 2020 and 31 December 2019, the Group did not have any financial contingent liabilities concerning the income tax.

31. Operating environment

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 direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because 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 March 2020, oil prices dropped by more than 40%, which immediately resulted in depreciation of the Russian Ruble against major foreign currencies.

In 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

31. Operating environment (continued)

The impact of these developments on future operations and financial position of the Group may appear to be significant.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing.

In Russia, as a result of the outbreak of the pandemic, the second quarter of 2020 began with the announcement of the first non-working week. Subsequently, the non-working day regime was extended until the end of April, which naturally affected the Russian economy, especially at the level of consumption of goods and services by the population.

In addition, in accordance with the instructions of the President of the Russian Federation dated 25 March 2020, the Bank of the Russian Federation decided to implement a set of measures aimed at supporting the most vulnerable sectors of the economy and citizens-borrowers faced with a decrease in income as a result of the pandemic (including the right of individuals and individual entrepreneurs to require six months of credit holidays in the event of a drop in income due to the coronavirus), as well as a number of temporary regulatory concessions for financial institutions in order to preserve their potential for lending to the economy. Information on restructured loans to legal entities and individuals as at 31 December 2020 and 31 December 2019 is disclosed in Note 17.

In order to objectively reflect the impact of the prevailing macroeconomic conditions, the Group clarified the main approaches to assessing the level of expected credit losses, which have the most significant effect on the amounts recognized in the consolidated financial statements.

<u>Loans to individuals and small businesses</u>*:*

1. The concept of a technical delay bucket is introduced, which significantly improves the division of Stage 2 by the probability of default;
2. During the pandemic, a macroeconomic amendment was additionally introduced in the assessment of the probability of losses for generations issued less than 12 months ago, which made it possible to refine the assessment of the development of the behavior of each individual generation;
3. Additionally, the Group retrained the macroeconomic model and updated the forecasts of macroeconomic indicators based on available macroeconomic information;
4. Unscheduled stress testing of credit risk was carried out taking into account the deterioration of the macro environment.
5. The Group’s experience in 2020 shows that the characteristics of credit losses incurred on restructured loans to individuals differ significantly from other customer segments. In this regard, as at 31 December 2020, the Group segmented into a separate sub-portfolio restructured loans within loans to individuals, as well as loans to small business customers. Estimation of expected credit losses for the selected sub-portfolios was carried out on the basis of the accumulated statistics of the behavior of restructured loans.

31. Operating environment (continued)

Loans to corporate borrowers:

1. In the PD-model used by the Group, the macro scenarios were updated based on the updated macro forecasts of the CBR and Oxford Economics;
2. Unscheduled stress testing of credit risk was carried out taking into account the deterioration of the macro environment;
3. Risk appetite was reduced due to:
   - the strengthening procedures for authorizing the issuance of both new loans and tranches on open credit facilities.
   - the consideration of new loan applications taking into account the stress-scenario of economic development within the budget and business plan.
   - the focus on replacing RCL/NRCL with overdrafts and factoring, as products with a more preferred risk profile.
   - the introduction of enhanced monitoring regime for existing borrowers.

The weighted average ECL rate increased from 9,45% as at 31 December 2019 to 12,19% as at 31 December 2020 on loans to customers, taking into account the update of macro forecasts.

The Group regularly monitors the dynamics of the restructuring concluded. For issued restructuring, a separate monitoring of debt repayment is carried out. In connection with the restructuring issued to individuals and small and medium-sized businesses during the period of the deterioration of macroeconomic situation, the Group performed an additional assessment of the probability of losses.

COVID-19 may also affect the Group more seriously due to its negative impact on the global economy and major financial markets. The effect of the pandemic on the Group's operations largely depends on its duration and impact on the Russian and global economies.

Stress-test. The Group conducts stress-test to determine its exposure to significant types of risk. In the second quarter of 2020, stress-test was also carried out to assess the risks of the threat of the global pandemic COVID-19. The Group undertook stress-test of the loan portfolio (corporate borrowers, securities measured at amortized cost and individuals) under two scenarios:

- Baseline forecast of the CBR dated 24 July 2020 (oil = USD 38/barrel, GDP = -5,5% (minimum range)
- Negative scenario of the Group (oil = USD 19/barrel, GDP = -11,15%)

The Group expertly estimates the likelihood of Scenario 1 at 80%, and Scenario 2 at 20%. Based on the results of stress-test of credit risk, it is found that capital adequacy ratios are within the acceptable level (based on the expert conservative assumption that an increase in expected credit losses will also lead to the comparable increase in RAS reserves, since the reserves of RAS (not IFRS) are accepted when calculating capital and ratios). ECL growth amounted to RUB 2,9 and 4,6 billion respectively:

- Scenario 1: incl. corporate borrowers and securities valued at amortized cost = RUB 2,5 billion, portfolio of individuals = RUB 409 million.
- Scenario 2: incl. corporate borrowers and securities valued at amortized cost = RUB 3,4 billion, portfolio of individuals = RUB 1,2 billion.

31. Operating environment (continued)

As at the reporting date, the Group believes that the results of stress-testing of the loan portfolio carried out in the second quarter of 2020 contain a conservative estimate and do not need to be updated taking into account the improvement in macroeconomic indicators, including the factors used in scenarios during the stress-testing.

With regard to the assets and liabilities sensitive to the changes in the interest rate, the Group considers the scenario of the shock of rates - their simultaneous growth by 400 basis points (b.p.) in all time ranges. Calculations have shown that the shock causes a moderate decrease in annual net interest income, which can have a negative impact on the Group’s capital only in combination with the exceptional (over 25% of equity capital) amount of losses from other types of risk.

Stress-testing of the Group for interest rate risk factors in the trading book is performed for a set of scenarios, among which the key one is a parallel shift of the yield curves by 500 b.p., leading to a negative revaluation of the bond portfolio in the amount that is significantly less than 5% of the Group’s equity.

Stress-testing of the Group’s liquidity position is carried out on the basis of three model scenarios stipulated by the internal policy: “short-term financial crisis”, “long-term systemic crisis” and “reputational crisis of a group of companies”. The stress-test model is of a combined nature and includes both a reduction in asset additions due to the realization of credit risk and significant outflows of borrowed funds (for current liabilities, 100% of values above the conditionally stable level and in some cases up to 50% - below it). The ultimate goal of this stress-testing is to assess the adequacy of the Group’s liquidity buffer in terms of providing it with a “survival period” with a duration no less than that provided for in the “Declaration of risk appetite (risk tolerance) of PJSC “MTS-Bank”. Based on the results of stress-testing of the Group’s liquidity position, it was concluded that the required “survival period” was achieved in all three baseline scenarios.

Based on the above analysis, these consolidated financial statements have been prepared on a going concern basis of the Group as, in the opinion of the management, these events do not affect the Group’s ability to continue as a going concern in the foreseeable future. Considering that the governments of most countries in the context of the COVID-19 pandemic have chosen the path of monetary, fiscal stimulation and increasing the availability of money, the listed hypothetical stress scenarios, implying a sharp increase in rates and a shortage of liquidity in the market, sufficiently take into account the possible impact of the consequences of the pandemic on the Group.

(in thousands of Russian Rubles, unless otherwise stated)

32. 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 with related parties as at 31 December 2020 and 31 December 2019:

	31 December 2020		31 December 2019	
	Related party transactions	Total category as per financial statements captions	Related party transactions	Total category as per financial statements captions
Investments in securities	**2 289 817**	**31 407 537**	**1 541 883**	**28 726 697**
- parent company	47		-	
- entities with joint control or significant influence over the Group	1 829 018		1 439 672	
- entities under common control with the Group	460 752		-	
- other related parties	-		102 211	
Loans to customers before allowance for expected credit losses	**7 686 214**	**147 894 225**	**6 157 299**	**118 650 795**
- parent company	8 464		-	
- entities under common control with the Group	3 423 350		3 201 478	
- key management personnel of the entity or its parent	25 337		51 424	
- other related parties	4 229 063		2 904 397	
Allowance for expected credit losses on loans to customers	**(275 765)**	**(18 031 803)**	**(69 772)**	**(11 213 190)**
- parent company	(126)		-	
- entities under common control with the Group	(99 782)		(41 915)	
- key management personnel of the entity or its parent	(96)		(682)	
- other related parties	(175 761)		(27 175)	
Investments in joint venture	**635 755**	**635 755**	**658 467**	**658 467**
- entities under common control with the Group	635 755		658 467	
Derivative financial instruments, net	**-**	**128**	**(21)**	**1 020**
- parent company	-		(21)	
Other assets before allowance for expected credit losses	**93 410**	**2 153 193**	**232 828**	**1 918 917**
- parent company	28 563		105 833	
- entities under common control with the Group	58 383		126 823	
- key management personnel of the entity or its parent	-		1	
- other related parties	6 464		171	
Due to banks and other financial institutions	**2 382 582**	**24 461 813**	**113 373**	**12 305 308**
- parent company	792 588		-	
- entities under common control with the Group	1 589 994		113 373	

(in thousands of Russian Rubles, unless otherwise stated)

32. Related party transactions (continued)

	31 December 2020		31 December 2019	
	Related party transactions	**Total category as per financial statements captions**	**Related party transactions**	**Total category as per financial statements captions**
Customer accounts	**59 956 005**	**149 739 239**	**47 454 170**	**129 097 349**
- parent company	2 941 984		2 116 797	
- entities with joint control or significant influence over the Group	3 217 777		242 075	
- entities under common control with the Group	16 121 580		11 544 981	
- key management personnel of the entity or its parent	34 119 666		30 948 578	
- other related parties	3 554 998		2 601 739	
Debt securities issued	**805 581**	**1 839 813**	**1 009 689**	**2 429 216**
- entities under common control with the Group	805 581		1 009 689	
Lease liabilities	**52 733**	**586 112**	**97 393**	**627 781**
- parent company	9 584		18 460	
- entities under common control with the Group	43 149		78 933	
Other liabilities	**800 566**	**5 904 469**	**1 317 965**	**5 608 741**
- parent company	279 038		424 008	
- entities under common control with the Group	115 409		393 021	
- key management personnel of the entity or its parent	399 753		497 217	
- other related parties	6 366		3 719	
Loan commitments	**220 000**	**23 194 610**	**1 079 390**	**23 811 063**
- entities under common control with the Group	220 000		617 335	
- key management personnel of the entity or its parent	-		11 779	
- other related parties	-		450 276	
Guarantees issued	**1 023 398**	**23 756 961**	**790 662**	**19 846 625**
- entities under common control with the Group	343 914		224 791	
- other related parties	679 484		565 871	

As at 31 December 2020 and 31 December 2019, JSC "MTS" was the intermediate parent company and PJSC AFK "Sistema" was the ultimate parent company.

Transactions with related parties were carried out on terms identical to those under which transactions between unrelated parties are conducted.

(in thousands of Russian Rubles, unless otherwise stated)

32. Related party transactions (continued)

The remuneration of directors and other members of key management was as follows:

	2020		2019	
	Related party transactions	**Total category as per financial statements captions**	**Related party transactions**	**Total category as per financial statements captions**
Remuneration of the key management personnel:	**594 017**	**5 323 444**	**939 336**	**5 727 818**
- short-term compensation	405 157		509 412	
- long-term compensation	188 860		429 924	

The consolidated statement of profit or loss for the years ended 31 December 2020 and 31 December 2019 included the following amounts arising from the transactions with related parties:

	2020		2019	
	Related party transactions	**Total category as per financial statements captions**	**Related party transactions**	**Total category as per financial statements captions**
Interest income	**639 907**	**22 236 942**	**379 168**	**18 632 791**
- entities with joint control or significant influence over the Group	112 474		68,885	
- entities under common control with the Group	253 643		153,851	
- key management personnel of the entity or its parent	2 992		7 367	
- other related parties	270 798		149 065	
Interest expense	**(2 681 857)**	**(6 802 268)**	**(3 417 760)**	**(7 038 673)**
- parent company	(161 952)		(646 682)	
- entities with joint control or significant influence over the Group	(141 147)		(376 864)	
- entities under common control with the Group	(419 836)		(269 911)	
- key management personnel of the entity or its parent	(1 811 269)		(1 956 275)	
- other related parties	(147 653)		(168 028)	
Allowance for expected credit losses on interest bearing assets	**(2 956)**	**(9 223 537)**	**(40 653)**	**(4 028 410)**
- entities under common control with the Group	(6 859)		(23 986)	
- key management personnel of the entity or its parent	116		1 177	
- other related parties	3 787		(17 844)	
Net (loss)/gain on operations with derivative financial instruments	**217**	**(536)**	**294 793**	**352 034**
- entities under common control with the Group	2		294 793	
- other related parties	215		-	

(in thousands of Russian Rubles, unless otherwise stated)

32. Related party transactions (continued)

	2020		2019	
	Related party transactions	Total category as per financial statements captions	Related party transactions	Total category as per financial statements captions
Net (loss)/gain on foreign exchange operations	**42 292**	**138 744**	**30 221**	**(572 203)**
- parent company	-		(9 045)	
- entities with joint control or significant influence over the Group	33 159		15 053	
- entities under common control with the Group	7 563		22 664	
- other related parties	1 570		1 549	
Fee and commission income	**749 343**	**12 459 940**	**755 091**	**11 008 767**
- parent company	434 217		372 518	
- entities with joint control or significant influence over the Group	6 901		7 706	
- entities under common control with the Group	282 741		339 742	
- key management personnel of the entity or its parent	2 357		3 567	
- other related parties	23 127		31 558	
Fee and commission expense	**(1 718 557)**	**(5 402 698)**	**(2 273 129)**	**(5 402 494)**
- parent company	(1 147 286)		(1 282 695)	
- entities under common control with the Group	(571 220)		(988 227)	
- key management personnel of the entity or its parent	-		(947)	
- other related parties	(51)		(1 260)	
Recovery/(charge) of allowance for expected credit losses on other transactions	**9 177**	**(939 712)**	**(3 384)**	**(3 667)**
- entities under common control with the Group	12 831		(2 166)	
- other related parties	(3 654)		(1 218)	
Other income	**57 071**	**326 564**	**31 938**	**353 422**
- parent company	17 217		4 699	
- entities with joint control or significant influence over the Group	15		12	
- entities under common control with the Group	39 128		20 711	
- key management personnel of the entity or its parent	263		139	
- other related parties	448		6 377	
Operating expenses (net of staff costs)	**(1 381 228)**	**(6 317 679)**	**(1 292 911)**	**(5 593 786)**
- parent company	(1 250 074)		(1 051 912)	
- entities under common control with the Group	(127 737)		(239 528)	
- key management personnel of the entity or its parent	(1)		-	
- other related parties	(3 416)		(1 471)	

(in thousands of Russian Rubles, unless otherwise stated)

33. 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 the 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 31 December 2020 and 31 December 2019.

	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**

	Level 1	Level 2	Level 3	31 December 2019
Financial assets				
Debt securities at fair value through profit and loss	13 273 423	-	-	**13 273 423**
Derivative financial instruments	-	26 277	-	**26 277**
Financial liabilities				
Derivative financial instruments	-	25 257	-	**25 257**

The description of valuation techniques and the inputs used in the fair value measurement of level 2 financial liabilities at 31 December 2020 and 31 December 2019 are as follows:

	31 December 2020 Fair value			
	Assets	Liabilities	Valuation technique	Key inputs
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		

	31 December 2019 Fair value			
	Assets	Liabilities	Valuation technique	Key inputs
Derivative financial instruments	26 277	25 257	Black-Scholes option pricing model	Effective interest rates on asset
Total recurring fair value measurements at level 2	26 277	25 257		

(in thousands of Russian Rubles, unless otherwise stated)

33. 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.
- 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 is also applied to demand deposits and savings accounts without a maturity.
- Loans to customers - individuals have both variable and fixed interest rates. Due to the absence of an active secondary market for such loans and funds in the Russian Federation, their fair value cannot be measured reliably. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans 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 cash flows expected to be received 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 financial instruments is determined based on the Black-Scholes options pricing model, quoted market prices for the instruments that make up the assets of the fund.

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

	31 December 2020		31 December 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Loans to customers	129 862 422	135 180 715	107 437 605	110 697 548
Securities at amortized cost	9 583 272	10 026 835	15 453 274	15 936 152
Financial liabilities				
Customer accounts	149 739 239	151 079 085	129 097 349	129 552 903
Debt securities issued	1 839 813	1 839 813	2 429 216	2 434 438

(in thousands of Russian Rubles, unless otherwise stated)

33. Fair value of financial instruments (continued)

The following tables provide the analysis of financial instruments the fair value of which differs from their carrying amount as at 31 December 2020 and 31 December 2019. There were no reclassifications of financial instruments between levels during 2020 and 2019.

	Level 1	Level 2	Level 3	31 December 2020
Financial assets				
Loans to customers	-	-	135 180 715	**135 180 715**
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**

	Level 1	Level 2	Level 3	31 December 2019
Financial assets				
Loans to customers	-	-	110 697 548	**110 697 548**
Securities at amortized cost	15 936 152	-	-	**15 936 152**
Financial liabilities				
Customer accounts	-	-	129 552 903	**129 552 903**
Debt securities issued	12 355	-	2 422 083	**2 434 438**

34. Capital management

The Group manages its capital to cover risks associated with the Group’s business. The adequacy of the Group’s capital is monitored using, among other things, the principles and approaches established by the requirements of the CBR.

The main objective of capital management is to monitor compliance with the external capital requirements of the Group, as well as to control the maintenance of reliable credit ratings and equity ratios to support 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 thousands of Russian Rubles, unless otherwise stated)

34. Capital management (continued)

In accordance with the CBR Regulation No. 646-P "On the Methods of Calculation of Equity (Capital) of Credit Institutions ("Basel III")" the Group's capital (equity) as at 31 December 2020 and 31 December 2019 was as follows:

	31 December 2020	31 December 2019
Base capital	23 705 191	18 440 806
Core capital	28 705 191	23 440 806
Additional capital	8 266 413	8 910 916
Equity (capital)	**36 971 604**	**32 351 722**

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.

In November 2015, the Group 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 Group should return the securities to the creditor at the end of the contract period. The Group 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 Group should have complied with certain covenants with respect to capital, loan portfolio, employee benefits. The contract also includes certain restrictions on the Group's ability for the sale or repledge the received securities. 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 terms of the loan issue meet the criteria of the CBR for the inclusion of the loan in the additional capital in terms of the non-amortized cost in the amount of RUB 7 028 620 thousand. At the same time, the instrument is convertible and can be included in the base capital. Its conversion into the base capital can be full or partial and it can be carried out in the amount of the market value of the securities. The conditions, upon the occurrence of any of which the instrument is converted, are:

- The value of the base capital adequacy ratio (R1.1), calculated in accordance with Instruction of the Bank of the Russian Federation No.199-I "On mandatory ratios and premiums to capital adequacy ratios for banks with a universal license" dated 29 November 2019, decreased below the level determined by the Regulation for exchange of a subordinated loan, which as at the date of the Contract conclusion is 2%, for the period established by the Regulation, or
- The approval by the Banking Supervision Committee of the Bank of the Russian Federation of a plan for the Lender's participation in the implementation of measures to prevent the bankruptcy of the Borrowing Bank, which provides for the Lender to provide financial assistance according to the Federal Law on insolvency (bankruptcy).

34. Capital management (continued)

The Central Bank of the Russian Federation 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 years ended 31 December 2020 and 31 December 2019 the Group met the capital adequacy requirements established by the CBR. As at 31 December 2020 and 31 December 2019, the capital adequacy ratio in accordance with CBR requirements was 12,8% and 13,7% respectively. In 2020, the Group made a decision not to use the concessions proposed by the Bank of the Russian Federation and indicated in a series of information letters to the calculation of banking standards.

35. Risk management policies

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages these risks.

The Group’s risks are managed in relation to the following significant types of risks: credit risk, market risk, liquidity risk and operational risk. Market risk covers interest rate risk, currency risk and other pricing risks that the Group is exposed to. The main task of risk management is the identification and analysis of these risks, setting risk limits and further ensuring compliance with the established limits.

The policies and methods adopted by the Group to manage financial risks are consistent with those ones used and described in the Group’s consolidated financial statements for 2019, except for the changes in credit risk management disclosed in Note 31.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector, including banks and brokers are described in the Credit Policies, which are approved by Management Boards, and are reviewed, on a regular basis. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group’s risk management policies are not breached.

The Group monitors its loan portfolio on a regular basis. As well as ensuring that the borrower fulfills its obligations under each loan, the Group regularly reviews all of the available information on the borrower’s activities. In particular, the Group obtains and analyses financial reports on a quarterly basis, regularly monitors the value of the underlying collateral for each loan. In relation to its loan portfolio, the Group also monitors the level of non-performing loans and the concentration of the loan portfolio per borrower, group of borrowers or industry.

The Group’s maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

35. Risk management policies (continued)

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Group has established a department that performs valuation and monitoring of collateral. When evaluating collateral, the Group adjusts the market value of the assets and the potential costs of sale.

***Significant increase in credit risk*.** As explained in Note 3 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss provision based on lifetime rather than 12-month ECL.

Internal ratings and credit risk categories. The Group uses a credit rating system to assess the level of credit risk by borrowers belonging to the corporate business segment and assessed on an individual basis. A credit rating is assigned based on the analysis of quantitative (debt load, profitability, liquidity and business activity) and qualitative (business experience, industry, region, size, credit history, cooperation experience with the Group, etc.) borrowers' indicators. The rating scale includes 21 credit ratings ("CR"), which are further grouped for the purposes of credit risk management into the following categories of loan quality:

- Current loans – CR from 1 to 11 (correspond to the risk appetite of the Group);
- Loans requiring monitoring – CR from 12 to 20;
- Default loans – CR 21 (a problem asset with a 100% level of probability of default).

Loans to individuals and assessed by the Group on an individual basis are grouped for the purposes of credit risk management into the following loan quality categories:

- Current loans – not overdue loans and loans overdue for less than 30 days with a low level of risk;
- Loans requiring monitoring – non-overdue loans issued in foreign currency; non-overdue restructured loans (amicable agreements); loans overdue from 30 to 90 days, and non-overdue loans of average credit quality;
- Default loans – loans that are overdue for more than 90 days, or that were defaulted.

Use of forecast information. While determining the probability of default (PD) and the size of expected credit losses, the Group uses forecast information taking into account macroeconomic forecasts.

<u>Loans to individuals and small businesses.</u> While determining the expected credit losses on loans to individuals and loans to small and medium businesses, the Group uses migration matrices for each product group. Intervals of days of delay (up to 30 days) and contracts without delay are the basis for the formation of migration matrices.

35. Risk management policies (continued)

To predict the likelihood of the loan transfers from the non-overdue state to the 1- 30 days overdue interval (FER), the Group also uses its own model that takes into account the impact of macroeconomic indicators (GDP, inflation, currency exchange, etc.). The Group’s own model predicts the future value of FER using actual data of macroeconomic indicators and FER for the previous periods, between which dependencies are built based on econometric analysis. The Group’s own model is a statistical model built on the basis of the linear regression, using transformed macroeconomic indicators (GDP, inflation, exchange rates, etc.) to build it. The FER obtained as a result of the formation of migration matrices for each product group is adjusted by 10% modulus deviation, taking into account the received FER based on the Group’s own model.

Loans to corporate borrowers. The Group uses the PD values calculated by the model developed by an external consultant to calculate the probability of default of the companies in the corporate segment). The baseline values established by the Rosstat, Bank of the Russian Federation, Oxford Economics scenarios are used as forecast macroeconomic indicators.

Base scenario. The base scenario is based on the value of macroeconomic indicators presented in the base scenario of the CBR. If a range of values was presented as an estimate of the base scenario for this indicator, the arithmetic average of the two ends of this range was used for the calculation.

Negative scenario. Negative scenario is based on the value of macroeconomic indicators presented in the base scenario of the CBR forecast taking into account the worst variant. That is, if a range of values was presented as an estimate of the base scenario for this indicator, then the indicator value that is the most conservative for this range was used to calculate each of the indicators.

Alternative scenario. Alternative scenario is based on the value of macroeconomic indicators presented in the base scenario of the CBR forecast. If a range of values was presented as an estimate of the alternative scenario for this indicator, the arithmetic average of the two ends of this range was used for the calculation.

Foreign scenario. The foreign scenario is based on the value of macroeconomic indicators presented in the scenario of “Oxford Economics” macroeconomic forecast.

In accordance with the requirements of IFRS 9, the Group calculates a weighted forecast of the probability of default, taking into account various scenarios of the PD “PIT” forecast with the following weights (the distribution of weights is updated by the Group on the annual basis):

- Weight for the base forecast PD: 30%;
- Weight for the foreign forecast PD: 30%;
- Weight for the negative scenario PD: 20%;
- Weight for the alternative scenario PD: 20%.

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

The model of the external consultant uses the "Forecast of real GDP growth" indicator as a macro-parameter, which takes into account the level of GDP and inflation. The values of this parameter for the next 3 years are presented below:

		Real GDP growth forecast quarterly			
Year	**Quarter**	**Negative**	**Base**	**Alternative**	**Foreign**
2021	1	-2,01%	-1,26%	-1,26%	-2,86%
2021	2	7,26%	8,08%	8,08%	1,59%
2021	3	3,37%	3,62%	3,62%	2,70%
2021	4	3,37%	3,62%	3,62%	5,41%
2022	1	2,50%	3,00%	3,00%	4,55%
2022	2	2,50%	3,00%	3,00%	3,70%
2022	3	2,50%	3,00%	3,00%	2,55%
2022	4	2,50%	3,00%	3,00%	1,48%
2023	1	2,00%	2,50%	2,50%	1,68%
2023	2	2,00%	2,50%	2,50%	1,87%
2023	3	2,00%	2,50%	2,50%	2,05%
2023	4	2,00%	2,50%	2,50%	2,21%

This forecast was valid as at 31 December 2020 and is subject to a high degree of uncertainty due to the changes in the Group's operating environment, therefore actual results may differ from those projected.

Maximum credit risk exposure. The Group's maximum credit risk exposure may vary significantly depending on the individual risks inherent in specific assets and overall market risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets carried on balance sheet, the maximum credit risk exposure is equal to the contractual value of these assets, excluding any offset against assets and liabilities or collateral. For financial guarantees and other off-balance sheet contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	Stage 1	Stage 2	Stage 3	31 December 2020	Collateral pledged
Balances with the Central Bank	13 720 807	-	-	13 720 807	-
Due from banks	22 884 363	-	1 369	22 885 732	15 106 960
Debt securities at amortized cost	9 583 272			9 583 272	-
Loans to customers	116 118 139	11 290 018	2 454 265	129 862 422	30 691 874
Other financial assets	-	1 095 095	-	1 095 095	-
Guarantees issued	21 369 189	2 083 780	85 560	23 538 529	485 831
Loan commitments	21 127 689	1 696 095	4 047	22 827 831	-

	Stage 1	Stage 2	Stage 3	31 December 2019	Collateral pledged
Balances with the Central Bank	20 078 217	-	-	20 078 217	-
Due from banks	6 010 955	-	1 508	6 012 463	257 888
Debt securities at amortized cost	15 453 274	-	-	15 453 274	-
Loans to customers	100 022 764	5 710 669	1 704 172	107 437 605	24 606 179
Other financial assets	-	848 239	-	848 239	-
Guarantees issued	18 148 643	1 398 213	209 228	19 756 084	97 798
Loan commitments	18 606 077	4 892 040	879	23 498 996	-

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

Collateral for due from banks (Note 16), and collateral for loans to customers (Note 17) is stated at minimum of fair value of collateral and carrying amount of loans.

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policies are not breached.

***Geographical concentration*.** The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity.

The geographical concentration of assets and liabilities is set out below as at 31 December 2020 and 31 December 2019:

	Russian Federation	Non-OECD countries	OECD countries	31 December 2020
FINANCIAL ASSETS				
Cash and balances with the Central Bank	17 484 335	-	-	17 484 335
Investments in securities	31 027 788	379 749	-	31 407 537
Due from banks	19 061 712	21 665	3 802 355	22 885 732
Loans to customers	129 713 258	100 952	48 212	129 862 422
Derivative financial instruments	1 780	-	-	1 780
Other financial assets	1 095 095	-	-	1 095 095
TOTAL FINANCIAL ASSETS	**198 383 969**	**502 366**	**3 850 567**	**202 736 901**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	22 814 602	1 769	1 645 442	24 461 813
Customer accounts	148 726 305	860 814	152 120	149 739 239
Debt securities issued	1 839 813	-	-	1 839 813
Lease liabilities	586 112	-	-	586 112
Derivative financial instruments	1 652	-	-	1 652
Other financial liabilities	3 934 994	-	-	3 934 994
TOTAL FINANCIAL LIABILITIES	**177 903 478**	**862 583**	**1 797 562**	**180 563 623**
COMMITMENTS AND CONTINGENCIES				
Loan commitments	23 189 398	4 850	362	23 194 610
Guarantees issued	23 756 961	-	-	23 756 961
TOTAL CONTINGENT FINANCIAL LIABILITIES	**46 946 359**	**4 850**	**362**	**46 951 571**

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

	Russia	Non-OECD countries	OECD countries	31 December 2019
FINANCIAL ASSETS				
Cash and balances with the Central Bank	23 365 171	-	-	23 365 171
Investments in securities	28 585 650	-	141 047	28 726 697
Due from banks	3 182 425	14 854	2 815 184	6 012 463
Loans to customers	107 350 281	79 718	7 606	107 437 605
Derivative financial instruments	26 277	-	-	26 277
Other financial assets	848 239	-	-	848 239
TOTAL FINANCIAL ASSETS	**163 358 043**	**94 572**	**2 963 837**	**166 416 452**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	12 185 788	-	119 520	12 305 308
Customer accounts	127 804 700	817 196	475 453	129 097 349
Debt securities issued	2 429 216	-	-	2 429 216
Lease liabilities	627 781	-	-	627 781
Obligations on securities return	271 645	-	-	271 645
Derivative financial instruments	25 257	-	-	25 257
Other financial liabilities	3 966 485	-	-	3 966 485
TOTAL FINANCIAL LIABILITIES	**147 310 872**	**817 196**	**594 973**	**148 723 041**
COMMITMENTS AND CONTINGENCIES				
Loan commitments	23 806 730	4 030	303	23 811 063
Guarantees issued	19 846 625	-	-	19 846 625
TOTAL CONTINGENT FINANCIAL LIABILITIES	**43 653 355**	**4 030**	**303**	**43 657 688**

Liquidity risk. Liquidity risk is a risk of the Group's inability to finance its activities, that is, ensure the growth of assets and fulfill obligations as they become due without incurring losses in the amount unacceptable for the financial stability of the Group.

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets and liabilities management process.

Analysis of cash flow forecasts is the key tool used by the Group to monitor liquidity risk. Cash flow forecasts contain a detailed breakdown by maturity of all assets and liabilities based on agreements and commitments entered into by the Group. In order to manage liquidity better, the Group regularly requests a schedule of upcoming changes in the deposit and loan balances from its major corporate customers.

35. Risk management policies (continued)

The Group aims to match the terms of loans and deposits. A daily analysis of mismatch between assets and liabilities is performed to monitor liquidity. A maximum gap is set and monitored for a liquidity deficit. In order to manage liquidity, the Group calculates the expected liquidity surplus/shortage for different periods of time, both on the basis of contractual terms of assets and liabilities and cash flow forecasts in the context of ordinary business activity. This approach assumes that customer behavior is consistent with the trends prevailing in the previous period, including the absence of extraordinary withdrawals of deposits and significant credit losses.

Stress testing is also carried out regularly based on the three hypothetical scenarios. The use of these scenarios provides the opportunity to analyse the impact of a combination of negative factors on the Group’s liquidity position including the assessment of the survival period of the Group. The resulting assessment of the survival period is then compared to the minimum limits set by the internal regulations.

To finance liquidity gap, if necessary, the Group can attract funds from refinancing facilities of the CBR (loans collateralized by assets available for pledging for loans from the CBR), repurchase transaction. The recognition of these refinancing facilities influences the method for designating lombard securities of trading portfolio to time buckets and the evaluation of stable sources of funding regarding refinancing under Federal Loan Bonds (OFZ) received from SC DIA, as well as lombard securities measured at amortized cost.

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. Obligatory reserve deposits are allocated to “undefined maturity”.

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 measured at amortized cost are included in the analysis of the liquidity based on expected contractual maturities. Most of these categories securities are included in the Lombard list of the CBR and, if necessary, can be used to obtain financing in the form of repurchase agreements from the CBR.

Loans to customers classified as maturity undefined/overdue are disclosed for Stage 2 just as overdue part of the debt less expected credit losses, without considering the payments whose maturity date has not come yet, and for Stage 3 as the total amount of all debt less expected credit losses.

35. Risk management policies (continued)

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

- OFZ received from the SC DIA, reflected on off-balance accounts, but recorded in the report as stable sources of financing with a maturity of up to 1 month (15% discount from the current market price was also applied to them);
- Investments into debt securities measured at fair value. Investments included in the Central Bank of the Russian Federation Lombard List, are adjusted for the 15% discount and charged for up to 1 month as stable sources of financing;
- Investments into securities measured at amortized cost: for investments included in the Central Bank of the Russian Federation Lombard List, which are adjusted for 15% discount and charged for up to 1 month, are recognized in the amount of stable sources of financing. These securities are classified as measured at amortized cost. The Group does not plan to dispose of these securities within the current business model, but they can sell them to satisfy liquidity needs in case of a stressed scenario;
- Time deposits of individuals: a part of the amounts of planned deposits is reflected within the item of stable sources of financing, as the Group expects that they will be prolonged or replaced. Share is determined in accordance with a conservative estimate based on scenario modeling, and does not contradict historical statistics in crisis situations;

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Maturity undefined/ overdue	31 December 2020
FINANCIAL ASSETS							
Investments in securities	21 839 007	165 801	642 906	8 759 822	-	-	31 407 537
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	**45 208 987**	**16 115 289**	**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	1 095 095
Total financial assets	**68 399 384**	**16 214 081**	**39 593 907**	**66 181 586**	**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	-	-	-	3 934 994
Total financial liabilities	**91 310 536**	**15 649 350**	**71 553 705**	**2 050 031**	**-**	**-**	**180 563 622**
Liquidity gap	**(22 911 153)**	**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	**19 466 427**	**2 387 998**	**(1 146 195)**	**48 161 719**	**(50 074 076)**		
Cumulative liquidity gap	**19 466 427**	**21 854 425**	**20 708 230**	**68 869 949**	**18 795 872**		

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Maturity undefined/ overdue	31 December 2019
FINANCIAL ASSETS							
Investments in securities	13 278 251	9 657	6 059 445	8 937 414	441 930	-	28 726 697
Due from banks	1 838 036	-	-	-	-	-	1 838 036
Loans to customers	4 624 942	12 333 459	33 368 276	49 120 585	6 186 577	1 803 766	107 437 605
Total interest bearing financial assets	**19 741 229**	**12 343 116**	**39 427 721**	**58 057 999**	**6 628 507**	**1 803 766**	**138 002 338**
Cash and balances with the Central Bank	22 062 883	-	-	-	-	1 302 288	23 365 171
Due from banks	4 174 427	-	-	-	-	-	4 174 427
Derivative financial instruments	22	26 255	-	-	-	-	26 277
Other financial assets	721 197	80 702	24 996	-	-	21 344	848 239
Total financial assets	**46 699 758**	**12 450 073**	**39 452 717**	**58 057 999**	**6 628 507**	**3 127 398**	**166 416 452**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	12 044 498	-	-	-	-	-	12 044 498
Customer accounts	16 093 894	12 745 925	69 177 669	928 191	-	-	98 945 679
Debt securities issued	445 306	701 117	70 724	353 907	-	-	1 571 054
Lease liabilities	243	15 470	234 693	377 375	-	-	627 781
Total interest-bearing financial liabilities	**28 583 941**	**13 462 512**	**69 483 086**	**1 659 473**	**-**	**-**	**113 189 012**
Derivative financial instruments	21	25 236	-	-	-	-	25 257
Obligations on securities return	271 645	-	-	-	-	-	271 645
Due to banks and other financial institutions	260 810	-	-	-	-	-	260 810
Customer accounts	30 151 670	-	-	-	-	-	30 151 670
Other financial liabilities	1 891 307	541 406	1 533 772	-	-	-	3 966 485
Debt securities issued	-	8 582	63 991	322 871	462 718	-	858 162
Total financial liabilities	**61 159 394**	**14 037 736**	**71 080 849**	**1 982 344**	**462 718**	**-**	**148 723 042**
Liquidity gap	**(14 459 636)**	**(1 587 664)**	**(31 628 132)**	**56 075 655**	**6 165 789**		
Stable sources of funding	**40 625 049**	**641 119**	**30 854 995**	**(14 269 597)**	**(57 851 566)**		
Adjusted liquidity gap	**26 165 413**	**(946 545)**	**(773 137)**	**41 806 058**	**(51 685 777)**		
Cumulative liquidity gap	**26 165 413**	**25 218 868**	**24 445 731**	**66 251 789**	**14 566 012**		

Stable balances on customer accounts. Conservative estimate stability of balance was used for periods up to 1 year. The evaluation is based on historical statistics of account behavior, as well as scenario modeling.

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

Management of the Group 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 on the basis of statistical data accumulated during the previous year.

Significant part of the Group's current accounts refers to related parties. Management believes that these accounts (including term 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.

Further analysis of the liquidity and interest rate risks is presented in the following tables. The amounts in the tables below are not the same as the amounts in the consolidated statement of financial position, as the tables include future aggregate undiscounted cash flows.

	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2020
Due to banks and other financial institutions	4%	22 976 006	-	128 898	-	-	23 104 904
Customer accounts	6%	22 045 860	15 352 364	71 255 024	1 458 125	-	110 111 373
Debt securities issued	4%	1 203 609	-	348 167	321 257	-	1 873 033
Lease liabilities	6%	10 234	47 872	203 541	377 140	-	638 788
Total interest-bearing financial liabilities		**46 235 709**	**15 400 236**	**71 935 630**	**2 156 523**	**-**	**135 728 097**
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	-	-	3 934 994
Total financial liabilities		**91 541 285**	**15 891 885**	**73 141 833**	**2 156 523**	**-**	**182 731 526**

	Weighted average interest rate	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2019
Due to banks and other financial institutions	6%	12 063 681	-	-	-	-	12 063 681
Customer accounts	6%	16 337 160	13 272 631	71 588 432	957 338	-	102 155 561
Debt securities issued	9%	458 367	706 953	71 820	353 906	-	1 591 046
Lease liabilities	7%	25 476	39 984	195 301	444 149	-	704 910
Total interest-bearing financial liabilities		**28 884 684**	**14 019 568**	**71 855 553**	**1 755 393**	**-**	**116 515 198**
Obligations on securities return		271 645	-	-	-	-	271 645
Due to banks and other financial institutions		260 810	-	-	-	-	260 810
Customer accounts		30 151 670	-	-	-	-	30 151 670
Other financial liabilities		1 891 307	541 406	1 533 772	-	-	3 966 485
Debt securities issued		-	8 582	63 991	322 871	462 718	858 162
Total financial liabilities		**61 460 116**	**14 569 556**	**73 453 316**	**2 078 264**	**462 718**	**152 023 971**

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

A maturity analysis for financial guarantees issued, commitments on loans and unused credit lines 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 counter parties (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 would be included in the liquidity analysis above, the liquidity gap would increase by RUB 46 951 571 thousand and RUB 43 657 688 thousand as at 31 December 2020 and 31 December 2019, respectively.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 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 contingent liabilities	**5 499 026**	**6 081 015**	**22 539 410**	**12 827 585**	**4 534**	**46 951 571**

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 December 2019
Guarantees issued	3 485 299	1 153 964	12 311 494	2 892 401	3 467	19 846 625
Loan commitments	789 202	2 706 743	10 370 644	9 944 474	-	23 811 063
Total contingent liabilities	**4 274 501**	**3 860 707**	**22 682 137**	**12 836 876**	**3 467**	**43 657 688**

Market risk. Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no material changes as to the way the Group manages these risks or the risks it is exposed to. At the same time, the Group somewhat extended the range of measurement techniques which are used by the Risk Management Department to assess these types of risks, and the composition and contents of management reports presented to the Group’s management bodies.

The Group’s Limit Committee sets stop-loss limits on securities portfolios and foreign currency operations, and limits on open foreign currency positions. The open foreign currency position limits are fully in compliance with the requirements of the Central Bank of the Russian Federation. Compliance with the market risk limits of the Group are monitored on a daily basis.

Interest rate sensitivity. Interest rate sensitivity analysis was performed with two different methods. For the analysis of trading securities (except for valued at amortized cost) and derivative financial instruments the Basis point value method was used (hereinafter, BPV100), which reflects changes in fair value of current security position in response to changes in interest rates by 100 basis points.

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

For other financial instruments sensitive to changes in interest rates, the interest risk of the bank book was calculated. For this purpose, the risk-based income method (Earnings at risk, hereinafter referred to as "EaR100") was used, showing the sensitivity of the annual net interest income in case of a parallel shift in interest rates by 100 basis points assuming a static balance. The banking book interest rate risk includes:

- The risk resulting from the mismatch of assets and liabilities maturities (interest rate repricing) sensitive to interest rate changes;
- Basic risk resulting from a mismatch in the degree of interest rate sensitivity of assets and liabilities with similar maturity (repricing period);
- Risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

The following table presents a sensitivity analysis of interest rate risk. The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel of the Group.

	31 December 2020	**31 December 2020**	**31 December 2019**	**31 December 2019**
Change in interest rates, bps, BPV100	100	(100)	100	(100)
Change in fair value of securities	(222 802)	222 802	(217 940)	217 940
Change in interest rates of banking book, bps, EaR100	100	(100)	100	(100)
Change in annual net interest income of banking book	(384 573)	384 573	(333 982)	333 982

Currency risk. Currency risk is the risk of losses due to adverse change of foreign exchange and/or precious metals rates on the Group's open positions in foreign currencies and/or precious metals. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group considers the open currency position as the main indicator of exposure to currency risk. The Group relies on open currency position method set forth in Instructions of the Central Bank of the Russian Federation 178-I. Asset and Liability Management Committee manages currency risks on the basis of the currency risk appetite established by the Board of Directors within internal capital adequacy assessment procedures (ICAAP), which allows to minimize the Group's losses from significant fluctuations of the national and foreign currencies. The Financial Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the CBR and risk appetite.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel of the Group.

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

Information on financial assets and liabilities of the Group, excluding assets and liabilities on derivative financial instruments and spot transactions within currencies as at 31 December 2020 is as follows:

	RUB	USD	EUR	Other currencies	31 December 2020
Cash and balances with the Central Bank	17 296 946	115 863	65 021	6 505	17 484 335
Investments in securities	24 537 622	6 619 241	250 674	-	31 407 537
Due from banks	17 588 913	2 498 672	2 737 985	60 162	22 885 732
Loans to customers	127 036 420	1 891 216	652 098	282 688	129 862 422
Other financial assets	1 082 490	4 330	471	6	1 087 297
Total non-derivative financial assets	**187 542 391**	**11 129 322**	**3 706 249**	**349 361**	**202 727 323**
Due to banks and other financial institutions	23 487 908	55 428	918 477	-	24 461 813
Customer accounts	135 079 397	12 226 728	2 315 653	117 461	149 739 239
Debt securities issued	1 814 852	-	24 961	-	1 839 813
Obligations on securities return	-				-
Other financial liabilities	3 928 505	4 926	762	1	3 934 194
Lease liabilities	586 112	-	-	-	586 112
Total non-derivative financial liabilities	**164 896 774**	**12 287 082**	**3 259 853**	**117 462**	**180 561 171**
Financial assets less financial liabilities	**22 645 617**	**(1 157 760)**	**446 396**	**231 899**	

As at 31 December 2020, the amount of assets and liabilities on spot transactions excluded from the table above amounted to RUB 7 798 thousand and RUB 800 thousand, respectively.

The detailed position by currency for spot transactions as at 31 December 2020 is presented in the table below:

	RUB	USD	EUR	Other currencies	31 December 2020
Accounts receivable on spot deals	734 124	1 661 501	19 225	-	2 414 850
Accounts payable on spot deals	(1 681 421)	(29 550)	(471 548)	(225 333)	(2 407 852)
Net position for spot deals	**(947 297)**	**1 631 951**	**(452 323)**	**(225 333)**	**6 998**

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

As at 31 December 2019, the Group's breakdown of non-derivative financial assets and liabilities by currencies is presented in the table below:

	RUB	USD	EUR	Other currencies	31 December 2019
Non-derivative financial assets					
Cash and balances with the Central Bank	23 244 254	71 259	45 802	3 856	23 365 171
Investments in securities	22 714 851	5 819 135	192 711	-	28 726 697
Due from banks	1 589 308	2 021 481	2 320 085	81 589	6 012 463
Loans to customers	106 880 735	521 689	443	34 738	107 437 605
Other financial assets	814 680	13 962	4 322	-	832 964
Total non-derivative financial assets	**155 243 828**	**8 447 526**	**2 563 363**	**120 183**	**166 374 900**
Due to banks and other financial institutions	12 241 766	6 722	56 820	-	12 305 308
Customer accounts	116 674 423	9 920 853	2 389 084	112 989	129 097 349
Debt securities issued	2 352 876	-	76 340	-	2 429 216
Obligations on securities return	271 645				271 645
Other financial liabilities	3 925 820	17 468	6 576	-	3 949 864
Lease liabilities	627 781	-	-	-	627 781
Total non-derivative financial liabilities	**136 094 311**	**9 945 043**	**2 528 820**	**112 989**	**148 681 163**
Financial assets less financial liabilities	**19 149 517**	**(1 497 517)**	**34 543**	**7 194**	

As at 31 December 2019, the amount of assets and liabilities on spot transactions excluded from the table above amounted to RUB 15 275 thousand and RUB 16 621 thousand, respectively.

The detailed position by currency for spot transactions as at 31 December 2019 is presented in the table below:

	RUB	USD	EUR	Other currencies	31 December 2019
Accounts receivable on spot deals	3 155 540	4 849 407	13 061	6 645	8 024 653
Accounts payable on spot deals	(4 865 003)	(3 095 285)	(58 801)	(6 910)	(8 025 999)
Net position for spot deals	**(1 709 463)**	**1 754 122**	**(45 740)**	**(265)**	**(1 346)**

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

Derivatives. Transactions using the derivative financial instruments (“derivative instruments”) include swaps and forward contracts linked to interest rates and currencies. Derivative instruments are defined as contracts or agreements, the value of which is calculated based on the cost of assets stipulated within the contract or agreement that do not require any initial net investment or require investment in small amount and with respect to which the calculation is made as at the future date.

The following table presents analysis of currency risk by types of derivative financial instrument contracts as at 31 December 2020:

	RUB	USD	EUR	Other currencies	31 December 2020
Accounts receivable on derivative contracts	624	74	1 034	47	1 780
Accounts payable on derivative contracts	(609)	(65)	(931)	(47)	(1 652)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**15**	**9**	**103**	**-**	**128**

The following table presents analysis of currency risk by types of derivative financial instrument contracts as at 31 December 2019:

	RUB	USD	EUR	Other currencies	31 December 2019
Accounts receivable on derivative contracts	751 047	335 839	357 103	26 194	1 470 183
Accounts payable on derivative contracts	(749 836)	(335 839)	(357 103)	(26 194)	(1 468 972)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**1 211**	**-**	**-**	**-**	**1 211**

In accordance with IFRS 7, foreign currency risk is computed for each functional currency separately. The functional currency of the banking Group is Russian Ruble.

As at 31 December 2020, the Group’s foreign currency long position (functional currency – Russian Ruble) was RUB 475 306 thousand for US dollars. As at 31 December 2020, the Group’s foreign currency short position was RUB 5 841 thousand for EUR.

The Group did not make any changes in its currency risk management policies after the reporting date.

(in thousands of Russian Rubles, unless otherwise stated)

35. Risk management policies (continued)

As at 31 December 2019, the Group's foreign currency long position of the Group (functional currency – Russian ruble) was RUB 256 605 thousand for US dollars. As at 31 December 2019, the Group's foreign currency short position was RUB 14 203 thousand for EUR.

Currency risk sensitivity. The following table details the Group's sensitivity to increase and decrease in the USD and EUR against the RUB. This sensitivity rate was used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates as at 31 December 2020 and 31 December 2019. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for the specified change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

The table below analyses the impact on profit before tax and equity, based on asset par values as at 31 December 2020 and 31 December 2019:

	31 December 2020		31 December 2019	
	RUB/USD 30,00%	**RUB/USD -30,00%**	**RUB/USD 30,00%**	**RUB/USD -30,00%**
Impact on profit/(loss) before income tax	142 260	(142 260)	76 982	(76 982)
Impact on equity	113 808	(113 808)	61 585	(61 585)
	RUB/EUR 30,00%	**RUB/EUR -30,00%**	**RUB/EUR 30,00%**	**RUB/EUR -30,00%**
Impact on profit/(loss) before income tax	(1 747)	1 747	(3 359)	3 359
Impact on equity	(1 398)	1 398	(2 687)	2 687

Limitations of sensitivity analysis. The sensitivity tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in stockholder equity.

35. Risk management policies (continued)

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty. Another limitation relates to the assumption that all interest rates move in an identical fashion.

Price risk. Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

The Group's policy is aimed at minimizing the price risk which arises from stock market instruments.

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

36. Events after the reporting date

On 12 February 2021, the Bank approved the program of commercial bonds placement to a maximum amount of nominal cost of all commercial bond issues amounting to RUB 15 000 000 thousand with a maximum maturity of 3 650 days from the placement date.

An extraordinary general shareholders' meeting of the Bank, which was held on 18 March 2021, made a decision to increase the share capital by placing 3 157 064 (Three million one hundred fifty seven thousand sixty-four) additional ordinary registered uncertified shares of PJSC "MTS-Bank" with a par value of 500 (Five hundred) rubles each by private offering.

The additional ordinary registered uncertified shares are to be placed among: Public Joint-Stock Company "Mobile TeleSystems" (OGRN: 1027700149124); Private Limited Liability Company "Mobile TeleSystems B.V." (number: 34255177 in the Netherlands Chamber of Commerce Trade Register).

The issue price, including the issue price for the parties who have preferential right to purchase the offered shares, amount to 1 267 (One thousand two hundred sixty-seven) rubles per share.