

PJSC “MTS-Bank”

Interim condensed consolidated financial statements
for the six months ended 30 June 2020
(*unaudited*)
Translated from the original in Russian

Public Joint-Stock Company "MTS-Bank"

Contents

Page

REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	1
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020	
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS	3
INTERIM CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME	4
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	5
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS.....	7-8
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
1. Organisation	9
2. Basis of presentation.....	10
3. Reclassifications	11
4. Net interest income.....	13
5. Allowance for expected credit losses and other allowance	13
6. Fee and commission income and expense	15
7. Operating expenses	16
8. Cash and balances with the Central Bank.....	17
9. Investments in securities	17
10. Due from banks	19
11. Loans to customers.....	21
12. Customer accounts	30
13. Derivative financial instruments.....	30
14. Share capital.....	31
15. Commitments and contingencies	32
16. Operating environment.....	35
17. Related party transactions	38
18. Fair value of financial instruments.....	44
19. Capital management	46
20. Risk management policies.....	47
21. Subsequent events	51

REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint-Stock Company "MTS-Bank" and its subsidiaries (the "Group") as of 30 June 2020 and the related interim condensed consolidated statements of profit or loss, other comprehensive income for the three and six months then ended, interim condensed consolidated statements on changes in equity and cash flows for the six months then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of the interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Other Matter

A review of the interim condensed consolidated financial statements of Public Joint-Stock Company "MTS-Bank" for the six months ended 30 June 2019 was conducted by another auditor in accordance with International Standard on Review Engagements 2400 (revised) *Engagements to Review Historical Financial Statements*, who expressed an unmodified opinion on those statements on 28 August 2019.

Zdanevych Anna Mikhailovna
Engagement Partner
26 August 2020



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

State Registration Certificate No. 2268 dated 29 January, 1993

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

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 Interregional Inspectorate of the Russian Ministry of Taxation No.39 for Moscow on 13 November, 2002.

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

Public Joint-Stock Company "MTS-Bank"

Interim condensed consolidated statement of profit or loss for the three and six months ended 30 June 2020 (in thousands of Russian Rubles, unless otherwise indicated)

	Note	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited) (restated)	Three months ended 30 June 2020 (unaudited)	Three months ended 30 June 2019 (unaudited) (restated)
Interest income	4, 17	11 087 396	8 592 638	5 574 268	4 419 384
Interest expense	4, 17	(3 811 344)	(3 401 016)	(1 898 669)	(1 750 353)
Net interest income before allowance for expected credit losses on interest bearing assets		7 276 052	5 191 622	3 675 599	2 669 031
Allowance for expected credit losses on interest bearing assets	5, 17	(5 784 315)	(1 647 318)	(3 955 508)	(926 563)
Net interest income		1 491 737	3 544 304	(279 909)	1 742 468
Net gains from operations with securities at fair value through profit or loss		17 428	114 719	418 315	212 736
Net gain on operations with derivative financial instruments		4 204	345 899	2 870	80 056
Net gain/(loss) on foreign exchange operations		107 027	(275 435)	(47 049)	(127 461)
Fee and commission income	3, 6, 17	5 458 168	4 444 799	2 552 648	2 433 225
Fee and commission expense	3, 6, 17	(2 583 258)	(2 418 131)	(1 241 088)	(1 334 317)
(Allowance)/recovery of allowance for expected credit losses on other transactions	5, 17	(318 268)	158 411	(350 064)	28 858
Change in value of property for resale	3	(49 904)	(71 019)	(38 707)	(52 731)
Net (loss)/gain on disposal of property for resale	3	(2 726)	(74 450)	1 194	(61 792)
Share of profits of joint ventures		24 497	28 220	8 215	13 083
Other income		186 921	124 484	91 377	49 355
Net non-interest income		2 844 089	2 377 497	1 397 711	1 241 012
Operating income		4 335 826	5 921 801	1 117 802	2 983 480
Operating expenses	7	(5 494 200)	(5 207 336)	(2 573 800)	(2 773 646)
(Loss)/profit before tax		(1 158 374)	714 465	(1 455 998)	209 834
Income tax benefit/(expense)		9 876	(93 498)	(64 364)	(7 565)
NET (LOSS)/PROFIT		(1 148 498)	620 967	(1 520 362)	202 269
Attributable to: Shareholders of the parent Bank		(1 148 498)	620 967	(1 520 362)	202 269

On behalf of the Management Board:


E. A. Issopov
First Deputy Chairman of the Management
Board

26 August 2020
Moscow


A.V. Yeltyshev
Chief Accountant

26 August 2020
Moscow

The Notes on pages 9-51 form an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company "MTS-Bank"

Interim condensed consolidated statement of other comprehensive income for the three and six months ended 30 June 2020 (in thousands of Russian Rubles)

	Notes	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)	Three months ended 30 June 2020 (unaudited)	Three months ended 30 June 2019 (unaudited)
Net (loss)/profit for the period		(1 148 498)	620 967	(1 520 362)	202 269
OTHER COMPREHENSIVE (LOSS)/INCOME					
Items that will not be subsequently reclassified to profit or loss:					
Revaluation of property, plant and equipment		-	(395)	-	(395)
Income tax benefit		-	79	-	79
TOTAL COMPREHENSIVE (LOSS)/INCOME		(1 148 498)	620 651	(1 520 362)	201 953
Attributable to:					
Shareholders of the parent Bank		(1 148 498)	620 651	(1 520 362)	201 953

On behalf of the Management Board:



E. A. Issopov
First Deputy Chairman of the Management
Board

26 August 2020
Moscow



A.V. Yeltyshev
Chief Accountant

26 August 2020
Moscow

The Notes on pages 9-51 form an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company "MTS-Bank"

Interim condensed consolidated statement of financial position As at 30 June 2020 (in thousands of Russian rubles)

	Notes	30 June 2020 (unaudited)	31 December 2019
ASSETS:			
Cash and balances with the Central Bank	8	11 947 587	23 365 171
Investments in securities	9, 17	34 215 086	28 726 697
Due from banks	10	43 945 733	6 012 463
Loans to customers	11, 17	110 204 080	107 437 605
Investments in a joint venture		648 180	658 467
Derivative financial instruments	13	1 230	26 277
Property, plant and equipment and intangible assets		5 971 905	5 206 162
Right-of-use assets		557 887	596 958
Property for resale		2 835 519	2 836 514
Deferred income tax assets		3 251 890	3 250 523
Other assets		1 323 566	1 415 795
TOTAL ASSETS		214 902 663	179 532 632
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	17	200 055	12 305 308
Customer accounts	12, 17	173 259 472	129 097 349
Debt securities issued		3 254 992	2 429 216
Lease liabilities	17	597 109	627 781
Derivative financial instruments	13	1 139	25 257
Obligation to return securities		-	271 645
Current income tax liabilities		24 127	126 508
Other liabilities	17	5 014 686	5 608 741
TOTAL LIABILITIES		182 351 580	150 491 805
EQUITY:			
Share capital	14	13 942 274	12 142 288
Treasury shares		(77 285)	(77 285)
Share premium	14	12 640 965	9 440 950
Perpetual bonds	14	5 000 000	5 000 000
Property, plant and equipment revaluation reserve		51 607	51 607
Retained earnings		993 522	2 483 267
TOTAL EQUITY		32 551 083	29 040 827
TOTAL LIABILITIES AND EQUITY		214 902 663	179 532 632

On behalf of the Management Board:


E. A. Issopov
First Deputy Chairman of the
Management Board

26 August 2020
Moscow


A.V. Yeltyshev
Chief Accountant

26 August 2020
Moscow

The Notes on pages 9-51 form an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company "MTS-Bank"

Interim condensed consolidated financial statement of changes in equity for the six months ended 30 June 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 perpetual bonds	14	-	-	-	3 500 000	-	-	3 500 000
Comprehensive income		-	-	-	-	(316)	620 967	620 651
30 June 2019 (unaudited)		10 882 298	(77 285)	7 200 940	3 500 000	61 251	1 626 388	23 193 592
31 December 2019		12 142 288	(77 285)	9 440 950	5 000 000	51 607	2 483 267	29 040 827
Issuance of ordinary shares	14	1 799 986	-	3 200 015	-	-	-	5 000 001
Interest paid on perpetual bonds		-	-	-	-	-	(341 247)	(341 247)
Comprehensive loss		-	-	-	-	-	(1 148 498)	(1 148 498)
30 June 2020 (unaudited)		13 942 274	(77 285)	12 640 965	5 000 000	51 607	993 522	32 551 083

On behalf of the Management Board:


E. A. Issopov
 First Deputy Chairman of the Management Board

26 August 2020
 Moscow


A.V. Yeltyshev
 Chief Accountant

26 August 2020
 Moscow

The Notes on pages 9-51 form an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company "MTS-Bank"

Interim condensed consolidated statement of cash flows For the six months ended 30 June 2020 (in thousands of Russian rubles)

	Notes	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited) (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		10 177 878	8 993 727
Interest paid		(3 380 319)	(3 243 001)
Realized loss on securities at fair value through profit or loss		(22 064)	(75 989)
Realized gain on derivative instruments		5 133	13 025
Realized gain/(loss) on foreign currency transactions		352 336	(1 244 674)
Fee and commission received		5 955 204	4 347 863
Fee and commission paid		(2 742 230)	(2 405 762)
Other operating income received		132 899	97 368
Operating expenses paid		(5 556 344)	(5 822 052)
Income tax paid		(93 872)	(131 240)
Cash inflow from operating activities before changes in operating assets and liabilities		4 828 621	529 265
Changes in operating assets and liabilities			
<i>(Increase)/decrease in operating assets:</i>			
Minimum reserve deposits with the Central Bank		49 222	(245 488)
Financial instruments at fair value through profit or loss		(5 794 420)	1 827 503
Due from banks		19 827	(172 926)
Loans to customers		(7 625 192)	(15 030 849)
Property for resale		177 015	292 927
Other assets		(726 844)	299 630
<i>Increase/(decrease) in operating liabilities:</i>			
Obligations on securities return		(271 277)	(390 882)
Due to banks and other financial institutions		(12 198 371)	(3 854 061)
Customer accounts		41 990 379	17 301 139
Debt securities issued, other than bonds issued		927 405	34 470
Other liabilities		325 523	906 586
Net cash inflow from operating activities		21 701 888	1 497 314

Public Joint-Stock Company "MTS-Bank"

Interim condensed consolidated statement of cash flows
For the six months ended 30 June 2020
(continued)
(in thousands of Russian rubles)

	Notes	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited) (restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(1 172 603)	(657 987)
Proceeds from sale of property, plant and equipment and intangible assets		3 834	5 464
Redemption of securities at amortized cost		1 407 728	11 392 001
Proceeds from investments in a joint venture		34 784	35 494
Net cash inflow from investing activities		273 743	10 774 972
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease payments		(105 894)	(158 836)
Redemption of bonds issued		(134 785)	(198 730)
Proceeds from issuance of ordinary shares		5 000 001	-
Proceeds from issue of perpetual bonds		-	3 500 000
Redemption of perpetual bonds issued		(341 247)	-
Net cash inflow from financing activities		4 418 075	3 142 434
Change in interest accrued on cash and cash equivalents		(166)	-
Change in allowance for expected credit losses on cash and cash equivalents		(5 985)	39 828
Effect of foreign currencies exchange rate fluctuations on cash and cash equivalents		(2 700)	(354 784)
NET INCREASE IN CASH AND CASH EQUIVALENTS		26 384 855	15 099 764
CASH AND CASH EQUIVALENTS, beginning of period	8	26 517 217	10 558 971
CASH AND CASH EQUIVALENTS, end of the period	8	52 902 072	25 658 735

On behalf of the Management Board:


E. A. Issopov
First Deputy Chairman of the
Management Board

26 August 2020
Moscow


A.V. Yeltyshev
Chief Accountant

26 August 2020
Moscow

The notes on pages 9-51 form an integral part of these interim condensed consolidated financial statements.

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (in thousands of Russian Rubles, unless otherwise indicated)

1. Organisation

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

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

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

As at 30 June 2020 and 31 December 2019, MTS-Bank had 6 operating offices in the Russian Federation (the "RF").

MTS-Bank is a parent company of a banking group (the "Group"). As at 30 June 2020 and 31 December 2019, the Group fully controlled the following companies: CJSC Mortgage Agent MTSB, LLC VektorA, LLC Skyfreight.

In addition, as at 30 June 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 30 June 2020 and 31 December 2019, the Group held 59.7% shares of closed-end mutual real estate fund "Sistema – Rentnaya Nedvizhimost 1". As at the above dates, investments in the fund were accounted for as a joint venture using the equity method.

Shareholding structure of MTS-Bank as at 30 June 2020 and 31 December 2019:

	30 June 2020 (unaudited)	31 December 2019
Shareholder		
Mobile Telesystems B.V.	99.60	99.53
OJSC Moscow City Telephone Network	0.18	0.21
PJSC MTS-Bank (treasury shares)	0.21	0.24
Other	0.01	0.02
Total	100.00	100.00

In March 2020, as a result of the additional issuance of shares, the share of MTS PJSC in the capital of MTS-Bank increased from 99.74% to 99.78% (including the share of MGTS PJSC in the amount of 0.21%).

As at 30 June 2020 and 31 December 2019, PJSC AFK Sistema, through its subsidiaries, effectively owned 44.36% of MTS-Bank's share capital. The owner of a controlling stake in PJSC AFK Sistema is Mr. V. P. Yevtushenkov.

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

2. Basis of presentation

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

These interim condensed financial statements are unaudited.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2019 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not been changed significantly in amount or composition.

As the Group's performance is closely related and responsive to changes in market conditions, the performance of the Group for an interim period is not necessarily indicative of the performance that can be expected for the year ending 31 December 2020.

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

In preparation of these interim condensed financial statements the Bank followed the same accounting, presentation and calculation guidelines as in preparation of its financial statements for the year ended 31 December 2019, except for the impact of adopted standards and interpretations effective 1 January 2020.

Amendments to IFRS 3
Amendments to IAS 1 and IAS 8
Amendments to IFRS 9, IAS 39 and IFRS 7
Conceptual Framework

Definition of a Business
Definition of Material
Basic interest rate reform
Amendments to References to the Conceptual Framework in IFRS Standards

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

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

These Interim Condensed Consolidated Financial Statements are presented in thousands of Russian Rubles (unless otherwise indicated).

As at 30 June 2020 and 31 December 2019 the functional currency of the Group is Russian Ruble. As at 30 June 2020 and 31 December 2019 the official exchange rates used for translating foreign currency balances are shown in the table below.

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

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Average exchange rate for the period for revaluation of foreign currency account balances		
RUB/USD	68.4318	65.3384
RUB/EUR	75.2646	73.8389

Public Joint-Stock Company “MTS-Bank”

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

2. Basis of presentation (continued)

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

IFRS 17	Insurance contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1 (Annual Improvements to IFRSs 2010–2012 Cycle)	Presentation of Items of Other Comprehensive Income
Amendments to IFRS 3	Business Combinations
Amendments to IAS 16	Property, plant and equipment
Amendments to IAS 37	Allowance, contingent liabilities and contingent assets
Annual Improvements to IFRSs (2018–2020 cycle)	
- IFRS 1;	First-time adoption of International Financial Reporting Standards
- IFRS 9;	Financial instruments
- IAS 41; and	Agriculture
- illustrative examples accompanying IFRS 16	Leases

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

3. Reclassifications

In the consolidated financial statements for 2019, the Group voluntarily revised its accounting policies for real estate investments, cashback accounting for commission expenses, and cash and cash equivalents in order to present the nature of the transactions and management's intentions with respect to these transactions. The Group believes that the revised accounting policy contributes to more reliable and relevant presentation of information for users.

In addition, in the consolidated financial statement of cash flows for 2019, the Group has reclassified the results of currency revaluation gains in order to reflect the nature of trading and foreign exchange transactions and the effect of revaluations on relevant items in the statement of cash flows. The Group also presented cash flows from bonds issued in accordance with their nature.

The following reclassifications have been made to the interim condensed consolidated financial statements for the six months of 2019 to conform to the presentation for the six months of 2020.

Interim condensed consolidated statement of profit or loss for the six months ended 30 June 2020 (unaudited)			
	Initially recorded for the six months ended 30 June 2019 (unaudited)	Reclassification amount	Six months ended 30 June 2019 (unaudited) (restated)
Write-off of value of property for resale	(145 469)	145 469	-
Change in value of property for resale	-	(71 019)	(71 019)
Net loss on disposal of property for resale	-	(74 450)	(74 450)
Fee and commission income	4 788 999	(344 200)	4 444 799
Fee and commission expense	(2 762 331)	344 200	(2 418 131)

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

3. Reclassifications (continued)

	Interim condensed consolidated statement of cash flows for the six months ended 30 June 2020 (unaudited)		
	Initially recorded for the six months ended 30 June 2019 (unaudited)	Reclassification amount	Six months ended 30 June 2019 (unaudited) (restated)
Net cash inflow/(outflow) from operating activities	(1 138 323)	2 635 637	1 497 314
<i>Including:</i>			
<i>due to reclassification of cash and cash equivalents</i>	<i>(1 700 757)</i>	<i>1 550 100</i>	<i>(150 657)</i>
<i>due to changes in the accounting policies for property for resale</i>	<i>-</i>	<i>292 927</i>	<i>292 927</i>
<i>due to reclassification of cash flows from bonds issued</i>	<i>(164 260)</i>	<i>198 730</i>	<i>34 470</i>
Net cash inflow/(outflow) from investing activities	11 182 528	(407 556)	10 774 972
<i>including:</i>			
<i>due to changes in the accounting policies for property for resale</i>	<i>292 927</i>	<i>(292 927)</i>	<i>-</i>
Net cash inflow/(outflow) from financing activities	3 500 000	(357 566)	3 142 434
<i>including:</i>			
<i>due to reclassification of cash flows from bonds issued</i>	<i>-</i>	<i>(198 730)</i>	<i>(198 730)</i>
Change in allowance for expected credit losses on cash and cash equivalents	-	39 828	39 828
<i>including:</i>			
<i>due to reclassification of cash and cash equivalents</i>	<i>-</i>	<i>39 828</i>	<i>39 828</i>
Effect of foreign currencies exchange rate fluctuations on cash and cash equivalents	(34 369)	(320 415)	(354 784)
Net increase in cash and cash equivalents	13 509 836	1 589 928	15 099 764
Cash and cash equivalents, beginning of period	10 116 733	442 238	10 558 971
Cash and cash equivalents, end of the period	23 626 569	2 032 166	25 658 735

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

4. Net interest income

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)	Three months ended 30 June 2020 (unaudited)	Three months ended 30 June 2019 (unaudited)
Interest income				
<i>Interest income calculated using the effective interest rate method</i>				
Loans to customers	9 645 165	6 832 591	4 800 887	3 567 347
Investments in debt securities at amortized cost	577 319	941 512	286 357	370 845
Due from banks	456 305	354 620	265 567	273 051
<i>Other interest income</i>				
Investments in securities at fair value through profit or loss	408 607	463 915	221 457	208 141
Total interest income	11 087 396	8 592 638	5 574 268	4 419 384
Interest expense				
<i>Interest expense calculated using the effective interest rate method</i>				
Due to customers	(3 657 714)	(3 209 527)	(1 832 584)	(1 694 276)
Debt securities issued	(99 340)	(75 901)	(48 445)	(34 959)
Due to banks and other financial institutions	(34 422)	(95 559)	(7 856)	(10 745)
Lease liabilities	(19 868)	(20 029)	(9 784)	(10 373)
Total interest expense	(3 811 344)	(3 401 016)	(1 898 669)	(1 750 353)

5. Allowance for expected credit losses and other allowance

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

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)	Three months ended 30 June 2020 (unaudited)	Three months ended 30 June 2019 (unaudited)
Allowance for expected credit losses on loans to individuals (Note 11)	5 421 176	1 530 672	3 546 526	948 492
Allowance/(recovery of allowance) for expected credit losses on loans to legal entities (Note 11)	356 918	130 426	400 758	(15 386)
Allowance/(recovery of allowance) for expected credit losses on due from banks (Note 10)	4 515	(15 095)	6 196	(8 550)
Allowance for expected credit losses on securities at amortized cost (Note 9)	1 706	1 315	2 028	2 007
Allowance for expected credit losses on interest bearing assets	5 784 315	1 647 318	3 955 508	926 563

The impact of the Group's operating environment on the assessment of allowance for expected credit losses is disclosed in Note 16.

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

5. Allowance for expected credit losses and other allowance (continued)

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

	Other assets	Guarantees issued	Allowance for loan commit- ments	Allowance for legal claims	Total
31 December 2018	519 849	223 597	221 191	167 630	1 132 267
(Recovery of allowance)/allowance	(38 188)	(184 066)	73 707	(9 864)	(158 411)
Write-off against allowance	(5 487)	-	-	-	(5 487)
30 June 2019 (unaudited)	476 174	39 531	294 898	157 766	968 369
31 December 2019	503 122	90 540	312 068	20 073	925 803
Allowance	250 792	370	65 445	1 661	318 268
Write-off against allowance	(58 488)	-	-	(1 015)	(59 503)
30 June 2020 (unaudited)	695 426	90 910	377 513	20 719	1 184 568

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

	Other assets	Guarantees issued	Allowance for loan commit- ments	Allowance for legal claims	Total
31 March 2019 (unaudited)	504 147	17 995	319 140	161 104	1 002 386
(Recovery of allowance)/allowance	(22 814)	21 536	(24 242)	(3 338)	(28 858)
Write-off against allowance	(5 159)	-	-	-	(5 159)
30 June 2019 (unaudited)	476 174	39 531	294 898	157 766	968 369
31 March 2020 (unaudited)	530 924	65 572	241 377	14 045	851 918
Allowance	181 916	25 337	136 137	6 674	350 064
Write-off against allowance	(17 414)	-	-	-	(17 414)
30 June 2020 (unaudited)	695 426	90 910	377 513	20 719	1 184 568

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

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

6. Fee and commission income and expense

Fee and commission income and expense comprised:

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited) (restated)	Three months ended 30 June 2020 (unaudited)	Three months ended 30 June 2019 (unaudited) (restated)
Fee and commission income:				
Acquiring and plastic card transactions	1 545 015	1 225 076	772 548	632 657
Agent fees on insurance products	1 194 581	1 200 760	513 261	726 819
Settlement transactions	549 445	402 540	223 572	201 080
Maintenance of accounts	672 946	428 502	342 688	247 485
Cash operations with plastic cards	489 950	345 806	214 321	184 251
Maintenance of plastic cards	382 928	303 396	185 094	146 272
Documentary operations	261 345	138 862	138 819	77 899
Other cash operations	148 417	212 292	54 787	115 697
Foreign currency agent and controller operations	24 612	25 856	12 519	14 029
Other	188 929	161 709	95 039	87 036
Total fee and commission income	5 458 168	4 444 799	2 552 648	2 433 225
Fee and commission expense:				
Settlement transactions	(1 390 632)	(1 320 569)	(647 775)	(758 269)
Information and technical interaction	(854 848)	(817 155)	(414 008)	(411 824)
Debt collection expenses	(216 518)	(96 885)	(123 326)	(47 329)
Cash transactions	(115 318)	(135 546)	(53 749)	(90 816)
Documentary operations	(4 397)	(42 875)	(1 600)	(23 808)
Other	(1 545)	(5 101)	(630)	(2 271)
Total fee and commission expense	(2 583 258)	(2 418 131)	(1 241 088)	(1 334 317)

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)**

7. Operating expenses

Operating expenses comprised:

	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)	Three months ended 30 June 2020 (unaudited)	Three months ended 30 June 2019 (unaudited)
Staff costs	2 079 774	2 288 026	1 008 443	1 251 503
Social security contributions	524 796	557 514	227 072	281 001
Total personnel expenses	2 604 570	2 845 540	1 235 515	1 532 504
Communications services	642 929	442 119	289 980	285 532
Depreciation and amortization of property, plant and equipment and intangible assets	404 865	369 512	217 033	180 830
Call center services	436 848	308 415	228 789	147 957
Payments to the Deposit Insurance Agency	228 627	250 931	60 722	128 720
Property, plant and equipment maintenance	186 360	156 695	84 708	93 597
Software maintenance	203 696	238 491	105 236	123 491
Advertising costs	147 078	33 374	61 363	1 260
Professional services	150 338	165 627	69 025	77 391
Depreciation of right-of-use assets	116 777	162 568	40 691	76 984
Plastic cards	75 430	31 450	21 171	11 160
Taxes other than income tax	45 734	26 268	22 322	13 524
Office expenses	54 613	36 656	36 665	20 061
Security costs	26 503	32 519	13 162	15 246
Travel expenses	10 305	16 584	4 595	11 760
Fines and penalties	7 264	8 234	4 146	3 823
Disposals of property, plant and equipment	1 478	4 320	1 423	957
Other expenses	150 785	78 033	77 254	48 849
Total operating expenses	5 494 200	5 207 336	2 573 800	2 773 646

The Group approved motivation programs that give Group employees the right to receive payments as a result of repaying phantom and virtual shares due to them or receiving an equivalent amount of PJSC MTS shares. The number of allocated shares is determined by the terms of the programs and decisions of the collective bodies of the Group, and the transfer of the right depends on the achievement of certain performance indicators, the continuation of labor relations until the end of the periods established by the program and the approval of payment by the appropriate collective body. The Group accounts these motivation programs in accordance with IFRS 2 *Share-based Payment* as transactions based on the shares with cash settlements. For the six months ended 30 June 2020, the Group recorded expenses for such motivation programs in the amount of RUB 146 140 thousand (for the six months ended 30 June 2019: RUB 109 904 thousand) as part of staff costs and in the amount of RUB 22 360 thousand (for the six months ended 30 June 2019: RUB 16 596 thousand) within social security contributions.

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

8. Cash and balances with the Central Bank

Cash and balances with the Central Bank comprised:

	30 June 2020 (unaudited)	31 December 2019
Balances with the Central Bank of the Russian Federation	9 792 949	20 078 217
Cash	2 154 638	3 286 954
Total cash and balances with the Central Bank	11 947 587	23 365 171

As at 30 June 2020 and 31 December 2019, balances with the Central Bank of the Russian Federation include RUB 1 253 066 thousand and RUB 1 302 287 thousand, respectively, which represent the mandatory reserve deposits with the Central Bank. The Group is required to maintain mandatory reserve deposits with the Central Bank on a constant basis.

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

	30 June 2020 (unaudited)	31 December 2019 (restated)
Cash and balances with the Central Bank	11 947 587	23 365 171
Correspondent accounts with banks and other financial institutions	31 942 750	4 181 146
Reverse repurchase agreements with financial institutions with initial maturities of less than three months	8 238 906	257 588
Short-term bank deposits	2 038 566	22 286
	54 167 809	27 826 191
Less obligatory reserve deposits with the Central Bank of the Russian Federation	(1 253 066)	(1 302 287)
Less allowance for expected credit losses	(12 671)	(6 687)
Total cash and cash equivalents	52 902 072	26 517 217

9. Investments in securities

Investments in securities comprised:

	30 June 2020 (unaudited)	31 December 2019
Debt securities measured at amortized cost		
- corporate bonds	7 101 393	8 225 041
- debt securities of the constituent members of the Russian Federation	7 179 812	7 231 735
Less allowance for expected credit losses	(5 208)	(3 502)
	14 275 997	15 453 274
Debt securities at fair value through profit and loss		
- corporate and bank bonds	12 183 692	11 194 780
- government debt securities	7 750 158	2 068 111
- debt securities of the constituent members of the Russian Federation	5 239	10 532
	19 939 089	13 273 423
Total investments in securities	34 215 086	28 726 697

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

9. Investments in securities (continued)

As at 31 December 2019, securities at amortized cost amounting to RUB 8 719 222 thousand and at fair value amounting to RUB 1 065 069 thousand were transferred as collateral under repurchase agreements. As at 30 June 2020, the Group has not entered into REPO transactions.

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

	Stage 1	Total
Debt securities measured at amortized cost		
31 December 2019	3 502	3 502
Changes due to changes in credit risk, net	1 855	1 855
Assets redeemed or derecognized (except for write-off)	(149)	(149)
30 June 2020 (unaudited)	5 208	5 208

Movements in allowance for expected credit losses on other securities for the six months ended 30 June 2019 are disclosed as follows:

	Stage 1	Total
Debt securities measured at amortized cost		
31 December 2018	3 477	3 477
Changes due to changes in credit risk, net	1 417	1 417
Assets redeemed or derecognized (except for write-off)	(102)	(102)
30 June 2019 (unaudited)	4 792	4 792

Information on the quality of securities at amortized cost as at 30 June 2020 and 31 December 2019 is presented below:

	Stage 1
<i>Debt securities rated:</i>	
BBB	14 107 503
BB	173 702
Less allowance for expected credit losses	(5 208)
30 June 2020 (unaudited)	14 275 997
	Stage 1
<i>Debt securities rated:</i>	
BBB	15 281 160
BB	175 616
Less allowance for expected credit losses	(3 502)
31 December 2019	15 453 274

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

10. Due from banks

Due from banks comprised:

	30 June 2020 (unaudited)	31 December 2019
Correspondent accounts with banks and other financial institutions	31 942 750	4 181 146
Guarantee deposits in payment systems	1 738 181	1 558 328
Reverse REPO agreements with financial institutions	8 238 906	257 588
Short-term bank deposits	2 038 566	22 286
	43 958 403	6 019 348
Less allowance for expected credit losses	(12 670)	(6 885)
Total due from banks	43 945 733	6 012 463

As at 30 June 2020 and 31 December 2019 due from banks comprised guarantee deposits in the amount of RUB 1 738 181 thousand and RUB 1 558 328 thousand, respectively, which are collateral for transactions with payment systems.

As at 30 June 2020 and 31 December 2019, fair value of assets pledged and carrying amount of loans granted under the reverse REPO agreements comprised:

	30 June 2020 (unaudited) Carrying amount of loans	30 June 2020 (unaudited) Fair value of collateral	31 December 2019 Carrying amount of loans	31 December 2019 Fair value of collateral
Corporate bonds	8 238 906	9 765 648	257 588	271 645
Total	8 238 906	9 765 648	257 588	271 645

As at 30 June 2020 and 31 December 2019, due from banks comprise balances of RUB 120 340 thousand and RUB 142 143 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2014.

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

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

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

10. Due from banks (continued)

The movements in the allowance for expected credit losses on balances due from banks for the six months ended 30 June 2019 were as follows:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	1 809	-	38 193	40 002
New assets originated or purchased	1 240	-	-	1 240
Changes due to changes in credit risk	(561)	-	(15 774)	(16 335)
Write-off against allowance	-	-	(16 515)	(16 515)
Recoveries of the assets previously written off	-	-	689	689
30 June 2019 (unaudited)	2 488	-	6 593	9 081

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

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

The movements in the allowance for expected credit losses on balances due from banks for the three months ended 30 June 2019 were as follows:

	Stage 1	Stage 2	Stage 3	Total
31 March 2019 (unaudited)	2 201	-	31 256	33 457
New assets originated or purchased	469	-	-	469
Changes due to changes in credit risk	(182)	-	(8 837)	(9 019)
Write-off against allowance	-	-	(16 515)	(16 515)
Recoveries of the assets previously written off	-	-	689	689
30 June 2019 (unaudited)	2 488	-	6 593	9 081

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

10. Due from banks (continued)

Information on the quality of amounts due from banks as at 30 June 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total
<i>Due from banks rated:</i>				
AA	1 700 066	-	-	1 700 066
A	28 194 507	-	-	28 194 507
BBB	11 767 234	-	-	11 767 234
BB	1 561 588	-	-	1 561 588
B	2 010	-	-	2 010
<B / Not rated	722 245	-	10 753	732 998
Less allowance for expected credit losses	(5 233)	-	(7 437)	(12 670)
30 June 2020 (unaudited)	43 942 417	-	3 316	43 945 733

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

	Stage 1	Stage 2	Stage 3	Total
<i>Due from banks rated:</i>				
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 30 June 2020 and 31 December 2019 there are no overdue amounts due from banks in Stage 1, which are not rated.

11. Loans to customers

Loans to customers comprised:

	30 June 2020 (unaudited)	31 December 2019
Loans to customers	126 146 639	118 293 163
Less allowance for expected credit losses	(15 942 559)	(10 855 558)
Total loans to customers	110 204 080	107 437 605

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

11. Loans to customers (continued)

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

	30 June 2020 (unaudited)	31 December 2019
Loans collateralized by pledge of property	17 131 493	15 237 292
Loans collateralized by guarantees	13 688 252	12 830 562
Loans collateralized by pledge of securities	2 086 643	998 198
Loans collateralized by pledge of equipment	481 255	752 761
Loans collateralized by rights of claim	-	14 859
Unsecured loans	92 758 996	88 459 490
Loans to customers	126 146 639	118 293 163
Less allowance for expected credit losses	(15 942 559)	(10 855 558)
Total loans to customers	110 204 080	107 437 605

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

As at 30 June 2020 and 31 December 2019, loans to legal entities included loans amounting to RUB 2 770 286 thousand and RUB 1 315 166 thousand, respectively, secured by the Group's own debt securities issued in the amount of RUB 2 304 143 thousand and RUB 998 143 thousand, respectively. The contractual maturities of issued securities exceed the contractual maturities of loans, under which these securities are issued.

	30 June 2020 (unaudited)	31 December 2019
Analysis by economic sector:		
Individuals	98 923 220	90 325 969
Commerce	11 811 968	11 575 507
Real estate and construction	7 668 521	6 093 733
Financial sector	1 846 678	2 344 507
Transport and communications	1 737 821	1 807 029
Manufacturing	1 251 029	1 641 294
Finance leases	1 138 537	1 188 116
Agriculture	306 200	1 269 112
Other	1 462 665	2 047 896
Loans to customers	126 146 639	118 293 163
Less allowance for expected credit losses	(15 942 559)	(10 855 558)
Total loans to customers	110 204 080	107 437 605

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

11. Loans to customers (continued)

Loans to individuals comprised the following products:

	30 June 2020 (unaudited)	31 December 2019
Consumer loans	67 871 269	62 971 274
Credit cards	19 412 102	15 617 856
Mortgage loans	11 071 549	11 163 930
Other	568 300	572 909
Loans to individuals	98 923 220	90 325 969
Less allowance for expected credit losses	(11 932 441)	(7 013 915)
Total loans to individuals	86 990 779	83 312 054

As at 30 June 2020 and 31 December 2019, loans to individuals comprised mortgage loans of RUB 703 069 thousand and RUB 813 213 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2014.

As at 30 June 2020, loans to customers comprise loans in Stage 1 in the amount of RUB 2 688 870 thousand (31 December 2019: RUB 0 thousand) and in Stage 2 in the amount of RUB 2 494 482 thousand (31 December 2019: RUB 326 176 thousand), the terms of which were revised under own restructuring programs for the six months ended 30 June 2020. As at 30 June 2020, loans to customers comprise loans in the amount of RUB 444 176 thousand (31 December 2019: RUB 0 thousand), the terms of which were revised under the Central Bank's measures (disclosed in Note 16) for the six months ended 30 June 2020. The revision of terms did not result in significant modifications and did not have a material impact on the amortised cost of these loans.

The Bank regularly monitors the dynamics of existing restructured loans. Separate monitoring of loans repayments is carried out for these loans.

In 2020 and 2019, the Group sold certain loans to third parties with a discount to nominal value with no recourse and without any service obligations associated with the loans. For the six months ended 30 June 2020, write-off against allowance upon sale of such loans amounted to RUB 250 115 thousand (for the year ended 31 December 2019: RUB 39 600 thousand), the total revenue from the sales was RUB 136 653 thousand (for the year ended 31 December 2019: loss of RUB 13 635 thousand), presented in the statement of profit and loss in "Allowance for expected credit losses on interest bearing assets".

As at 30 June 2020 and 31 December 2019, loans in the amount of RUB 2 992 333 thousand and RUB 3 327 115 thousand, respectively, assessed on an individual basis in Stage 3, were secured by collateral for real estate, equipment, inventory, bills of exchange, as well as guarantees with a fair value of RUB 797 449 thousand and RUB 740 977 thousand, respectively.

The effect of the Group's operating environment on the assessment of allowance for expected credit losses is disclosed in Note 16.

As at 30 June 2020 the Group granted loans to two groups of borrowers totalling RUB 8 031 994 thousand (as at 31 December 2019: to one group of borrowers totalling RUB 4 055 234 thousand) which individually exceeded 10% of the Group's equity.

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

11. Loans to customers (continued)

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

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

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

	Stage 1	Stage 2	Stage 3	Total
31 March 2020 (unaudited)	559 500	91 954	3 216 568	3 868 022
Transfer to Stage 2	(87 808)	87 808	-	-
Transfer to Stage 3	(3 283)	(16 205)	19 488	-
New assets originated or purchased	15 383	-	-	15 383
Changes due to changes in credit risk	300 344	243 493	(158 549)	385 288
Write off of allowance upon sale	-	-	(250 115)	(250 115)
Write-off against allowance	-	-	(16 205)	(16 205)
Recoveries of the assets previously written off	-	-	7 745	7 745
30 June 2020 (unaudited)	784 136	407 049	2 818 933	4 010 118

Information about the movement in the allowance for expected credit losses on loans to legal entities for the six months ended 30 June 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	1 494	(88)	(1 406)	-
Transfer to Stage 2	(20 279)	20 871	(592)	-
Transfer to Stage 3	(96 163)	(330 027)	426 190	-
New assets originated or purchased	183 472	40 700	-	224 172
Changes due to changes in credit risk	(16 981)	(2 960)	(73 805)	(93 746)
Write off of allowance upon sale	(109 800)	-	-	(109 800)
Recoveries of the assets previously written off	-	-	105 864	105 864
Foreign exchange	2 009	-	-	2 009
30 June 2019 (unaudited)	260 313	323 639	3 864 260	4 448 212

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

11. Loans to customers (continued)

The movements in the allowance for expected credit losses on loans to legal entities for the three months ended 30 June 2019 were as follows:

	Stage 1	Stage 2	Stage 3	Total
31 March 2019 (unaudited)	276 585	266 672	3 865 780	4 409 037
Transfer to Stage 1	(592)	-	592	-
Transfer to Stage 2	(19 935)	17 714	2 221	-
Transfer to Stage 3	(7 652)	(2 364)	10 016	-
New assets originated or purchased	65 043	40 594	-	105 637
Changes due to changes in credit risk	(53 136)	1 023	(68 910)	(121 023)
Recoveries of the assets previously written off	-	-	54 561	54 561
30 June 2019 (unaudited)	260 313	323 639	3 864 260	4 448 212

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

	Stage 1	Stage 2	Stage 3	Total
31 December 2019	1 925 065	1 101 838	3 987 012	7 013 915
Transfer to Stage 1	512 963	(390 305)	(122 658)	-
Transfer to Stage 2	(263 778)	381 528	(117 750)	-
Transfer to Stage 3	(831)	(1 755 143)	1 755 974	-
New assets originated or purchased	624 246	-	-	624 246
Changes due to changes in credit risk	(103 500)	3 378 064	1 522 366	4 796 930
Write-off against allowance	-	-	(623 883)	(623 883)
Recoveries of the assets previously written off	-	-	121 233	121 233
30 June 2020 (unaudited)	2 694 165	2 715 982	6 522 294	11 932 441

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

	Stage 1	Stage 2	Stage 3	Total
31 March 2020 (unaudited)	2 145 931	1 406 431	5 172 994	8 725 356
Transfer to Stage 1	234 412	(172 001)	(62 411)	-
Transfer to Stage 2	(166 890)	242 410	(75 520)	-
Transfer to Stage 3	(829)	(1 017 186)	1 018 015	-
New assets originated or purchased	288 856	-	-	288 856
Changes due to changes in credit risk	192 685	2 256 328	808 657	3 257 670
Write-off against allowance	-	-	(395 675)	(395 675)
Recoveries of the assets previously written off	-	-	56 233	56 233
30 June 2020 (unaudited)	2 694 165	2 715 982	6 522 294	11 932 441

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

11. Loans to customers (continued)

Information about the movement in the allowance for expected credit losses on loans to individuals for the six months ended 30 June 2019 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 December 2018	962 288	449 109	3 174 532	4 585 929
Transfer to Stage 1	308 949	(202 945)	(106 004)	-
Transfer to Stage 2	(78 103)	112 699	(34 596)	-
Transfer to Stage 3	(565)	(551 647)	552 212	-
New assets originated or purchased	605 404	-	-	605 404
Changes due to changes in credit risk	(478 130)	992 239	411 159	925 268
Write-off against allowance	-	-	(828 037)	(828 037)
Recoveries of the assets previously written off	-	-	237 095	237 095
30 June 2019 (unaudited)	1 319 843	799 455	3 406 361	5 525 659

Information about the movement in the allowance for expected credit losses on loans to individuals for the three months ended 30 June 2019 is presented below:

	Stage 1	Stage 2	Stage 3	Total
31 March 2019 (unaudited)	1 051 196	593 370	3 288 337	4 932 903
Transfer to Stage 1	165 676	(118 715)	(46 961)	-
Transfer to Stage 2	(44 238)	65 185	(20 947)	-
Transfer to Stage 3	(565)	(324 210)	324 775	-
New assets originated or purchased	347 455	-	-	347 455
Changes due to changes in credit risk	(199 681)	583 825	216 893	601 037
Write-off against allowance	-	-	(507 899)	(507 899)
Recoveries of the assets previously written off	-	-	152 163	152 163
30 June 2019 (unaudited)	1 319 843	799 455	3 406 361	5 525 659

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

11. Loans to customers (continued)

As at 30 June 2020 and 31 December 2019, loans to legal entities in Stage 1 assessed on an individual basis included loans for financing of a construction project with allowance for expected credit losses estimated based on a scenario analysis of the project's future discounted cash flows. As at 30 June 2020 and 31 December 2019, the allowance rate for such loans was 21.31% and 26.2%, respectively.

Information about the quality of loans to legal entities as at 30 June 2020 and 31 December 2019 is presented in tables below:

	Stage 1	Stage 2	Stage 3	30 June 2020 (unaudited)
<i>Assessed on a collective basis</i>				
Not past due	1 148 049	26 097	-	1 174 146
Past due:				
up to 30 days	-	17 581	498	18 079
from 31 to 60 days	-	53	-	53
from 61 to 90 days	-	12 365	3 357	15 722
from 91 to 180 days	-	-	17 946	17 946
over 180 days	-	-	680 468	680 468
Total loans to legal entities assessed on a collective basis	1 148 049	56 096	702 269	1 906 414
<i>Assessed on an individual basis</i>				
Current	5 907 236	5 902 356	-	11 809 592
Requiring monitoring	6 290 676	4 608 787	-	10 899 463
Default	-	-	2 607 950	2 607 950
Total loans to legal entities assessed on an individual basis	12 197 912	10 511 143	2 607 950	25 317 005
Less allowance for expected credit losses	(784 136)	(407 049)	(2 818 933)	(4 010 118)
TOTAL	12 561 825	10 160 190	491 286	23 213 301

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

11. Loans to customers (continued)

	Stage 1	Stage 2	Stage 3	31 December 2019
<i>Assessed on a collective basis</i>				
Not past due	1 182 283	30 786	-	1 213 069
Past due:				
up to 30 days	14 931	6 645	7 902	29 478
from 31 to 60 days	-	24 229	6 107	30 336
from 61 to 90 days	-	-	226	226
from 91 to 180 days	-	-	13 556	13 556
over 180 days	-	-	672 364	672 364
Total loans to legal entities assessed on a collective basis	1 197 214	61 660	700 155	1 959 029
<i>Assessed on an individual basis</i>				
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 assessed on an individual basis	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

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

11. Loans to customers (continued)

Information about the quality of loans to individuals as at 30 June 2020 and 31 December 2019 is presented in tables below:

	Stage 1	Stage 2	Stage 3	30 June 2020 (unaudited)
<i>Assessed on a collective basis</i>				
Not past due	83 138 082	-	-	83 138 082
Past due:				
up to 30 days	-	4 604 366	-	4 604 366
from 31 to 60 days	-	1 110 796	-	1 110 796
from 61 to 90 days	-	1 917 498	-	1 917 498
from 91 to 180 days	-	-	2 283 021	2 283 021
over 180 days	-	-	5 425 428	5 425 428
Total loans to individuals assessed on a collective basis	83 138 082	7 632 660	7 708 449	98 479 191
<i>Assessed on an individual basis</i>				
Requiring monitoring	-	59 646	119 826	179 472
Default	-	-	264 557	264 557
Total loans to individuals assessed on an individual basis	-	59 646	384 383	444 029
Less allowance for expected credit losses	(2 694 165)	(2 715 982)	(6 522 294)	(11 932 441)
TOTAL	80 443 917	4 976 324	1 570 538	86 990 779

	Stage 1	Stage 2	Stage 3	31 December 2019
<i>Assessed on a collective basis</i>				
Not past due	81 590 589	-	-	81 590 589
Past due:				
up to 30 days	-	2 237 674	-	2 237 674
from 31 to 60 days	-	644 105	-	644 105
from 61 to 90 days	-	540 044	-	540 044
from 91 to 180 days	-	-	1 368 855	1 368 855
over 180 days	-	-	3 494 068	3 494 068
Total loans to individuals assessed on a collective basis	81 590 589	3 421 823	4 862 923	89 875 335
<i>Assessed on an individual basis</i>				
Requiring monitoring	-	137 821	49 420	187 241
Default	-	-	263 393	263 393
Total loans to individuals assessed on an individual basis	-	137 821	312 813	450 634
Less allowance for expected credit losses	(1 925 065)	(1 101 838)	(3 987 012)	(7 013 915)
TOTAL	79 665 524	2 457 806	1 188 724	83 312 054

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

12. Customer accounts

Customer accounts comprised:

	30 June 2020 (unaudited)	31 December 2019
Term deposits	104 941 853	98 945 680
Current accounts	68 317 619	30 151 669
Total customer accounts	173 259 472	129 097 349

As at 30 June 2020 and 31 December 2019, customer accounts, individually exceeding 10% of the Group's equity, were received from 4 customers for a total of RUB 77 329 741 thousand (45% of the total amount of customer accounts) and RUB 43 259 728 thousand (34% of total customer accounts), respectively.

	30 June 2020 (unaudited)	31 December 2019
Analysis by economic sector:		
Individuals	111 713 896	100 851 792
Transport and communications	33 547 597	6 781 690
Financial sector	9 595 120	5 308 913
Commerce	3 162 056	4 014 870
Real estate and construction	4 284 520	2 495 684
Healthcare	2 133 325	1 629 134
Manufacturing	1 168 387	1 784 038
Science and education	247 834	54 360
Oil and gas	31 045	719 214
Other	7 375 692	5 457 654
Total customer accounts	173 259 472	129 097 349

13. Derivative financial instruments

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

As at 30 June 2020, derivative financial instruments comprised:

	RUB-denominated nominal value		Settlements	Fair value	
	Receivable	Payable		Asset	Liability
Derivative financial instruments:					
Forward foreign exchange contracts	96 387	96 387	July-August 2020	1 230	1 139
Total derivative financial instruments held for trading				1 230	1 139

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

13. Derivative financial instruments (continued)

As at 31 December 2019, derivative financial instruments comprised:

	RUB-denominated nominal value		Settlements	Fair value	
	Receivable	Payable		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

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

14. Share capital

As at 30 June 2020, the share capital consisted of 26 927 732 ordinary shares (31 December 2019: 23 327 760 ordinary shares) with par value of RUB 500 each and 1 000 preference shares (31 December 2019: 1 000 preference shares) with par value of RUB 500 each.

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

Owners of preferred shares have the right to receive a fixed annual dividend and to participate in the General meeting of shareholders of the Bank on issues of reorganization, liquidation and amendments to the Charter affecting the rights of such owners. Also, in the event of a decision on non-payment or incomplete payment of dividends on such shares, holders have the same voting rights as ordinary shares until the full amount of dividends is paid.

As at 30 June 2020 and 31 December 2019, share premium totalling RUB 12 640 965 thousand and RUB 9 440 950 thousand, respectively, represents an excess of contributions received over the nominal value of shares issued.

In March 2020, the Bank of Russia registered a Report on the results of an additional issuance of ordinary shares of MTS-Bank PJSC in the amount of 3 599 972 shares with par value RUB 500 (five hundred) each. The total amount obtained as a result of the placement was RUB 5 000 001 thousand. The additional issuance of ordinary shares were purchased by Mobile TeleSystems B. V., a 100% subsidiary of MTS PJSC.

In November 2019 the Bank of Russia registered a Report on the results of an additional issuance of ordinary shares of MTS-Bank PJSC in the amount of 2 519 980 (two million five hundred and nineteen thousand nine hundred and eighty) units with a nominal value of RUB 500 (five hundred) each. The total amount received as a result of the placement was RUB 3 500 000 thousand.

In 2018, PJSC MTS-Bank repurchased 55 303 ordinary shares and 400 preference shares. The amount of the repurchase totaled RUB 77 285 thousand.

Subsequent events are disclosed in Note 21.

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

14. Share capital (continued)

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 placed by closed subscription and can be repaid at the Group's discretion.

Payment of coupon income may be canceled or deferred in accordance with the terms of the issuance of these bonds.

The group considers perpetual bonds as an equity instrument, since according to the issuance documents:

- the issuer has the right to unilaterally waive its obligations to pay coupon income without the consent of the acquirer,
- it is possible to repay the bonds only by the issuer's decision
- the purchase of these bonds means that the acquirer agrees to the conditions listed above.

The Group also received confirmation of compliance of the subordinated bond loan with the requirements of Regulation 646-P "On the Method of Determining Own Funds (Capital) of Credit Institutions ("Basel III")" and the consent of the Central Bank of the Russian Federation to include the attracted funds in the sources of additional capital.

When making a decision to pay a coupon on perpetual bonds, the payment is reflected in the same way as declared dividends.

15. 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 carrying various degrees of credit risk are not presented in the consolidated statement of financial position.

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

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

As at 30 June 2020 and 31 December 2019 contingent liabilities comprised:

	30 June 2020 (unaudited)	31 December 2019
Credit-related contingent liabilities		
Loan commitments	23 578 640	23 811 063
Guarantees issued	21 585 576	19 846 625
Total credit-related contingent liabilities	45 164 216	43 657 688
Less allowance for expected credit losses	(468 423)	(402 609)
Total contingent financial liabilities	44 695 793	43 255 079

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

15. Commitments and contingencies (continued)

The movements in the allowance for loan commitments and guarantees issued for the three months ended 30 June 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 2	(6 841)	6 841	-	-
Transfer to Stage 3	-	(3 466)	3 466	-
Net change in allowance for expected credit losses	56 511	27 813	(194 683)	(110 359)
30 June 2019 (unaudited)	250 791	56 125	27 513	334 429
31 December 2019	338 968	16 472	47 168	402 608
Transfer to Stage 1	(7 190)	7 190	-	-
Transfer to Stage 2	(1 836)	1 836	-	-
Transfer to Stage 3*	(13 204)	-	13 204	-
Net change in allowance for expected credit losses	42 516	23 003	296	65 815
30 June 2020 (unaudited)	359 254	48 501	60 668	468 423

* Transfer of issued guarantees assessed on a collective basis from stage 1 to stage 3

Allowance of loans to customers within credit line limits is approved by the Group on a case-by-case basis upon the borrowers' drawdown requests and depends on borrowers' financial performance, debt service and other conditions. As at 30 June 2020 and 31 December 2019, such unused credit lines totaled RUB 7 035 810 thousand and RUB 10 048 835 thousand, respectively.

Information about the quality of loan commitments and guarantees issued as at 30 June 2020 and 31 December 2019 is presented below:

	Stage 1	Stage 2	Stage 3	30 June 2020 (unaudited)
<i>Assessed on a collective basis</i>				
Current	24 979 445	-	-	24 979 445
Requiring monitoring	-	124 570	-	124 570
Default	-	-	47 209	47 209
Total commitments and contingencies assessed on a collective basis	24 979 445	124 570	47 209	25 151 224
<i>Assessed on an individual basis</i>				
Current	12 966 464	2 225 344	-	15 191 808
Requiring monitoring	455 195	4 154 490	-	4 609 685
Default	-	-	211 499	211 499
Total commitments and contingencies assessed on an individual basis	13 421 659	6 379 834	211 499	20 012 992
Less allowance for expected credit losses	(359 254)	(48 501)	(60 668)	(468 423)
TOTAL	38 041 850	6 455 903	198 040	44 695 793

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

15. Commitments and contingencies (continued)

	Stage 1	Stage 2	Stage 3	31 December 2019
<i>Assessed on a collective basis</i>				
Current	19 985 595	-	-	19 985 595
Requiring monitoring	-	27 801	-	27 801
Default	-	-	45 776	45 776
Total commitments and contingencies assessed on a collective basis	19 985 595	27 801	45 776	20 059 172
<i>Assessed on an individual basis</i>				
Current	16 449 098	3 824 675	-	20 273 773
Requiring monitoring	658 996	2 454 249	-	3 113 245
Default	-	-	211 499	211 499
Total commitments and contingencies assessed on an individual basis	17 108 094	6 278 924	211 499	23 598 517
Less allowance for expected credit losses	(338 969)	(16 472)	(47 168)	(402 609)
TOTAL	36 754 719	6 290 253	210 107	43 255 080

Legal proceedings. On 18 November 2019, the Group received a claim from FGC UES for the recovery of funds in the amount of RUB 54 508 thousand according to the guarantee № G-1-3485/17 from 13 February 2017, issued by the Bank in enforcing the obligations of the Principal – JSC Engineering-construction company "Soyuz-seti" towards the Beneficiary - FGC UES under the Agreement dated 01 November 2011 №491241. As at the reporting date, the claim was pending before the Moscow Arbitration court. The decision on the case has not been made. The risk of an adverse outcome of the claim is assessed as "remote".

On 11 June 2020, the Group received a claim from a bankruptcy trustee of Stroitelnoye Upravleniye No. 1 JSC for the recognition of transactions (transfer of funds in the amount of RUB 1 559 751 thousand) as invalid and the application of the consequences of their invalidity. As at the reporting date this claim has not been brought to Moscow Arbitration Court. The risk of an adverse outcome of the claim is assessed as "remote".

The movements in the allowance for legal proceedings are disclosed in Note 5.

As at 30 June 2020 and 31 December 2019 there are no non-provided claims for which the risk is assessed as "probable", and there are no undisclosed claims for which the risk is assessed as "possible".

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

16. 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 may be 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.

Given that Russia produces and exports large volumes of oil and gas, the country's economy is particularly sensitive to the prices of oil and gas in the global market. In March 2020, oil prices dropped by more than 40%, which immediately resulted in depreciation of the Russian Ruble against major foreign currencies.

Since 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.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

In addition, at the beginning of 2020 the world saw an outbreak of COVID-19, which resulted in the World Health Organization (WHO) announcing a pandemic in March 2020. COVID-19 prevention efforts taken by many countries lead to significant operating constraints for many businesses and have a significant impact on international financial markets. The rapid spread of COVID-19 can significantly affect many businesses operating in various industries, including, but not limited to disruption of operations due to production interruptions/shutdowns, supply chain disruptions, staff quarantine, decrease in demand and funding issues.

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

Thus, the population's spending on non-food products in April decreased by 36.6% and on services by 57.7% compared to similar spending a year earlier. In May, spendings recovered only partially showing a drop of 15.5% and 47.6%, respectively¹. A significant easing of quarantine measures in June was immediately reflected in the growth of consumer spending: spending on non-food products was 0.8% higher than a year earlier.

Restrictive measures, falling consumer activity and spending levels could not but affect the banking sector. Thus, the issuance of consumer loans for six months of 2020 was 8% lower than the issuance of the same period a year earlier. Loans at points of sale naturally showed a drop of 32% relative to the volume of disbursements for the same period last year².

In addition, in accordance with the instructions of the President of the Russian Federation dated 25 March 2020, the Bank of Russia decided to implement a set of easing measures aimed at supporting the most vulnerable sectors of the economy and citizens-borrowers facing a reduction in income as a result of the pandemic (including the right of individuals and individual entrepreneurs to request a six-month credit vacation in the event of a drop in income due to the coronavirus), as well as a number of temporary regulatory eases 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 30 June 2020 and 31 December 2019 is disclosed in Note 11.

¹ Review of PJSC Sberbank of Russia "Operational assessment of consumer activity of Russians June 29 – July 5"

² Review of Frank Research Group

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

16. Operating environment (continued)

In general, despite the drop in sales in April and May, the Group managed to show a 3% increase in consumer loans for the first six months compared to the same period last year. The Group's point-of-sale loan disbursements were 2% higher than in the same period last year. This was made possible by the development of digital sales and the rapid recovery of demand for lending in the target segments for the Group.

In order to objectively reflect the impact of current macroeconomic conditions, the Group updated the main approaches to assessing the allowance for expected credit losses that have the most significant impact on the amounts presented in the consolidated financial statements as follows.

Loans to individuals, small and medium businesses:

1. The Group introduced the concept of technical overdue bucket that significantly improved differentiation of stage 2 loans by probability of default;
2. The Group included additional macroeconomic adjustment in assessment of loss probability by generations of loans issued less than 12 months, hence improving behaviour assessment of each generation;
3. Additionally, the Group has recalibrated macroeconomic model and updated macroeconomic forecasts based on the most recent information available;
4. Out of schedule stress testing of credit risk has been performed in light of macroeconomic environment deterioration.

Loans to corporate borrowers:

1. The Group has updated macroeconomic scenarios for PD model using the updated macroeconomic forecasts by CBRF and Oxford Economics;
2. Out of schedule stress testing of credit risk has been performed in light of macroeconomic environment deterioration;
3. Decrease of risk appetite took place caused by:
 - Enhancement of authorization procedures for new loans and tranches for existing unused lines of credit;
 - Review of new loan applications in light of stressful scenario of economic development according to budget and business plan;
 - Tendency to replace revolving and non-revolving lines of credit with products that have more preferable risk profile, like overdrafts and factoring;
 - Launch of enhancement monitoring of existing borrowers.

The weighted average allowance rates increased from 7,77% as at 31 December 2019 to 12.06% as at 30 June 2020 for individuals and from 13.74% to 14.73% for corporate borrowers including the effect from the update of macroeconomic forecasts.

COVID-19 may further affect the Group 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 testing

The Group conducts stress testing at least quarterly to determine its exposure to significant types of risk. This year stress testing was also conducted to assess the risks of the global COVID-19 pandemic. The group conducted stress testing of the loan portfolio (corporate borrowers, bonds held to maturity and individuals) under two scenarios:

1. Base forecast of CBRF dated July 24, 2020: crude oil price = USD 38 per barrel, GDP = -5.5% (bottom of the range);
2. Negative scenario of CBRF: crude oil price = USD 19 per barrel, GDP = -11.15%.

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

16. Operating environment (continued)

According to the Group estimations probability of occurrence is 80% for scenario 1 and 20% for scenario 2. Based on the results of credit risk stress testing, it is established that the capital adequacy ratios are within the acceptable level (based on the expert conservative assumption that an increase in expected credit losses ("ECL") will also lead to a comparable increase in reserves according to Russia accounting standards (RAS), since the calculation of capital and standards takes into account the reserves of RAS, not IFRS). ECL increase for Scenario 1 and 2 is equal to RUB 2.9 and 4.6 billion respectively:

- Scenario 1: corporate borrowers and bonds held to maturity – RUB 2.5 billion, individuals – RUB 0.4 billion;
- Scenario 2: corporate borrowers and bonds held to maturity – RUB 3.4 billion, individuals – RUB 1.2 billion.

Interest rate stress scenario is used for assets and liabilities sensitive to changes in interest rate which is a one-time increase by 400 b.p. for all time ranges. Calculations showed moderate decline of net interest income that may negatively affect bank's equity only in combination with exceptional amount of losses (more than 25% of equity) caused by occurrence of other types of risks.

Stress testing of Group's sensitivity to interest rate risk factors in trading book is carried out for several scenarios among which the key scenario is parallel shift of yield curves by 500 b.p. leading to negative revaluation of bond portfolio that is significantly lower than 5% of Group's own funds.

Stress testing of Group's liquidity position is carried out according to three model scenarios provided for by internal policies: "short-term financial crisis", "long-term systematic crisis" and "reputational crisis of the group of companies". Stress test model has composite nature and includes reduction of inflows from assets due to realization of credit risk, as well as significant outflows of outside funds (100%, 50% in rare cases, of conditionally stable level for current liabilities). Ultimate goal of the stress testing is assessment of bank's liquidity buffer adequacy including the assessment of the survival period of the bank compared to the minimum limits set by the Risk appetite declaration of PJSC MTS-Bank. Results of the stress testing displayed that "survival period" is reached for all three base scenarios.

When conducting the above stress tests, management did not consider the scenario of real estate depreciation for resale, as there are currently no significant changes in market prices. The Group's management plans to continue monitoring the market situation, but it is not expected that a possible change in the value of real estate for resale will significantly affect the value of the mandatory capital adequacy ratios of the Central Bank of the Russian Federation and the financial position of the Group.

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

Considering that in current circumstances, caused by COVID-19, majority of governments globally have chosen ways of monetary and fiscal stimulation, as well as increased cash accessibility, mentioned hypothetical stress test scenarios that take into account sharp increase of interest rate and liquidity deficit on the market, adequately include possible pandemic influence on the Group.

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

17. 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. Information on the Group's transactions with related parties as at 30 June 2020 and 31 December 2019 the year is presented below:

	30 June 2020 (unaudited)		31 December 2019	
	Related party transactions	Total category as per the financial statements	Related party transactions	Total category as per the financial statements
Investments in securities	1 903 094	34 215 086	1 541 883	28 726 697
- entities with joint control or significant influence over the Group	1 417 645		1 439 672	
- entities under common control with the Group	206 194		-	
- other related parties	279 255		102 211	
Due from banks	393	43 945 733	-	6 012 463
- entities under common control with the Group	393		-	
Loans to customers before allowance for expected credit losses	7 310 064	126 146 639	6 157 299	118 293 163
- the parent	39 250		-	
- entities under common control with the Group	4 508 117		3 201 478	
- key management personnel of the Group or its parent	87 245		51 424	
- other related parties	2 675 452		2 904 397	
Allowance for expected credit losses on loans to customers	(113 980)	(15 942 559)	(69 772)	(10 855 558)
- the parent	(384)		-	
- entities under common control with the Group	(70 712)		(41 915)	
- key management personnel of the Group or its parent	(1 935)		(682)	
- other related parties	(40 949)		(27 175)	
Investments in a joint venture	648 180	648 180	658 467	658 467
- entities under common control with the Group	648 180		658 467	
Derivative financial instruments, net	-	91	(21)	1 020
- the parent	-		(21)	
Other assets before allowance for expected credit losses	105 234	2 018 991	232 828	1 891 969
- the parent	38 363		105 833	
- entities under common control with the Group	66 525		126 823	
- key management personnel of the Group or its parent	-		1	
- other related parties	346		171	
Due to banks and other financial institutions	91 666	200 055	113 373	12 305 308
- entities under common control with the Group	91 666		113 373	

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

17. Related party transactions (continued)

	30 June 2020 (unaudited)		31 December 2019	
	Related party transactions	Total category as per the financial statements	Related party transactions	Total category as per the financial statements
Customer accounts	82 058 399	173 259 472	47 454 170	129 097 349
- the parent	28 743 332		2 116 797	
- entities with joint control or significant influence over the Group	5 428 369		242 075	
- entities under common control with the Group	11 777 028		11 544 981	
- key management personnel of the Group or its parent	32 939 811		30 948 578	
- other related parties	3 169 859		2 601 739	
Debt securities issued	2 134 484	3 254 992	1 009 689	2 429 216
- entities under common control with the Group	2 134 484		1 009 689	
Lease liabilities	78 263	597 109	97 393	627 781
- the parent	14 035		18 460	
- entities under common control with the Group	64 228		78 933	
Other liabilities	1 412 499	5 014 686	1 317 965	5 608 741
- the parent	449 522		424 008	
- entities under common control with the Group	126 084		393 021	
- key management personnel of the Group or its parent	832 460		497 217	
- other related parties	4 433		3 719	
Commitments on loans and unused credit lines	65 826	23 578 640	1 079 390	23 811 063
- entities under common control with the Group	65 826		617 335	
- key management personnel of the Group or its parent	-		11 779	
- other related parties	-		450 276	
Guarantees issued and similar commitments	1 304 529	21 585 576	790 662	19 846 625
- entities under common control with the Group	384 614		224 791	
- other related parties	919 915		565 871	

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

17. Related party transactions (continued)

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

	Six months ended 30 June 2020 (unaudited)		Six months ended 30 June 2019 (unaudited)	
	Related party transactions	Total category as per the financial statements	Related party transactions	Total category as per the financial statements
Key management personnel remuneration:	227 694	2 604 570	401 604	2 845 540
- short-term compensation	147 654		275 104	
- long-term compensation	80 040		126 500	

The statement of profit or loss for the six months ended 30 June 2020 and 30 June 2019 included the following amounts arising from transactions with related parties:

	Six months ended 30 June 2020 (unaudited)		Six months ended 30 June 2019 (unaudited)	
	Related party transactions	Total category as per the financial statements	Related party transactions	Total category as per the financial statements
Interest income	296 892	11 087 396	178 133	8 592 638
- entities with joint control or significant influence over the Group	54 678		14 940	
- entities under common control with the Group	108 397		103 405	
- key management personnel of the Group or its parent	2 168		3 348	
- other related parties	131 649		56 440	
Interest expense	(1 810 883)	(3 811 344)	(1 736 375)	(3 401 016)
- the parent	(111 861)		(350 068)	
- entities with joint control or significant influence over the Group	(75 980)		(206 583)	
- entities under common control with the Group	(502 256)		(149 545)	
- key management personnel of the Group or its parent	(1 028 137)		(954 293)	
- other related parties	(92 649)		(75 886)	
Recovery of allowance/(allowance) for expected credit losses on interest bearing assets	31 898	(5 784 315)	12 505	(1 647 318)
- entities under common control with the Group	18 320		10 379	
- key management personnel of the Group or its parent	(26)		1 268	
- other related parties	13 604		858	
Net gain on operations with derivative financial instruments	-	4 204	332 716	345 899
- entities under common control with the Group	-		332 716	

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

17. Related party transactions (continued)

	Six months ended 30 June 2020 (unaudited)		Six months ended 30 June 2019 (unaudited)	
	Related party transactions	Total category as per the financial statements	Related party transactions	Total category as per the financial statements
Net gain/(loss) on foreign exchange operations	17 482	107 027	124 254	(275 435)
- the parent	-		84 103	
- entities with joint control or significant influence over the Group	4 733		16 123	
- entities under common control with the Group	12 454		24 029	
- other related parties	295		(1)	
Fee and commission income	382 995	5 458 168	348 960	4 444 799
- the parent	215 251		161 873	
- entities with joint control or significant influence over the Group	5 017		24 419	
- entities under common control with the Group	150 752		159 763	
- key management personnel of the Group or its parent	1 313		1 587	
- other related parties	10 662		1 318	
Fee and commission expense	(994 499)	(2 583 258)	(1 008 296)	(2 418 131)
- the parent	(662 910)		(600 383)	
- entities under common control with the Group	(331 552)		(407 477)	
- key management personnel of the Group or its parent	-		(336)	
- other related parties	(37)		(100)	
Allowance for expected credit losses on other transactions	9 276	(318 268)	(4 136)	158 411
- entities under common control with the Group	12 874		(6 346)	
- other related parties	(3 598)		2 210	
Other income	35 038	186 921	9 332	124 484
- the parent	15 072		1 970	
- entities with joint control or significant influence over the Group	11		9	
- entities under common control with the Group	19 081		6 796	
- key management personnel of the Group or its parent	491		19	
- other related parties	383		538	
Operating expenses (less personnel cost)	(701 856)	(2 889 632)	(503 471)	(2 361 796)
- the parent	(637 325)		(430 314)	
- entities with joint control or significant influence over the Group	-		(97)	
- entities under common control with the Group	(63 078)		(72 630)	
- other related parties	(1 453)		(430)	

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)**

17. Related party transactions (continued)

Included in the interim consolidated statement of profit or loss for the three months ended 30 June 2020 and 30 June 2019 are the following amounts which were recognized in transactions with related parties:

	Three months ended 30 June 2020 (unaudited)		Three months ended 30 June 2019 (unaudited)	
	Related party transactions	Total category as per the financial statements	Related party transactions	Total category as per the financial statements
Interest income	149 452	5 574 268	83 544	4 419 384
- entities with joint control or significant influence over the Group	25 665		11 177	
- entities under common control with the Group	57 643		50 601	
- key management personnel of the Group or its parent	961		752	
- other related parties	65 183		21 014	
Interest expenses	(1 106 435)	(1 898 669)	(897 612)	(1 750 353)
- the parent	(64 537)		(178 885)	
- entities with joint control or significant influence over the Group	(36 272)		(121 042)	
- entities under common control with the Group	(440 673)		(71 387)	
- key management personnel of the Group or its parent	(517 194)		(487 103)	
- other related parties	(47 759)		(39 195)	
Recovery of allowance/(allowance) for expected credit losses on interest bearing assets	24 595	(3 955 508)	10 442	(926 563)
- entities under common control with the Group	9 111		7 711	
- key management personnel of the Group or its parent	(141)		1 840	
- other related parties	15 625		891	
Net gain on operations with derivative financial instruments	-	2 870	71 496	80 056
- entities under common control with the Group	-		71 496	

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

17. Related party transactions (continued)

	Three months ended 30 June 2020 (unaudited)		Three months ended 30 June 2019 (unaudited)	
	Related party transactions	Total category as per the financial statements	Related party transactions	Total category as per the financial statements
Net gain/(loss) on foreign exchange operations	61 451	(47 049)	52 937	(127 461)
- the parent	43 189		4 083	
- entities with joint control or significant influence over the Group	5 794		17 107	
- entities under common control with the Group	11 979		31 746	
- other related parties	489		1	
Fee and commission income	177 404	2 552 648	174 761	2 433 225
- the parent	108 975		73 028	
- entities with joint control or significant influence over the Group	1 337		19 532	
- entities under common control with the Group	60 630		80 627	
- key management personnel of the Group or its parent	712		925	
- other related parties	5 750		649	
Fee and commission expense	(466 695)	(1 241 088)	(535 294)	(1 334 317)
- the parent	(365 661)		(302 266)	
- entities under common control with the Group	(101 009)		(232 707)	
- key management personnel of the Group or its parent	-		(222)	
- other related parties	(25)		(99)	
Allowance for expected credit losses on other transactions	11 721	(350 064)	4 767	28 858
- entities under common control with the Group	13 870		2 519	
- other related parties	(2 149)		2 248	
Other income	7 434	91 377	1 524	49 355
- the parent	1 180		1 022	
- entities with joint control or significant influence over the Group	3		1	
- entities under common control with the Group	5 922		41	
- key management personnel of the Group or its parent	261		11	
- other related parties	68		449	
Operating expenses (less personnel cost)	(330 739)	(1 338 285)	(226 784)	(1 241 142)
- the parent	(306 866)		(181 441)	
- entities with joint control or significant influence over the Group	-		(58)	
- entities under common control with the Group	(22 650)		(44 874)	
- other related parties	(1 223)		(411)	

As at 30 June 2020 and 31 December 2019, PJSC MTS was the intermediate parent and PJSC AFK Sistema was the ultimate parent.

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)**

18. Fair value of financial instruments

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

The following tables provide an analysis of financial assets and financial liabilities that are measured on a recurring basis at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 30 June 2020 and 31 December 2019.

	Level 1	Level 2	Level 3	30 June 2020 (unaudited)
Financial assets				
Debt securities at fair value through profit and loss	19 939 089	-	-	19 939 089
Derivative financial instruments	-	1 230	-	1 230
Financial liabilities				
Derivative financial instruments	-	1 139	-	1 139

	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 description of the inputs used in the fair value measurement for level 2 measurements at 30 June 2020 and 31 December 2019 were as follows:

	30 June 2020 (unaudited)		Measurement methodology	Key inputs
	Fair value Assets	Fair value Liabilities		
Derivative financial instruments	1 230	1 139	Black-Scholes option pricing model	Effective interest rates on asset
Total recurring fair value measurements at level 2	1 230	1 139		

	31 December 2019		Measurement methodology	Key inputs
	Fair value Assets	Fair value Liabilities		
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		

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)

18. Fair value of financial instruments (continued)

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

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

If under the Group assessment interest rates for the loans issued before the reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future 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 instruments is based on Black-Scholes option pricing model, other valuation methods and performed using the management's best estimates and applicable interest rates.

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

	30 June 2020 (unaudited)		31 December 2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans to customers	110 204 080	117 680 045	107 437 605	110 697 548
Securities at amortized cost	14 275 998	14 770 273	15 453 274	15 936 152
Financial liabilities				
Customer accounts	173 259 472	173 697 083	129 097 349	129 552 903
Debt securities issued	3 254 992	3 254 992	2 429 216	2 434 438

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

18. Fair value of financial instruments (continued)

The following tables provide the analysis of the fair values of financial instruments which differ from their carrying amounts as at 31 March 2020 and 31 December 2019. There were no transfers between levels during six months of 2020 and 2019.

	Level 1	Level 2	Level 3	30 June 2020 (unaudited)
Financial assets				
Loans to customers	-	-	117 680 045	117 680 045
Securities at amortized cost	14 770 273	-	-	14 770 273
Financial liabilities				
Customer accounts	-	-	173 697 083	173 697 083
Debt securities issued	-	-	3 254 992	3 254 992

	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

19. Capital management

The Group manages its capital to cover risks associated with the Group's business. The Group's capital adequacy is controlled using, among other measures, the principles and approaches established by the requirements of the Central Bank of the Russian Federation.

The main objective of capital management is to monitor compliance with external requirements for the Group's capital, as well as to monitor the maintenance of reliable credit ratings and capital ratios to ensure the Group's operations and maximize shareholder value.

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

In accordance with the CBR Regulation No. 646-P *On Methods of Calculation of Equity (Capital) by Credit Institution ("Basel III")* the Group's capital (equity) as at 30 June 2020 and 31 December 2019 was as follows:

	30 June 2020 (unaudited)	31 December 2019
Base capital	24 438 091	18 440 806
Core capital	29 438 091	23 440 806
Additional capital	8 102 028	8 910 916
Total equity (capital)	37 540 119	32 351 722

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

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

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

19. Capital management (continued)

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

- the value of the common equity adequacy ratio (N1.1), calculated in accordance with the Bank of Russia's Instruction No. 180-I dated 28 June 2017 "On Mandatory Bank Ratios", fell below the level set by the Regulation for the exchange of subordinated loans, which at the date of conclusion of the Agreement is 2%, for the period set by the Regulation, or
- approval by the banking supervision Committee of the Bank of Russia of the Lender's participation plan in the implementation of measures to prevent the bankruptcy of the borrower Bank, which provides for the Lender to provide financial assistance provided for by the Federal law on insolvency (bankruptcy).

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

During the periods ended 30 June 2020 and 31 December 2019 the Group met the capital adequacy requirements established by the CBR. As at 30 June 2020 and 31 December 2019, the Bank's capital adequacy ratio in accordance with CBR requirements was 13.7% and 13.7% respectively. In 2020, the Group decided not to use the measures proposed by the Bank of Russia and indicated in the series of information letters for calculation of banking obligatory ratios.

20. Risk management policies

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

Changes in the operating environment in 2020 had no impact on risk management. The policies and methods adopted by the Group to manage financial risks are consistent with the policies and methods used and described in the Group's financial statements for 2019, except for changes in credit risk management disclosed in Note 16.

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

Deposits of individuals in the liquidity analysis are disclosed by maturity in accordance with the agreement. In accordance with the legislation of the Russian Federation, these deposits can be withdrawn upon request within up to 1 month. However, based on the analysis of past events and the Group's experience, these deposits are usually extended rather than withdrawn. In addition, based on the Group's forecasts based on different behavior of deposit holders, the scenario of withdrawal of all deposits on the horizon up to 1 month is considered as extremely stressful and is not used for the purposes of liquidity management and, as a result, for the purposes of disclosure of information in the financial statements.

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)
(in thousands of Russian Rubles, unless otherwise indicated)**

20. Risk management policies(continued)

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

Loans to customers in Stage 2 are disclosed as "indefinite/overdue" only up to the overdue portion of the debt less expected credit losses, excluding those payments that have not yet been settled under the agreement, and for Stage 3 up to the total amount of the debt less expected credit losses.

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

- OFZ loans received from the Deposit Insurance Agency, reflected on off-balance accounts, but disclosed 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 CBR Lombard List, are adjusted for the 15% discount and charged for up to 1 month as stable sources of financing;
- Investments in debt securities measured at amortized cost: for securities included in the Lombard List of the CBR, the amounts of investments adjusted for a discount of 15% are assigned for a period of up to 1 month and are accounted for in the amount of stable sources of financing. These securities are classified as held to maturity. The group does not plan to sell these securities under the current business model, but they can be sold to meet the liquidity requirement in the event of a stressful scenario;
- Time deposits of individuals: part of the amounts of planned withdrawal of deposits is reflected in the article of stable sources of financing, as the Bank 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 during crisis;
- Stable balances on customer accounts. Conservative estimate of stability of balances was used for periods up to 1 year. The estimate is based on historical statistics of account behavior, as well as scenario modeling.

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Risk management policies(continued)

	Up to 1 month	1-3 months	3 months - 1 year	1 year - 5 years	Over 5 years	Maturity undefined/ overdue	30 June 2020 (unaudited)
FINANCIAL ASSETS							
Investments in securities	20 477 403	646 016	3 780 073	9 311 594	-	-	34 215 086
Due from banks	12 014 360	-	-	-	-	-	12 014 360
Loans to customers	5 646 939	12 587 793	32 656 202	50 677 464	6 261 940	2 373 742	110 204 080
Total interest-bearing financial assets	38 138 702	13 233 809	36 436 275	59 989 058	6 261 940	2 373 742	156 433 526
Cash and balances with the Central Bank	11 286 932	217 738	437 908	5 009	-	-	11 947 587
Due from banks	31 931 373	-	-	-	-	-	31 931 373
Derivative financial instruments	994	236	-	-	-	-	1 230
Other financial assets	970 165	57 796	24 994	-	-	38 547	1 091 502
Total financial liabilities	82 328 166	13 509 579	36 899 177	59 994 067	6 261 940	2 412 289	201 405 218
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	35 000	-	-	-	-	-	35 000
Customer accounts	13 594 194	30 106 240	60 548 774	692 644	-	-	104 941 852
Debt securities issued	36 456	-	1 662 499	820 516	-	-	2 519 471
Lease liabilities	18 646	44 552	192 832	341 079	-	-	597 109
Total interest-bearing financial liabilities	13 684 296	30 150 792	62 404 105	1 854 239	-	-	108 093 432
Derivative financial instruments	957	182	-	-	-	-	1 139
Due to banks and other financial institutions	165 055	-	-	-	-	-	165 055
Customer accounts	68 317 620	-	-	-	-	-	68 317 620
Other financial liabilities	1 927 127	520 284	1 367 680	-	-	-	3 815 091
Debt securities issued	-	19 484	60 438	291 859	363 740	-	735 521
Total financial liabilities	84 095 055	30 690 742	63 832 223	2 146 098	363 740	-	181 127 858
Liquidity gap	(1 766 889)	(17 181 163)	(26 933 046)	57 847 969	5 898 200		
Stable sources of funding	41 670 003	15 723 636	21 823 012	(16 202 621)	(63 014 030)		
Net liquidity gap	39 903 114	(1 457 527)	(5 110 034)	41 645 348	(57 115 830)		
Total liquidity gap	39 903 114	38 445 587	33 335 553	74 980 901	17 865 071		

Public Joint-Stock Company "MTS-Bank"

Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2020 (continued) (in thousands of Russian Rubles, unless otherwise indicated)

20. Risk management policies (continued)

	Up to 1 month	1-3 months	3 months - 1 year	1 year - 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	22 529 392	128 576	697 840	9 363	-	-	23 365 171
Due from banks	4 174 427	-	-	-	-	-	4 174 427
Derivative financial instruments	22	26 255	-	-	-	-	26 277
Other financial assets	739 631	88 138	24 996	-	-	21 344	874 109
Total financial liabilities	47 184 701	12 586 085	40 150 557	58 067 362	6 628 507	1 825 110	166 442 322
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
Obligation to return securities	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	1 987 726	549 842	1 533 772	-	-	-	4071340
Debt securities issued	-	8 582	63 991	322 871	462 718	-	858 162
Total financial liabilities	61 255 813	14 046 172	71 080 849	1 982 344	462 718	-	148 827 896
Liquidity gap	(14 071 112)	(1 460 087)	(30 930 292)	56 085 018	6 165 789		
Stable sources of funding	40 625 049	641 119	30 854 995	(14 269 597)	(57 851 566)		
Adjusted liquidity gap	26 553 937	(818 968)	(75 297)	41 815 421	(51 685 777)		
Total liquidity gap	26 553 937	25 734 969	25 659 672	67 475 093	15 789 316		

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, as well as the past experience of the Group indicates 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.

Public Joint-Stock Company "MTS-Bank"

**Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2020 (continued)**
(in thousands of Russian Rubles, unless otherwise indicated)

20. Risk management policies (continued)

A maturity analysis for financial guarantees issued and loan commitments is presented in the following tables. These contingent liabilities are presented in accordance with the terms specified in the drawn contracts, but can be provided to the counterparties earlier upon their request. An analysis of past events and the Group's experience shows that contingent liabilities do not materialize within 1 month, thus they are presented on a contractual basis in the tables below. In addition, the Group regularly monitors counterparties (including their financial standing and performance results) and if negative signs are detected, loan commitments may be blocked. The Group does not include the analysis below for liquidity management purposes. If contingent liabilities would be included in the liquidity analysis above, the liquidity gap would increase by RUB 45 164 216 thousand and RUB 43 657 688 thousand, respectively, as at 30 June 2020 and 31 December 2019.

	Up to 1 month	1-3 months	3 months - 1 year	1 year - 5 years	Over 5 years	30 June 2020 (unaudited)
Guarantees issued	722 601	3 465 112	16 217 037	1 176 942	3 884	21 585 576
Loan commitments	984 766	2 325 278	11 326 389	8 942 207	-	23 578 640
Total contingent liabilities	1 707 367	5 790 390	27 543 426	10 119 149	3 884	45 164 216

	Up to 1 month	1-3 months	3 months - 1 year	1 year - 5 years	Over 5 years	31 Decem- ber 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

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

Significant part of the Group's current accounts are due 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.

21. Subsequent events

On 17 July 2020, 55 303 treasury ordinary shares owned by the Group with a par value of RUB 500 each and 400 preferred shares with a value of RUB 500 each were cancelled. As a result, the share of MTS PJSC in the capital of MTS-Bank increased to 99.99% (including the share of MGTS PJSC in the amount of 0.18%).