MOSCOW EXCHANGE

Q2 2022 IFRS results conference call

August 19, 2022

Moscow Exchange Speakers:

- Andrey Selyuk, CFO
- Anton Terentiev, Director of IR

Participants asking questions:

- Elena Tsareva, BCS
- Evgeniy Kipnis
- Olga Naidenova, Sinara Finance

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Operator

Please stand by, we are about to begin. Good day and welcome to the MOEX Q2 2022 IFRS results conference call. Today's conference is being recorded. At this time I would like to hand the call over to Anton Terentiev, head of IR. Please go ahead.

Anton Terentiev – Director of IR

Thank you. Good afternoon, everyone, and welcome to Moscow Exchange's second quarter 2022 IFRS results conference call. As usual, after the prepared remarks, we will have a Q&A session. Today we have on the call our CFO, Andrey Selyuk. We intend to make this call more relevant for our Russian-speaking audience by providing simultaneous translation into Russian. We will also have transcripts available in both languages. Therefore, please feel free to ask questions in both Russian and English during the Q&A. Hopefully, our Russian-speaking listeners will find the call more engaging this way.

Before we start, I would like to remind you that certain statements in this presentation and during the Q&A session may relate to future events and expectations and, as such, constitute forward-looking statements. Actual results may differ materially from those projections. The Company does not intend to update these statements to reflect events occurring after the date of the call prior to the next conference call.

By now, you should have received our press release containing the results for the second quarter of 2022. Our management presentation is available on the Company's website in the Investor Relations section. I will now hand the call over to Andrey Selyuk, CFO of Moscow Exchange.

Andrey Selyuk – CFO

Thank you, Anton, and good afternoon, everyone. Let us proceed with the presentation of our Q2 2022 results based on audited IFRS financial statements.

First, the Exchange continues to add new products. Rusal became the first Company to issue renminbi-denominated on-exchange bonds in Russia. New cash-settled futures and options on soft commodities were introduced on the Derivatives Market. Two new currencies — the Armenian dram and the South African rand — are now available on the FX Market. Options on renminbi, futures-style options in the Moscow Real Estate DomClick Index and perpetual futures on several base currencies were launched on the Derivatives Market.

Second, we continue to work on new services. Non-residents from friendly jurisdictions are now able to trade in the main mode on the Fixed Income and Derivatives Markets, meaning the regular order book. A similar solution for Equities will be delivered later as we need to introduce amendments to our systems triggered by the Presidential Decree No. 520 dated August 5.

MOEX released its third Sustainability Report. For the first time, the report complies with GRI and SASB international standards as confirmed by an independent assurance provider. Following a five-month stoppage, the evening trading session was resumed on the Derivatives Market. Market participants now have simultaneous access to both repo and deposit markets. This broadens the range of available liquidity management solutions. A new asymmetric tariff structure that favors liquidity makers was implemented on the FX and Derivatives markets. We have zero fees for those who create liquidity, putting bids and offers into the order book. The Equities Market will adopt a similar tariff structure later this year.

Third, we continue to develop our client base and partnerships. As of the end of July, the number of retail clients had surpassed 20.8 mln. More than 4 mln new clients have joined since the beginning of the year. The total number of Individual Investment Accounts exceeds 5.6 mln. The Primary Bond Market started to recover. 31 corporates — including four newcomers — placed 44 bond issues, raising a total of RUB 172 bln in the second quarter. MOEX Treasury, a one-stop access platform for corporate clients, almost doubled its volumes YoY. Now there are 85 corporates connected to MOEX Treasury. MOEX created the Investors' Protection Club in collaboration with market participants, aiming to protect investor rights under changing circumstances. We also acquired a minority stake in the crowdfunding investment platform Potok, expanding financing opportunities for small- and medium-sized entities. The Company has 14,000 investors as clients who have financed all about 7,000 small businesses for a total amount of RUB 15 bln.

The financial results for Q2. Fee and commission (F&C) income during the quarter declined by 19% YoY. Factors affecting the fee income dynamics will be covered on the next slide. Today, we see the F&C run-rate in the range between minus 15% and minus 20% toward the year-end. This is in line with the vision we provided during the presentation of financial results for the year 2021 in March this year. We mentioned that foreign clients brought some 15% of F&C income plus the knock-on effect from liquidity they generated for local investors. This activity is now gone, and the effect is proportional. Moving back to Q2 financials, operating expenses were up 17% YoY, mainly due to the increase in personnel expenses. EBITDA gained 18% YoY. On a QoQ basis, EBITDA gained 3%. Net Income improved by 19% and amounted to RUB 8.3 bln for Q2.

Slide 4. Fees and commission revenues demonstrated negative YoY dynamics across most business lines. Nevertheless, the fee income structure remains well-diversified. Let me now go line by line. On the Money Market, fee income decreased by 22%, while trading volumes went up by 41%. The discrepancy in effective fee dynamics was mostly linked to a decrease in average repo terms. Overall, average on-exchange repo terms were down 22%, while GCC repo terms fell 68%. Basically, market participants became short-termists as the planning horizon shrunk. Another significant factor for effective fee deterioration was the manifold decline in FX repo.

On the FX Market, fees gained 14%, while trading volumes decreased by 36%. Positive effective fee dynamics were driven by two major factors: a shift in the trading volumes' mix toward the spot segment and a change in client composition that resulted in a higher applicable tariff. Spot volumes decreased by 4.4%, while swap volumes nearly halved YoY amid a general economic trend of decreasing FX exposure.

A line called ITSLM includes revenue from the IT Services, Listing and Finuslugi Marketplace. Sales of software and technical services stood virtually flat, adding 2.5% YoY. The information services line decreased 14.8% on the back of significant ruble appreciation. Listing and other services declined by 41% due to lower primary bond market activity. Financial marketplace services fees accounted for RUB 183 mln. We saw flattish dynamics in compulsory motor insurance (OSAGO) sales, while the deposits segment performed quite well.

On the Derivatives Market, fee income declined by 49% YoY. Trading volumes shrank by 58% YoY as a major client category — foreign investors — could not operate. The discrepancy between fee income and volume dynamics is the result of a mix shift. The effective fee dynamics received a little support from the new asymmetric tariff structure implemented two weeks prior to the end of the second quarter. As noted on the previous slide, the new tariff structure favors liquidity makers.

Fee and commission income from the Equities Market fell by 61.1% on the back of a nearly identical decrease in trading volumes of 63.1%. A slight improvement in the effective fee is explained by a tariff structure that provides a discount for higher volumes and a premium for lower volumes. The second quarter velocity deteriorated significantly since foreign investors, a major client category, could not operate.

Fixed Income fees were down 63%. Trading volumes excluding overnight bonds shrank 70% YoY. Primary Market volumes were down 90% YoY amid a backdrop of elevated interest rates and persistent uncertainty. Effective fee dynamics was supported by the migration of trading volumes to value-added CCP-based trading modes. Recently, the primary bond market has started to recover as interest rates subside and stabilize.

Other business lines grew by 17% YoY.

Let us look at the analysis of operating expenses. Operating expenses in 2Q 2022 decreased by 12% QoQ and expanded 17% YoY. The non-organic contribution from the Inguru & NTPro consolidation was 2.5 p.p. The total contribution from the Marketplace including Inguru was 10.3 p.p. Therefore, core business OPEX increased by 7.1% YoY.

In the second quarter, we were winding down the marketing spend QoQ as the Finuslugi promo campaign approached its completion. Net of marketing expenses, which is the largest expense growth factor, OPEX added 11.4% YoY. That is below inflation.

Personnel expenses grew 19% YoY and decreased by 6% QoQ. The annual dynamics is largely explained by an increase in headcount, which grew 16% YoY, decomposing into: 3 p.p. due to NTPro acquisition, 1.5 p.p. due to previously outsourced IT personnel which was brought in-house, and 1.2 p.p. due to Inguru acquisition, while the remaining 10.5 p.p. attributable to other hires — mainly for IT specialists of Finuslugi marketplace.

Market makers' fees contracted on the back of a decline in trading volumes. D&A costs increased by 18% YoY due to accelerated CAPEX in the fourth quarter of 2021. IT maintenance costs added 3%. Remaining admin expenses were up 20% YoY. CAPEX for the second quarter amounted to almost RUB 1 bln and was spent on software purchases and development. CAPEX for the six months amounted to RUB 2 bln.

Let me now provide OPEX and CAPEX guidance. During our previous earnings call in early March, I said that MOEX intended to limit OPEX and CAPEX growth to the extent possible, while our original 2022 plans had implied OPEX growth above 20% and a meaningful increase in CAPEX. Today, we foresee the full year 2022 OPEX growth to be at or below 20%. Annual CAPEX spend is seen in the range between RUB 4 bln to RUB 5 bln.

This concludes my overview of the quarterly results. We are now ready to take questions.

Anton Terentiev – Director of IR

Operator, let us move to Q&A.

Operator

[Operator instructions]. We will pause for just a moment to allow everyone an opportunity to signal for questions.

We will take our first question from Elena Tsareva with BCS. Please go ahead.

Elena Tsareva – BCS

My first question is regarding your fee and commission and trading volumes, dynamics going forward as previous connections were quite lost and now in a new paradigm, there is a lot of changes. What are the main factors for trading volume dynamics and fee and commission and effective commissions going forward? What would be helpful for us to know to forecast this? This will be my first question.

Anton Terentiev – Director of IR

Okay, Elena, I will start answering this, and maybe Andrey will add a few words. Basically, you are totally right that trends that we have been outlining for quarters and years are now broken. We are now looking for the new ones to emerge. And the first thing to mention is that our tariff structure has historically been favoring higher trading volumes as it was providing discounts: the more you trade, the less you pay.

But now as volumes contracted quite substantially, we have to look for measures to stimulate liquidity. We came up with these asymmetric tariffs that Andrey mentioned during his speech. Basically, the maker in the order book pays zero and the taker pays substantially more. That broadly allows us to offset the decline in volumes in such markets as FX and Derivatives. This should happen as well in the Equities Market.

You should basically look for our revenue in absolute terms to stay flattish YoY as these tariffs come into full effect. As well, you should see better liquidity in order books. From what I know, as colleagues told me, the early observation is that these tariffs indeed help to improve the quality of the order book. Now the second point — these are three markets that I have covered. And then there is the Fixed Income Market where there is no tariff change. But in the Fixed Income Market, we see quite a substantial shift to CCP-based trading modes. It helps to support the effective fee plus the Primary Market is coming back. This should all help support the effective fee. I would say that the problem with the outlook is for the Money Market because really the structure there changed very substantially. Like Andrey said in his speech, everybody turned short-termist. You know that we have been advocating higher repo terms for quite a long time, and we have been doing a lot to make it happen. While today, we can only see and hope that the position will start creeping higher gradually. We cannot really make any outlook for the repo terms that we were confident about in the past.

Andrey Selyuk – CFO

Yes, Anton, thank you very much. Also, I would add up that on Slide 3, you can see that our fees and commission in total declined by almost 19% compared to the last year. As I mentioned, we gave you some guidance on our vision how in total the annual figures could be for the fees and commission. We believe it should be between a 15% and 20% decline. That is the general guidance. Thank you.

Elena Tsareva – BCS

The next question is about dividend distribution. Previously, the Supervisory Board recommended not to distribute dividends for 2021, but your press release says that there could be potential dividend payment discussion later this year. What is the color? Any color now on this question? Thank you.

Andrey Selyuk – CFO

Okay. Thank you for your question. It is very important. You are correct. The question and decision on payment of dividends is certainly the decision of the shareholders of the Company. On the Annual Shareholders Meeting at the end of June 2022, there was a decision not to pay dividends for the year 2021. As you mentioned, there is an agreement to return and consider dividend payments for 2021 in the second half of 2022. The second half has just started, and the first Board meeting will be at the end of September. Let us see what the decision of the Board members will be and what the decision of the shareholders will be.

Elena Tsareva – BCS

The last question is from my side. This is on the OPEX guidance, you see 20% or below YoY growth. Is there any possibility of breaking down this into the core business OPEX growth? And other details, if possible? On CAPEX guidance, RUB 4 - 5 bln this year looks like, compared to previous year, quite weighted as one-off due to some depreciation of ruble or some other factors. How do you see this going forward? That is from my side.

Anton Terentiev – Director of IR

Okay. Elena, I will start answering. For OPEX, the visibility is limited these days. For us, it will probably be a stretch or overly ambitious approach to break the OPEX down into some specific components because they might vary in quite broad ranges. Therefore, we do not think, at the moment, it just makes sense to provide that much of detailed guidance. Let us see how the year unfolds and maybe towards the end of the year, maybe we can get back to this breakdown question, but not today. As for CAPEX, Andrey said during the full year call that we would do everything in our capacity to control spending and we were putting all spending on projects on review. After several months of quiet grinding work, we came up to this guidance ranges that also apply to CAPEX. I think going forward, we need to see the situation with the equipment, with the availability of equipment, with the pricing of the equipment. It is all very fluid now. I know that you are looking to receive the statement we were able to give in previous periods that CAPEX will stay mostly flat in the future periods. But we just do not know at the moment. Hopefully, it will. But of course, the situation is changing too rapidly to make such statements today.

Andrey Selyuk – CFO

Yes. Also, I would add additional information to what Anton has just said. Actually, the key drivers of increase of our OPEX are just two items. These are our advertising costs and an increase in salary due to an increase in headcount. Actually, the Moscow Exchange used to be a very thin company in terms of personnel. We just increased the number of personnel to comply with the scope of the business. It was a necessary decision at the end of last year.

With regards to the advertising campaign, we have revisited it, and actually, we are decreasing costs. We have decreased costs initially planned in our business plan by 15% when we speak about OPEX. With regards to capital expenditures, I would add that due to the events which happened at the end of February, most of the suppliers – I mean, IT suppliers – left Russia. We have to find a substitution for the suppliers of equipment and of maintenance for such equipment. That is why we believe that our CAPEX expenditures could be higher. Since a lot of suppliers left the market, the prices could go up for those who are left on the market. That is why we believe that CAPEX expenditures can be higher.

Elena Tsareva – BCS

Thank you. That is it from my side.

Anton Terentiev – Director of IR

Okay. Well, we are waiting for a few more questions to pop up in the queue on the phone. We have a series of questions in our webcasting interface. Some of them repeat what we have just said, but I will read them out loud anyway. The first one comes from Evgeniy Kipnis.

Evgeniy Kipnis *(webcasting interface)*

Thanks a lot for the call. Could you please provide more details on the new tariff structure on FX and Derivatives markets and potential equities and how that might impact your F&C income generation, could that potentially compensate for income lost due to limited access to trading for non-residents?

Anton Terentiev – Director of IR

Yes. Evgeniy, basically, you are right. The answer is yes and yes. That change in the tariff schedule might allow us to compensate for the lost income and to support the revenue flattish YoY, but as well, this improves the market structure.

Evgeniy Kipnis *(webcasting interface)*

Please provide an update on NCC's capital adequacy to the extent you are able to disclose? Do you see an improvement versus Q1 2022 levels?

Anton Terentiev – Director of IR

Okay. Honestly, we are not very comfortable talking about this because this information is about the structure and details of financial statements for our subsidiary credit institutions, specifically the NCC, while MOEX is the parent organization of the banking holding. Therefore, MOEX must not disclose such information according to the CBR's letter dated May 20 this year. But I can say that we keep earning profits. We keep generating positive financials, and it adds up to our balance sheet. I would say that overall, the situation, just looking into our profit levels for Q2 and Q1, the situation should have improved versus the level of the first quarter.

Andrey Selyuk – CFO

Yes. And I would add that the dynamics is positive.

Anton Terentiev – Director of IR

The next question from the webcasting interface is from Olga Naidenova of Sinara Finance.

Olga Naidenova — Sinara Finance *(webcasting interface)*

Thank you very much for the call. How does the management look at the dividend payment, including a return to dividend already this year? What are the main considerations?

Anton Terentiev – Director of IR

Andrey has commented on this question already, so I will go on.

Olga Naidenova — Sinara Finance *(webcasting interface)*

Is there a chance you will waive fees for the EU investors following a certain update on the EU sanctions?

Anton Terentiev – Director of IR

I will say the following. Just a reminder, that the NSD did provide a discount – or a marketing period – for DR conversion, and earlier this week, the NSD introduced a marketing period for transferring securities from foreign depositories without a change in ownership rights. There will be a zero tariff during this marketing period. This is basically the second service that the NSD now provides for free, at least for a period of time. The decision came into effect just two days after the European Commission issued clarifications. Therefore, the NSD demonstrated eagerness and urgency to help end clients by solving problems facing the broader market.

However, the NSD is not the only party involved. It is also necessary for brokers to get all the relevant licenses from the European Commission, and for foreign securities' depositories to do their part. If all conditions are met and issues related to transferring securities are indeed resolved, the NSD might maintain a flexible approach to post-trade tariffs for the benefit of investors. However, the path of temporarily zeroing out one tariff after another is not sustainable since the NSD bears the cost of providing the respective services. Looking at the case of transferring securities from foreign depositories, we see that participants must apply for licenses from the European Commission anyway.

Olga Naidenova — Sinara Finance *(webcasting interface)*

Were you able to secure some of the elevated interest income for longer term in a similar way that you did in 2015, or this was not possible in the current environment?

Anton Terentiev – Director of IR

I wish we could answer that, but I have to really resort back to the statement I gave earlier. This information is about the structure and details of financial statements for our subsidiary credit institutions, NCC and NSD, both of them, while MOEX is the parent organization of the banking holding. Therefore, MOEX must not disclose this information according to the CBR's letter dated May 20 this year.

Okay, operator, let me ask you if you see any more questions in the queue on the phone, let us give a reminder maybe.

Operator

[Operator instructions]. It appears we have no phone questions at this time.

Anton Terentiev – Director of IR

Okay. Let us wait for a couple more minutes, maybe for more questions to pop up on the Q&A interface of our webcast. Let us wait for maybe one more minute if anyone has further questions. Okay then, I think this is it. I will just move over to concluding our conference call. Thank you very much, everyone, for your participation for asking these good insightful questions. Staying in touch and looking forward to hear from you and reconnect at third quarter financials.

Operator

With that, that does conclude today's call. Thank you for your participation. You may now disconnect.