Final Transcript

Moscow Exchange Q2 2015 IFRS Results Conference Call

Event Date: 5 August 2015

SUMMARY: Higher volumes on the Money Market and FX Market, as well as increased interest income and fees from Depository and Settlement Services resulted in strong growth in revenue and net income.

Investor Relations contacts

Sergey Klinkov, Director of Investor Relations – Tel. +7 495 363 3232 – Email ir@moex.com

SERGEY KLINKOV *– Director of Investor Relations, Moscow Exchange*

Good afternoon, everyone, and welcome to the Moscow Exchange Q2 2015 IFRS results conference call. As usual, we will walk you through the earnings presentation posted on our website, after which we will move on to the Q&A session. Before we get started, I would like to remind you that certain statements in this presentation, including 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. Moscow Exchange does not intend to update these statements to reflect the events occurring after the date of the call, prior to the next conference call. By now, all of you must have received our Q2 results press release, and the presentation can be found in the IR section of our website. I will now hand the call over to Evgeny Fetisov, Moscow Exchange CFO. Evgeny, please go ahead.

EVGENY FETISOV *– CFO, Moscow Exchange*

Thank you, Sergey. I would like to start with page 2 of the presentation, saying that in Q2 we saw some normalisation of the market situation following an exceptional Q1. Volatility subsided and the interest rate declined along with the overall risk in the financial system, which let us reduce initial margin requirements. In this environment, our diversified business model delivered again and we once again posted strong double-digit growth in fee and commission income. On page 2 of the presentation, we outlined some of the most important highlights of Q2 and July 2015. As many of you know, in June MOEX paid record-high dividends, distributing more than 55% of IFRS net profit for 2014 among our shareholders. The payout ratio was above the minimum threshold set by our dividend policy. Just to remind you, 2015 is the last year of our current dividend policy, and we expect our Supervisory Board to approve a new dividend policy this fall.

Moving on to the Equities Market. We saw a number of new listings this year. Following a number of deals closed in Q1, including a Magnit deal, Q2 saw more primary issuance on MOEX, including IPOs of Credit Bank of Moscow and United Wagon Company. Shares of TNS energo, one of the Russia's largest independent power producers, also began trading on Moscow Exchange in Q2. On the fixed income market, we saw a nice recovery in new placements, which was also followed by the first issuance under a bond programme by Otkritie Bank. I am happy to update you on progress of growing the local retail investor base, and particularly an increase in individual investment accounts. We recorded more than 39,700 opened accounts in the first seven months of the year, which puts us on track to beat our own target of 50,000 accounts by the end of the year. At this still quite early stage of the product development, more than 1,500 new accounts have been opened per week. You can see some other important highlights further on this page. One thing I would like to stress is that we remain committed to further improving our corporate governance. Last week, our Supervisory Board approved MOEX's inaugural Corporate Governance Guidelines, which are based on Russia's new corporate governance code and therefore reflect best practices in this area.

Now let us turn to page 3 with an overview of financial performance. In Q2, we continued to deliver very robust operating income thanks to the growth of both fee and commission income (22% YoY growth) and interest income (82% YoY growth). Our OPEX was under control and cost/income ratio improved again to 26.1%. EBITDA grew by 67% while EBITDA margin was 78.1% versus 75.3% in Q2 2014. As a result, net profit increased to RUB 6 bn up by 73% YoY. These remarkable results were delivered on the backdrop of material changes in the market environment, which once again underlined that MOEX's business model remains sustainable and efficient in very differing macro scenarios.

Next page. Fee and commission income remained well diversified and increased by 22% in Q2, which led us to 15% YoY growth for 6M. The largest contributors to the fee and commission income remained the FX Market (23%), Money Market (22%), and Depositary and settlement services (21%). The money market was the fastest growing segment in terms of fees and commissions, with growth of 39% YoY. Despite a high base effect of last year, the FX Market showed a solid 35% YoY growth of fees and commissions. Depositary and settlement services grew by 19%, while the Fixed Income Market demonstrated 22% YoY growth thanks to revitalisation of the primary placements. The Equities Market declined by 10% YoY and maybe the common market, while the derivatives market fees contracted by 4% YoY due to the shift in the product mix towards FX-based futures. All in all, our model showed its resilience again as softer fees from the equities and derivatives markets were more than offset by strong performance of other segments.

Next page, please. Significant upgrades and reforms that have been undertaken over recent years made MOEX an increasingly attractive trading platform for both domestic and international investors. It is still the case that today most of our fee and commission income is derived from domestic clients, which includes Russian banks, brokers, corporates, retail investors, and asset managers. In our FX and Money Market segments, domestic customers contributed 81% and 80% of trading volumes in 1H 2015, respectively. At the same time, the share of international investors grew from 12% to 15% on the FX Market, and from 15% to 16% on the Money Market, which is a remarkable number in absolute terms. We observed another trend on the Fixed Income and Derivatives Markets: the share of domestic investors, both retail and institutional, grew from 81% of total trading volumes in 2014 to 85% in 1H 2015 on the fixed income market and from 53% to 60% on the derivatives market. So our robust financial performance is still driven by strong domestic trading, which remains the core, while growing foreign investors' interest is indeed important for us and reflects the results of efforts that have been made to bring the market infrastructure in line with international standards.

I will now walk you through some of the highlights of each of our markets.

Equities Market. In 1H 2015, trading volumes on the Equities Market declined by 10% YoY amid lower volatility resulting in reduced velocity (34% versus 44% last year). At the same time, in July MOEX's average market share versus the LSE in the basket of dual-listed names we track reached 61%. During the quarter, we expanded our product offering for market participants. We launched an opening auction in June, which made price-setting more transparent and representative for market participants. We also increased the number of securities eligible for partial prefunding from 50 to 82, which will lead to a lower funding cost for our customers.

Now let us move to page 7. Fixed Income Market trading volumes grew 18% YoY to RUB 2.7 trln thanks to lower interest rates and changes in market sentiment, which led to the fee and commission income growth by 22% to RUB 296 m. In line with our expectations, in Q2 2015 we observed a revitalisation of primary bond placements both in the corporate (+47% YoY) and government bonds segments (+279% YoY). As a result, in 1H 2015 primary placements more than doubled compared with 1H 2014. We continued to work on further product portfolio strengthening and completed several important initiatives. First, MOEX migrated to the T+1 settlement cycle for OFZs, which helped to reduce market participant funding costs, and increased liquidity of OFZ trading through the order book. Block trading of OFZs was introduced: market participants now see only their own orders, which minimises impact on the market price.

Please turn to page 8. Demand for derivative products continued to shift towards FX derivatives trading, which comprised 60% of total trading volume in Q2 2015 compared with 42% in Q2 2014. This shift was largely driven by higher rouble volatility. This led to 84% YoY growth in FX derivatives trading. Due to lower fees for FX-based futures as compared to single-stocks and indices, futures fees and commissions declined 4% YoY to RUB 322 m.

Money Market. As you can see on page 9, the total trading volume including REPO transactions and the credit and deposit market remained flat at RUB 60 trln. However, an extension of average REPO maturity from 4.9 days in the second quarter of last year to 7.3 days in Q2 2015 as well as the growing share of REPO with CCP led to a 39% YoY increase in fees and commissions. REPO with CCP remained one of the fastest-growing products and comprised 23% of the total REPO volume including REPO through NSD, and that is due to continued growth of on-exchange infrastructure usage by the market players. Following the introduction of a long-term REPO mechanism and higher trading volume of long-term instruments since Q1 2015, MOEX's fee and commission income is deferred of the lifespan of these instruments. For example, the fees on one-year REPO are now recognised in our income statements uniformly over the year. In Q2 2015, the sum of current period commission deferral and amortisation, and partial reversal of the previous deferral was RUB 44.5 m.

FX Market. In Q2, FX Market trading volumes grew 42% YoY. Spot trading volumes grew 36% YoY to RUB 22.4 trln, while swap trading volumes were up 44% YoY driven by growing demand from local banks to manage liquidity positions and hedge FX risks. The share of one-week and longer swaps continued to grow, demonstrating a healthy demand for FX risk hedging, while limiting risks thanks to transactions with CCP. The FX spot market comprised 29% of the total FX trading volume, which resulted in 35% YoY growth in the fee and commission income to RUB 1 bn.

Depositary and settlement services. The average amount of assets under custody at the NSD (National Securities Depository) increased by 24% versus Q2 2014 to RUB 28 trln. Fees and commissions grew 19% YoY, driven by an increase in assets under custody thanks to primary bond placements and admissions of DRs and Eurobonds as collateral for REPO as well as on-exchange Eurobond trading. Safekeeping remained the key source of fees and commissions and comprised 63% of the total. The second largest item was the collateral management system, which contributed 12%. We also moved forward with corporate actions reform, under which NSD applied international standards to its e-proxy voting services: new technology allows implementation of ISO standards at all stages of the remote voting process.

Other fee and commission income. In 1H 2015, our other fee and commission income grew by 28% YoY, mainly thanks to the sale of information and listing fees. Listing fees grew from RUB 58.3 m to RUB 80 m and comprised 22% of the other fee and commission income, driven by both new placements and the new pricing structure following the completion of the listing reform. Fees from sale of software and technical services remained flat at RUB 127 m versus RUB 126 m last year. Information service fees grew by 15% YoY, mainly driven by price increases for market data, both real-time and end-of-day. Rouble depreciation also contributed to higher revenues from FX-denominated contracts with global players.

The investment portfolio grew 70% YoY in Q2 2015 to RUB 1.2 trln, driven mostly by higher client balances. A lower RUB/USD exchange rate led to a higher share of FX-denominated client balances, which comprised 89% of the total balances in Q2 2015. The rouble rate declined during the quarter though remained elevated, which led to the blended effective yield of 1.9% versus 1.8% in Q2 2014 despite much higher FX balances. Total interest and other finance income grew by 82% QoQ to RUB 5.9 bn. Normalisation of the interest income following the exceptional Q1 came in line with the expectations that we had voiced during our previous call.

Operating expenses. In Q2 2015, we continued to demonstrate that cost discipline is one of our two priorities. Personnel costs remained under control and grew by just 8% YoY to RUB 1.4 bn due to higher social tax payments introduced at the end of 2014. Personnel costs contributed 52% of the total costs. Higher administrative and other operating expenses (+18%) were mainly driven by FX-linked expense items on the back of a weaker rouble as well as higher spending on professional services, which was driven by higher spending on depositary services linked to higher balances in international securities held through NSD. The total OPEX grew 12.5% YoY in Q2 2015 below the inflation level of 16%.

I hope this introduction gives us a quick basis for further discussion. Thank you very much for your attention. Now I would like to open up the call for questions.

Operator: Thank you. As a reminder, if you wish to ask a question, you can press "*1" on your telephone and wait for your name to be announced. If you wish to cancel the request, please, press the "#" key. Your first question comes from the line of Jason Hurwitz from VTB Capital. Please, ask your question.

JASON HURWITZ ***– Analyst, VTB Capital***
Hi. Two questions, please. The first one relating to your OPEX: if you could give us some updated guidance on your full-year OPEX in light of the movements in the rouble, both in terms of how it got stronger in Q2 and how it has weakened since – and how you see the full-year picture at this stage. The second point would be relating to your CCP capitalisation: if you could give us an update on that and how you see that possibly impacting dividends next year. Thank you.

EVGENY FETISOV ***– CFO, Moscow Exchange***
Thank you, Jason. Starting with the first question on OPEX guidance: we are currently revising our guidance down to 17% for the full year, and this is down from 20%, which was given at the last call. We do not necessarily link it to the weekly FX rates movements, this is what we see as a forecast for the spending that we have line by line. In addition, I can say that we actually see CAPEX spending at RUB 3 bn for the full year.

On the CCP capitalisation, we are maintaining our target for this year at RUB 51.2 bn, the NCC capital as at the end of July was close to RUB 50 bn. We continue to form the capital at the level that we have indicated before.

JASON HURWITZ ***– Analyst, VTB Capital***
Do you see that it as being a limiting factor heading into next year's dividend?

EVGENY FETISOV ***– CFO, Moscow Exchange***
We definitely do not see this as a limiting factor. We think that for us this is business as usual. This is what we have planned to have, and we are moving towards the target. We will be revising the target for the next year in due course and we will communicate it to you as and when it is ready, Normally we are doing this at the beginning of the year.

JASON HURWITZ ***– Analyst, VTB Capital***
OK, thank you very much.

Operator: The next question comes from the line of Andrey Klapko from Gazprombank. Please, ask your question.

ANDREY KLAPKO ***–Analyst, Gazprombank***
Hello, gentlemen, thank you for the presentation, I have a technical question on the average commission and yield on the Fixed Income Market. Could you, please, elaborate on why the average yield on the Fixed Income

Market grew significantly in Q2. Was it just due to the primary market impact or for some other reasons? Thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you for the question. You are absolutely right, this is due to the primary market part of the volume, so it is priced at a higher base than the trading part. So the higher the primary market, the higher the effective fee.

ANDREY KLAPKO *–Analyst, Gazprombank*
Thank you, but as far as I understand, the primary market volume in Q2 did not change much compared to the Q1 numbers, but the average commission still grew significantly. Were there some other factors here?

EVGENY FETISOV *– CFO, Moscow Exchange*
We may need to get back to you to answer this, but as far as I see, we had a higher share of sovereign bonds, which may be an explanation, but if you do not mind, we will get back to you on this offline to explain.

ANDREY KLAPKO *–Analyst, Gazprombank*
Thank you very much.

Operator: The next question comes from the line of Andrew Keeley from Sberbank. Please, ask your question.

ANDREW KEELEY *– Analyst, Sberbank CIB*
Hi, good afternoon. My first question is on your investment yield. I think you said in your last call that the average duration of the portfolio is three months or so. And I am just wondering if that is correct first of all. Secondly, if that is the case, then if we assume there are no further cuts in interest rates from the Central Bank over the next few months, then would it be right to assume that your yield is probably going to be bottoming out sometime early in Q4? So I guess you are going to see a further decline in your average investment yield in Q3 with perhaps some stabilisation in Q4. Is that how you see things?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, Andrew, I think this is a fair statement to make. If the rates stay where they are, we shall see the bottom of the yield, which is subject to the share of FX balances in the total client portfolio. We think that we can see the normalisation of the rouble balances, so unless they continue to decline – which we do not expect at this point of time, or at least we do not expect a significant decline – we should see the stabilisation of the yield.

ANDREW KEELEY *– Analyst, Sberbank CIB*
All right, that is good, thank you. I am just wondering, do you think this move in terms of OFZ settlement from T0 to T+1 has had any impacts on your client balances? Or do you expect it to?

EVGENY FETISOV *– CFO, Moscow Exchange*
We do not see an immediate impact on the client balances. What we see is actually an increase in the quality of the OFZ trading structure, an increase in the average deal size, which has increased, if I remember correctly,

to RUB 8 m versus a lower number before, but I will pull it up later. We have an increase in the OFZ order book trading, to 33% versus about 20% before, which means a higher share of trading taking place in the order book. We think this is important. The order book trading volume has increased from RUB 2.7 bn in January-May to RUB 3.6 bn in June and to RUB 4.2 bn in July, which is a 55% growth over the first five months. We think this is very important, we find it is a good sign of the quality product.

ANDREW KEELEY *– Analyst, Sberbank CIB*
OK, all right, thank you. A question on your equities: the volumes on the equities market have been continually going down, and I am just wondering whether you are looking at ways in which you could do your bit to try to improve volumes. It seems like average fees have been rising a little bit in the first couple of quarters of the year. Is it something you are looking at in terms of perhaps cutting fees somewhere or is that not the case?

EVGENY FETISOV *– CFO, Moscow Exchange*
I would say this is not the case. The way we see this, it is just an effect of the market situation with lower volatility and the seasonal factor. We do not think that fees in the equities market are a primary driver of growth or decline in volumes, we think this is just a general sentiment towards the market. When we look at this, we actually see that what we call *Fondovoy rynok* [Securities Market] or the Equities plus Fixed Income Market has been growing overall, say, in Q2, or in 1H of the year, which, we think, is an important fact. So, as our business model works, some of the products are in higher demand or show growth, and some of the products are either stable or declining. As we have expected, the bond market has started to grow, in some cases better than we thought, so we think this is the time for the bond market so far.

ANDREW KEELEY *– Analyst, Sberbank CIB*
OK, all right. Thank you very much, Evgeny.

Operator: Your next question comes from the line of Armen Gasparyan from RenCap. Please, ask your question.

ARMEN GASPARYAN *– Analyst, Renaissance Capital*
Thank you. Hi, Evgeny. Is there any progress in your talks with the regulator regarding NCC capital requirements?

EVGENY FETISOV *– CFO, Moscow Exchange*
Armen, can you elaborate on the question a bit, or restate it?

ARMEN GASPARYAN *– Analyst, Renaissance Capital*
I think you mentioned previously that the regulator might review the capital requirements for the NCC, and I was wondering whether there is any progress in that process.

EVGENY FETISOV *– CFO, Moscow Exchange*
There are changes in the regulation which are taking place right now, related to the risk waterfalls and the risk management approach of the NCC, and aligning them with

international practices. The changes will be taking effect this fall. There will not be changes in the regulation in the Tier 1 requirement, which will be [at the same level] as for other banks – as of now at least. But eventually, in the longer term we will see less burden on the capital of the NCC with the growth of the trading volumes. We plan to shed more light on this during our next call.

ARMEN GASPARYAN ***– Analyst, Renaissance Capital***
All right. Thank you. You also mentioned that the risk-weighted assets could also be reviewed.

EVGENY FETISOV ***– CFO, Moscow Exchange***
Yes, if we want to jump ahead a bit, the structure is changing for the capital across all markets for the risk waterfall to be unified across all markets with the dedicated capital on the NCC side. The risk-weighting will still be the same; it is just that the calculation of the Tier 1 ratio will be different. I am again happy to go into more details, but would rather do it at the next call, when we have more information prepared for you.

ARMEN GASPARYAN ***– Analyst, Renaissance Capital***
OK, thank you. I think I missed a part of your answer to the question regarding cost growth. Is there any base RUB-USD rate that your guidance is based on?

EVGENY FETISOV ***– CFO, Moscow Exchange***
Our budget is based on 70 [Rubles to the Dollar], which is what we had before, and we have not changed that. Like I said, we are guiding for a 17% growth, and this is based on the line-by-line projections that we have in our budget.

ARMEN GASPARYAN ***– Analyst, Renaissance Capital***
So 70 is the average for the year, right?

EVGENY FETISOV ***– CFO, Moscow Exchange***
Yes.

ARMEN GASPARYAN ***– Analyst, Renaissance Capital***
Is it 16% of your cost base which is FX-linked?

EVGENY FETISOV ***– CFO, Moscow Exchange***
18%.

ARMEN GASPARYAN ***– Analyst, Renaissance Capital***
OK. And it is actually non-staff costs, right?

EVGENY FETISOV ***– CFO, Moscow Exchange***
Yes. These are primarily IT costs.

ARMEN GASPARYAN *– Analyst, Renaissance Capital*
Thank you. Also, with the Russian CPI expected to fall into single digits at least for the next couple of years – I think it is seen at 6-7% – how do you think it will impact different business lines, specifically, trading volumes across different markets?

EVGENY FETISOV *– CFO, Moscow Exchange*
That is a very good and tough question, Armen. Normally, the general approach that we use is that we think that lower interest rates benefit fixed income markets, equities markets, and certain part of the derivatives markets, whereas the FX and money markets behave more stably or show slower growth. Whether this will be the case we cannot tell, so only the time will show.

ARMEN GASPARYAN *– Analyst, Renaissance Capital*
Yes, fair enough. And the final question. You mentioned that the decision on the new dividend policy will be made in the autumn. Is there any specific date, or could you just be more specific about its timing?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, we expect the first discussion will take place at the end of September at the Supervisory Board meeting.

ARMEN GASPARYAN *– Analyst, Renaissance Capital*
OK. And will it be announced then?

EVGENY FETISOV *– CFO, Moscow Exchange*
Depending on what decision is made at this particular Board meeting. If it requires two or three Board meetings, it will take two or three Board meetings.

ARMEN GASPARYAN *– Analyst, Renaissance Capital*
OK. Thank you, Evgeny.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you.

Operator: And your next question comes from the line of Andrzej Nowaczek from HSBC. Please, ask your question.

ANDRZEJ NOWACZEK *– Analyst, HSBC*
Thank you. I wanted to ask a follow-up question on expenses. Your personnel costs are growing far below the inflation rate, with the headcount largely unchanged. Employees will probably have to ask for salary increases sooner or later. Have you thought about it? Are there any plans to do so?

EVGENY FETISOV *– CFO, Moscow Exchange*
Our personnel costs growth already accounts for selective salary increases. So we are actually walking this fine line of managing the costs and retaining the staff. We think that we are doing this well enough, and yes, we do selective salary increases, although we do not

have a practice of broad increases, and we have never had one.

ANDRZEJ NOWACZEK *– Analyst, HSBC*
OK. Your full-year cost growth guidance implies costs in 2H to be higher by about RUB 1 bn. Is it more or less the seasonality you would expect?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, there is a seasonality, normally we would be spending more in Q3 and Q4.

ANDRZEJ NOWACZEK *– Analyst, HSBC*
OK. And assuming the exchange rate on average is 60 or 70, what would that cost growth guidance be?

EVGENY FETISOV *– CFO, Moscow Exchange*
I am not sure I am in a position to give you a different cost guidance based on a different exchange rate. Working off absolute numbers of 17% cost growth, I think this is what we would stick with.

ANDRZEJ NOWACZEK *– Analyst, HSBC*
OK, clear. Thank you so much.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you.

Operator: The next question comes from the line of Ekaterina Petrovich from J.P. Morgan. Please, ask your question.

EKATERINA PETROVICH *– Analyst, J.P. Morgan*
Thank you. Good afternoon, this is Ekaterina Petrovich from J.P. Morgan. Evgeny, I have a question on your dividend policy. Given that retained earnings strongly benefit from interest income, how does management see the dividend policy being formulated? Thank you.

EVGENY FETISOV *– CFO, Moscow Exchange*
Thank you for the question, Ekaterina. The approach that the Company has always had towards dividend payments is that whatever the Company does not need for the capital increase of NCC and its CAPEX programme, and for formation of any other reserves, is paid out to the shareholders. We believe this is something we will stick to, and this is something which will be taken as a base by the Supervisory Board in formulating their dividend policy.

EKATERINA PETROVICH *– Analyst, J.P. Morgan*
And when should we hear about the decision?

EVGENY FETISOV *– CFO, Moscow Exchange*
We expect that the first discussion on the dividend policy will take place at the end of September at the next Board meeting.

EKATERINA PETROVICH ***– Analyst, J.P. Morgan***
OK, thank you very much, clear.

Operator: The next question comes from the line of Michael Shlemov [from UBS]. Please, ask your question.

MICHAEL SHLEMOV ***– Analyst, UBS***
Good afternoon, gentlemen. A couple of questions from me. The first question is coming on the margin requirements across the market segments. You have mentioned earlier that you have cut those during the first half of the year. Can you please indicate where those currently stand in the levels which we were observing before the sharp rouble devaluation in December last year and how you expect those to develop into 2H? That is my first question. The second question is a follow-up on the costs again. I have done a little math, and basically your 17% YoY growth implies 21% growth in 2H, which does look a little bit excessive. Is there anything in terms of one-off nature which is driving this cost growth? And probably the third question, not directly related to the results but rather to the July trading data, which came out yesterday. I have noted that the FX balances, especially in the US dollars, have come down quite notably. Anything specific happening there? Or is it just seasonality? Thank you.

EVGENY FETISOV ***– CFO, Moscow Exchange***
Thank you for the questions, Michael. So, on margin requirements: if we take just the flagship products, on dollars we had 12% in December last year, and now we have 9% on both dollars and euros. On equities, if we take one of the most liquid stocks there, Sberbank, we had 20% in December, and are currently down to 15%. Futures on the RTS Index were at 12% in November and 15% in April, now down to 10%. Futures on dollars were actually following suit of spot markets. We cannot actually forecast this. Risk Management works independently of us, they take into effect volatility and whatever other instruments they use in setting the proper risk parameters and initial margin requirements. But generally, whenever the volatility goes down, we expect the initial margin requirements are declining, and this is down instrument by instrument.

MICHAEL SHLEMOV ***– Analyst, UBS***
Evgeny, and a quick follow-up, just to continue on that. Comparing the current levels, say, the normal levels mid-last year, how far are we above these normalised levels?

EVGENY FETISOV ***– CFO, Moscow Exchange***
If we just take FX we saw, say, in March last year, we had 5%, and currently we are at 9%. On equities, the lowest I have in front of me is 10%, and we are at 15%. Again, this is instrument by instrument, so it can go lower, but there has to be a slightly different market environment.

MICHAEL SHLEMOV ***– Analyst, UBS*** OK, thank you, clear.

EVGENY FETISOV ***– CFO, Moscow Exchange***
On the cost growth, there is nothing one-off. Any one-offs we expect are just the seasonal higher spending at 2H of the year first,

potentially a higher FX rate, and in general a slightly conservative view on the cost side that we normally have.

MICHAEL SHLEMOV *– Analyst, UBS*
So it basically implies that 17% cost growth is probably conservative and you can beat that?

EVGENY FETISOV *– CFO, Moscow Exchange*
It implies that we are seeing 17% as the realistic number as of now.

MICHAEL SHLEMOV *– Analyst, UBS*
OK, also clear.

EVGENY FETISOV *– CFO, Moscow Exchange*
On the USD balances there is nothing specific that has taken place, it is just the seasonal factor or whatever the clients decided to do with their money.

MICHAEL SHLEMOV *– Analyst, UBS*
So no margin requirements or any large balances from a single client moving out or anything?

EVGENY FETISOV *– CFO, Moscow Exchange*
Not that we saw. As we have said, the large part of the dollar or euro balances which we have with us is the extra pre-cash from the clients. Presumably, some clients decided to move cash out for whatever purposes they wanted to use it for.

MICHAEL SHLEMOV *– Analyst, UBS*
OK, perfect, that is clear.

Operator: Your next question comes from the line of Igor Gerasimov from Goldman Sachs. Please, ask your question.

IGOR GERASIMOV –*Analyst, Goldman Sachs*
Hi, thank you for your presentation. I have a few questions. The first one is on your client balances in roubles; it is slightly related to what Michael has asked. So what in your view was the main reason for the decline in the rouble portion of the client balances?

EVGENY FETISOV *– CFO, Moscow Exchange*
One of the reasons is, I think, the decline in the margin requirements. And then, again, changes in the trading balance across the markets. But I think probably the margin requirements will be the key one.

IGOR GERASIMOV – *Analyst, Goldman Sachs*
OK, understood. My other question is related to your yields on the products. As far as I understand, in most of your business lines yields increased QoQ because of the change in the product mix. While in fixed income and equities it was mainly driven by primary offerings, what was the main driver in, say, derivatives? And how sustainable do you think

is the present product mix for the derivatives business line?

EVGENY FETISOV *– CFO, Moscow Exchange*
We have not changed any fees, so the key changes are explained by the product mix shift. And we have no way to tell how the product mix will evolve, it will very much depend on the volatility and demand for either specific product lines and derivatives or underlying assets. We continue to see high volatility in FX. It is reasonable to expect the FX futures to take a larger share of the overall derivatives portfolio. If we start to see more volatility in equities, it will be reasonable to expect that the equities, single stocks and then indices alongside with the options will start to grow in their share.

IGOR GERASIMOV – *Analyst, Goldman Sachs*
OK, and equity derivatives are more marginal compared to FX ones, correct?

EVGENY FETISOV *– CFO, Moscow Exchange*
That is correct.

IGOR GERASIMOV – *Analyst, Goldman Sachs*
OK, thank you. And lastly, I wanted to clarify what was your income on REPO with CMS through NSD. It was 12% of your depositary and settlement income, correct?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, that is correct.

IGOR GERASIMOV –*Analyst, Goldman Sachs*
Yes, thank you so much.

Operator: Your next question comes from the line of Anil Sharma from Morgan Stanley. Please, ask your question.

ANIL SHARMA *– Analyst, Morgan Stanley*
Hi, guys. Just two questions, please. Firstly, sorry to get back to it, but on the client funds: My understanding was that there a was a difference in risk rate charging for banks if they put their funds with an international bank or Russian bank or then held it with yourselves and that was the reason for the big growth you have seen over the last 12 months. I just wanted to see if there has been any change in that and what is your outlook on the upfront. I take your point that you are saying some clients will see change in their use and want to take out their funds, but I just wanted to make sure that is all it was. And then on the dividend side: I just wanted to see, based on your conversations with shareholders, what has been the consensus that is emerging? Is it that people want it a step-change in the dividend payout, or do they want the special or do they just want sort-of progressive? If you could just give us a bit more colour on what you are hearing from your shareholders on that.

EVGENY FETISOV *– CFO, Moscow Exchange*
OK, thanks for your questions, Anil. On the first one, you are absolutely right, the risk rating on

the funds which are placed with the NCC as the central qualified CCP is lower than that for the foreign correspondent accounts or the Russian correspondent accounts for FX. We do not expect that to change, and we think that the regulator has done it for a clear and specific purpose. The reason for lower balances with us is probably just driven by the changes in the balance sheets of the respective banks or brokers, whoever places the funds with us. If their clients withdrew the money, they have used this cash for whatever purposes they wanted to use it for.

ANIL SHARMA ***– Analyst, Morgan Stanley***
Sorry, just to follow up on that, is there a tipping point where if US or European rates go up, then, even though there is a higher risk rate charged, people still might move the balances away because they can get a better yield, and if so, what do think that tipping point number is?

EVGENY FETISOV ***– CFO, Moscow Exchange***
We do not have that number ourselves. We think that for some clients the capital is more important than the short-term yield they may get on their dollars or euros, but as far as know, some of the analysts have done these calculations. There probably will be a point where it will be much more reasonable to move the funds elsewhere if a bank has the luxury of extra capital to place these funds with the highest rating.

ANIL SHARMA ***– Analyst, Morgan Stanley***
Got it, thanks. And then, sorry, just on the dividend?

EVGENY FETISOV ***– CFO, Moscow Exchange***
And on the dividends, the general feedback is that the shareholders expect us to increase the dividend payout gradually as the capital becomes available, as we largely complete the capitalisation of NCC. I think they are fairly receptive to the idea that we need to capitalise the clearing house to support the growing business. As for the specials, this is not something that we generally hear during our meetings, so I think the dividends would be probably something that is expected from us, say, regular dividends with a growing payout ratio.

ANIL SHARMA ***– Analyst, Morgan Stanley***
Understood. Thank you.

Operator: Your next question comes from the line of Maria Semikhatova from Citibank. Please, ask your question.

MARIA SEMIKHATOVA ***– Analyst, Citibank***
Yes, thank you for the presentation. I just have a couple of follow-up questions. First, on your cost guidance: can you provide a breakdown between non-staff and staff expenses for this year? And the second, on your effective tariff in the derivatives market, I understand that the changes are driven by your product composition. But if I look at the trading volumes and contracts, I think that the share of FX-based futures was pretty much the same in Q2 versus Q1 and you still showed quite a nice recovery in fee income in this market. So maybe there is some other factor that we are missing?

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, I will start with the latter question. The one factor which you may be missing is the deferred income which we had from the last quarter. So we started to accrue for certain futures or actually for most of the futures, we started to defer the income quarter to quarter, throughout the life of the contract, so whichever deals were done in Q1 with the maturity extending beyond Q1, the Q2 part was booked in Q2. That is the difference. As for the split of personnel and non-personnel costs, it is still roughly the 50% that we had.

MARIA SEMIKHATOVA *– Analyst, Citibank*
I mean you previously provided guidance for non-staff costs growth and staff costs growth.

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, I have the personnel number in my head, it is 13% that we expect for the FY and then you can probably make up the number for the rest, right?

MARIA SEMIKHATOVA *– Analyst, Citibank*
OK, so the downward revision is driven by administrative expenses, and you are keeping staff costs roughly the same.

EVGENY FETISOV *– CFO, Moscow Exchange*
Yes, that is correct.

MARIA SEMIKHATOVA *– Analyst, Citibank*
OK, thank you.

Operator: There are no further questions for the moment, please, continue.

SERGEY KLINKOV *– Director of Investor Relations, Moscow Exchange*
It looks like we have no further questions and I think that at this time we can complete the call. Thank you very much for participating, I hope we managed to cover all your questions. If not, please, feel free to follow up on e-mail or just call me directly for any further questions that may appear. Thanks again for participation.
Operator: That does conclude our conference for today. Thank you for participating, you may all disconnect.