Moscow Exchange 1Q 2016 Financial Results Conference Call

Event Date: 17 May 2016

SUMMARY: The quarter saw a significant increase in fee and commission income from the Money Market, FX Market and Derivatives Market, as well as Bond Market.

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

Good afternoon, everyone and welcome to Moscow Exchange's first quarter 2016 IFRS results conference call. As usual, after the prepared remarks, we will have a Q&A session. Today we have on the call Evgeny Fetisov, Chief Financial Officer of Moscow Exchange; and Maria Krasnova. Before we get started, I'd like to remind you that certain statements in this presentation and during the question-and-answer 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 doesn't intend to update these statements to reflect events occurring after the date of the call, prior to the next conference call. By now, you all should have received our press release containing the results for the first quarter of 2016. Our management presentation is available on the Company's website in the Investor Relations section. Now, I will hand over the call to EVGENY FETISOV – CFO, Moscow Exchange, Moscow Exchange's CFO. Evgeny, please go ahead.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thank you, Sergey. Thank you all for joining us today to discuss Moscow Exchange's financial results. Let me first cover some of the most important highlights in the first months of 2016. At the recent AGM, MOEX's shareholders approved dividends of RUB 16.2 billion, or 58.2 percent of IFRS net profit for 2015. Shareholders also elected their new Supervisory Board with five independent directors out of 12 in total and the new Board reelected Mr. Alexey Kudrin as the Chairman of the Supervisory Board at its first meeting. Following a very successful 2015, I am pleased to report that we have continued to deliver new records in the first quarter of this year. The Derivatives Market saw new record trading volumes in terms of both contracts and value, driven by increased activity across all types of market participants. We have put a lot of effort into retail investor education and promotion of the Derivatives Market. These efforts are now very important. We now have a record number of active clients, more than 54,000. Our REPO with CCP, central counterparty, launched in 2013 has continued to perform extremely well and is an important liquidity redistribution mechanism for the Russian banking system. Strong growth of this product contributed to record fees from the Money Market. The Foreign Exchange Market has continued its robust growth in both spot and swaps, delivering RUB 1.3 billion in fees, a new all-time record. And finally, assets under custody at the NSD continued to grow and reached a new high of RUB 32 trillion.

In the first quarter, we launched two promising new products. First the REPO with GCC, or general collateral certificate, which was launched at the end of February, gives participants greater flexibility in managing their collateral, thus leading to repo maturity extension and improved liquidity. The post-launch volumes were good, in line with those of REPO with CCP in 2013. And this gives us reason to believe that the product may further increase market share of the on-exchange REPO. And second, a new type of centrally cleared OTC transactions has been added to the product line. We are gradually preparing for the introduction of mandatory clearing of OTC derivatives which should be implemented according to Russia's G20 commitment to have all standardized OTC derivatives contracts traded on exchanges or electronic trading platforms and cleared through CCP.

Moscow Exchange remains the marketplace of choice for our clients and we continue to strengthen our brand globally. Bank of America joined Moscow Exchange's FX Market as a clearing firm and became the first foreign global bank with general clearing membership. Moscow Exchange benchmarks for the currency, equity, bond and money market segments have been recognized as IOSCO compliant. IOSCO stands for International Organization of Securities Commissions. This is in line with one of our strategy pillars – standardization – which means that MOEX aligns with processes, procedures and products with evolving global standards to make the Russian financial markets more transparent and less risky for international players. Finally, the weight of MOEX's shares in the MSCI Russia Index was increased last week as a result of the free-float increase. Analysts estimate that this led to approximately $60 million of inflows to the stock from international passive and actively managed funds that track MSCI Russia.

And now, let's move on to our financial results. Operating income declined by just 1 percent year over year, thanks to strong fee and commission income growth of 32 percent year over year, offsetting the decline in interest income, minus 16.6 percent, which was expected due to lower interest rates. Cost growth was limited to 7 percent. The cost to income ratio increased 2 percentage points year over year to 26.2 percent. EBITDA amounted to RUB 9.2 billion, while the EBITDA margin remained at the best-in-class level of 78.1 percent. Solid operating income coupled with strict cost control allowed us to generate net profit of RUB 70 billion with an ROE of 23.8 percent. EPS amounted to RUB 3.1. We continued to operate as a highly cash-generative business with no leverage.

Now, I would like to walk you through the markets to give you an overview of key operational achievements. Foreign Exchange Market. In the first quarter FX Market trading volumes grew 60 percent year over year and reached a record high of RUB 89 trillion. Spot trading volumes grew 69 percent year over year and reached RUB 35.2 trillion, driven by increased activity across all client groups; local retail and corporates and international. Swap trading volumes grew by 64 percent year over year and reached RUB 53.8 billion, driven by growing demand for liquidity management products. We see strong growth potential in the retail investor segment across our markets and I'm pleased to report that year-over-year progress on the FX Market. Number of active retail investors reached more than 20,000 in the first quarter of 2016. Money Market. Money Market trading volumes both on-exchange repo and repo through the NSD increased 33 percent year over year to RUB 77.7 trillion. This strong result was driven mostly by a 3.3 times growth of repo with CCP, which remains one of MOEX's fastest-growing products and contributed 40 percent of total Money Market volumes. Depository and Settlement Services. The average amount of assets under custody at the NSD increased by 14 percent year over year to RUB33 trillion, as I said, and set a new all-time record. The growth was driven by a larger volume of euro bonds, bonds of foreign issuers and international institutions, safe keeping of the depository as well as local bond placements and expansion of the market capitalization of Russian equities. Derivatives Market. We focused our efforts on marketing of derivatives last year, which resulted in the record high trading volumes of 557 million contracts in the first quarter of 2016. Though dollar-ruble remained the most popular contract, MOEX's marketing activity focused on promotion of all derivatives, which drove trading volume growth in other lines including in futures, +73 percent year-over-year; options, up 2.2 times year over year; and commodity futures, up 5.3 times year over year. Commodity futures was one of the best performing products, driven by growing number of active retail investors. Fixed Income Market. Trading volumes on the Fixed Income Market grew by a healthy 26 percent year over year and reached RUB 2.7 trillion, mostly due to the growth of secondary market trading volumes. The growth was particularly strong in government bonds trading, where we have recently completed a number of important initiatives: migrated to the T+1 settlement cycle, updated tariff plans to stimulate liquidity in OFZ and short-term bonds and launched the dark pool auctions for large blocks of OFZ. Equities Market. The Equities Market was the only market in this quarter with a slight decline in volumes. Trading volumes in Russian equities declined both domestically and internationally; however, our market share for dual-listed stocks versus LSE grew by 9 percentage points to 60 percent in the first quarter of 2016 compared with 51 percent a year ago.

Fee and Commission Income. Our well-diversified business model delivered solid fee and commission income growth of 32 percent year over year, driven by healthy growth across all markets except equities. The biggest contributor to fee and commission income was the Foreign Exchange Market, which grew by 48 percent year over year and contributed 25 percent of total fee and commission income. In absolute terms, fees and commissions reached the historical high of RUB 1.3 billion. Thanks to strong performance of both spot and swap trading volumes. Money market, fees and commissions grew 51 percent year over year and reached a new record of RUB 1.2 trillion, mainly driven by growth of REPO with CCP volumes, the biggest contributor to the Money Market growth. Strong OFZ trading volumes on the secondary market comprised the biggest share of the Fixed Income Market fees and commission. The low interest rate environment supported primary placements of bonds, leading to stronger secondary market trading volumes. Fee and commission income grew 25 percent year over year. Depository and settlement services income grew 2 percent year over year, with assets under custody growth. And Equities Market fees declined 7 percent on lower trading volumes. Other fee and commission income continued to increase and reached RUB 1.7 billion on double-digit growth across all lines. Listing fees grew by 16.7 percent year over year on the back of bond placements. Information services and sale of software and technical services fees grew by 14.9 percent year over year and 20.1 percent year over year respectively, driven by expansion of the client base. And finally, fees from the Derivatives Market grew by a record 108 percent year over year and reached a new record of RUB 513 million. This new record illustrates structural opportunities for expansion of retail flows across MOEX products.

Derivatives Case Study. As you know growing the domestic investor base is one of our key strategic priorities. This takes many forms. For instance, legislative reforms that allow pension funds to invest in the market, regulatory changes to encourage retail investment, including best incentives and a range of marketing and educational initiatives to increase knowledge of the financial market more broadly among potential individual investors. Today, we wanted to highlight steps we've been taking to boost domestic retail participation in one specific market, the Derivatives Market. As you can see on this slide, we held a wide range of competitions, educational seminars and specialist workshops and conferences related to the Derivatives Market with the clients, with a meaningful number of participants across all types of events. This wide-ranging effort to improve financial literacy and the trust with our investors paid off with the number of active participants on the Derivatives Market increasing 65 percent year over year for the quarter. As you can see select individual products on which we focus in particular have performed even more strongly, +128 percent year over year for futures on Brent and +90 percent for futures and Gold. And now I will hand over the call to Maria Krasnova, Deputy CEO at NSD. Maria, please go ahead.

MARIA KRASNOVA - ***Deputy Chairman of the Executive Board, NSD***

Maria Krasnova: Thank you, Evgeny. Good afternoon, everyone. I would like to give you a bit more color on the business of the Russian central securities depository and key initiatives we are currently working on. The NSD was assigned the status of the central securities depository in 2012. It is then the NSD has accumulated a significant volume of assets under custody, making it the largest settlement depositary in Central and Eastern Europe. Even though the CSD business remains its core business, NSD has been actively developing several business lines. Currently the NSD undertakes a wide range of activities, including the securities settlement system, systemically and nationally significant payment system, clearing and collateral management services, trade repository, as well as Russia's National Numbering Agency and the Substitute Numbering Agency for the CIS, authorized to assign ISIN and CFI codes. NSD is also a part of the international securities infrastructure. It has had relationships with the Euroclear and Clearstream for many years including clearance and settlement of OFZ since 2012, 2013, as well as clearance and settlement services for Russian corporate bonds and equities.

Having said all that, it's important to remember that this is the part of the MOEX business that generates the recurring revenues which are less dependent on the market situation. To strengthen our position as an important part of the Russian financial infrastructure, we have continued our technological and business development. There are three key areas I would like to highlight here. First of all, I would like to start with the corporate actions reform, one of the most important and ambitious projects in the Russian securities market, initiated by the NSD in 2013. The project aims to eliminate circulation of paper documents, implement a unified approach to processing corporate actions and given that there is both direct and intermediated electronic access to general meetings of security holders, NSD plays a crucial role in the reform progress and will retain it after this reform goes live. The launch of the reform is scheduled for 1 of July 2016. From that date all corporate actions will be processed electronically in the standardized form. Custodians will be entitled to act on behalf of their clients without power of attorney or any other documents. Another important project for us is the creation of the corporate information center. From July 1, all issuers will submit structured electronic corporate action notification directly to the NSD. The NSD will therefore become an official center and comprehensive and authoritative source of reliable information on corporate actions. Based on this, we are also developing valuation and pricing services with an ambition to expand the status to be officially recognized as an eligible valuation and pricing center. Finally, with regard to further trade repository development, it is important to note the recent legal changes and field substantial expansion to reporting requirements. So in short, timely and efficient processing of reporting information to make the OTC derivatives market more transparent for regulators and to increase efficiency for market players, we have been successful in developing the reporting software. Though it's still early days, we believe this part of the business is positioned to grow and our next steps would aim to align reporting standards with international practice to facilitate corporations with foreign trade repository, and it will allow repository recognition in EMIR. That's all on my side, I would like to hand over to Evgeny. Thank you.

EVGENY FETISOV – *CFO, Moscow Exchange*
Thank you, Maria. So now we're going to the interest income. So, the total investment portfolio declined 14 percent due to lower average market participant balances placed with them to see in all main currencies. The investment portfolio averaged RUB 1.2 trillion in the first quarter of 2016 versus RUB 1.3 trillion in the first quarter of 2015. The share of FX-denominated client balances, impacted mostly by FX Market, accounted for 88 percent of the total in the first quarter of 2016. The effective yield of the investment portfolio averaged 2.3 percent following the record 3.2 percent in the preceding quarter. Interest income declined 17 percent due to the contraction of the investment portfolio and lower average ruble interest rates. To reiterate, our investment policy prioritizes liquidity and safety over returns. As such we don't take any currency risks on our balance sheet.

Operating expenses. Personnel costs grew by 4 percent year over year to RUB 1.6 billion, mainly due higher social tax payments and execution of vested rights to purchase shares granted to the management. The headcount was 1,600, minus 2 percent year over year, and personnel costs accounted for 53 percent of total costs. Administrative expenses grew by just 2 percent year over year. Growth of depreciation and amortization and higher spending on equipment and intangible asset maintenance were partially offset by lower spending on rents and office maintenance, taxes other than income tax and professional services. Absence of one-off cost items similar to last year numbers supported lower administrative cost growth rate.

And that concludes our opening comments and now I'd like to open up the call for any questions. Thank you very much for your attention.

OPERATOR
Thank you, as a reminder if you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel, please press the hash key. Your first question comes from the line of VTB Capital. Please go ahead.

JASON HURWITZ – *Analyst, VTB Capital*

A couple of questions. First, relating to your interest income. If you could provide a little bit of color on some of the one-off effects, particularly on the FX portion of your interest income that you were seeing in the first quarter after we saw in the last few quarters, prior to this one, that there were some elevated yields on the FX portion? And the second question relates to your capital ratios for the NCC. Are you seeing any potential for a reduced capital requirement that would allow you to pay a substantially higher payout ratio for your dividends next year? That would be great. Thanks.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thanks, Jason. So starting with your last question, I think we can only say right now that we will stick to our guidance of the capital to NCC at RUB 56 billion by the year-end, and this is the number that we have right now. We don't have a public number for 2017 as of now. So we think we will be comfortably reaching this RUB 56 billion and we have enough capital, and we will stick with the existing dividend policy which says that we will pay minimum 55 percent of IFRS net income and anything we don't need for the CapEx and capital to NCC. Not sure that will give you much more details than we have discussed, but this is where we stand right now.

And as for FX part of the interest income, that largely is driven by our Treasury activity. So whenever our Treasury, say, buy/sell swap they will have positive returns and they will basically be placing rubles through these swaps. When we have negative results in swaps that means they attract rubles for swaps and they place it at a higher rate through other instruments. So this is how they manage it. There is some part of the FX revaluation, which reflects the revaluation of the position which we have on the books to fund our FX linked expenditure for equipment. Jason?

JASON HURWITZ – *Analyst, VTB Capital*

Yes. So if we look forward to the coming quarters, do we think that the current level of interest income overall, obviously there could be a change in the key rate which would have an effect but that will be late already in the quarter. So do you think at least for the second quarter that you would be able to keep interest income at a relatively similar level?

EVGENY FETISOV – *CFO, Moscow Exchange*

You're perfectly right. This will depend on the key rate and mostly depend on the ruble balances. So we've been expecting client ruble balances to stay or to average RUB 120 billion for 2016. So, they've been higher than that in the first quarter, RUB129 billion, and they are lower as of now. So the time will show us how much lower the client balances may go or whether they will return back to RUB 120 billion as we expect them to be and that will basically be the key component of the interest income generation.

OPERATOR

Thank you. Your next question comes from the line of Alex Kantarovich – Analyst, JP Morgan. Please go ahead.

ALEX KANTAROVICH – *Analyst, JP Morgan*

Can I please revert to the question on dividends since you are very cash generative and you have EBITDA over RUB 30 billion and CapEx needs on a sustainable basis. And two and three is on obviously this pretty hefty free cash flow while you have achieved your NCC capitalization target. So if you really return all unused cash to shareholders, obviously the absolute payouts should be much, much higher. So if you would agree or disagree with my logic?

EVGENY FETISOV – *CFO, Moscow Exchange*

Thank you for the question, Alex. So we say and we think our dividend policy is very straight forward, so we do return the cash which we don't need for the CapEx for the creation of any reserves, which we need and for the capital of NCC and NSD and potential M&A. So, this is the key four elements that the Board looks at every year when they set the dividend payout or when they recommend the dividend payout ratio to the AGM. So we will follow this logic every year and I think the Board is always trying to find the balance between maximizing shareholder returns and minimizing the financial risk for the Company. So if things go well, yes, I think you can basically have numbers. There is a potential for a further longer-term increase of dividends. However, I must have to say a disclaimer. This is for the Board to decide and it's up to them to set the number. We have set the minimum of 55 percent. We have exceeded this minimum this year again and I think this is the message the Board sends to the shareholders and to the investors.

ALEX KANTAROVICH – *Analyst, JP Morgan*

Thank you, Evgeny, the message is loud and clear. Thank you very much. My second question is on your effective yield, which is 2.3 percent in your presentation on page 9. It has dropped. I appreciate that it dropped from the record high, but if you could perhaps elaborate on this effective yield? It seems that if your balances drop, and especially on the FX side, then the average yield should have been maintained or risen. But please can you tell us what happened?

EVGENY FETISOV – *CFO, Moscow Exchange*

One of the big reasons for that is that we have recorded some FX related interest income in Q4, which actually referred to both Q3 and Q4. The reason for us taking this in Q4 only was that it was a variable interest income which basically was incurred only at the end of the deposit.

ALEX KANTAROVICH – *Analyst, JP Morgan*

So it was one-off in Q4, not in Q1, right?

EVGENY FETISOV – *CFO, Moscow Exchange*

Yes. Like we said, we don't expect it to be rebated.

ALEX KANTAROVICH – *Analyst, JP Morgan*

OK, which means that 2.3 percent is more or less a representative on a blended basis?

EVGENY FETISOV – *CFO, Moscow Exchange*

Yes.

ALEX KANTAROVICH – *Analyst, JP Morgan*

Yes, OK.

EVGENY FETISOV – *CFO, Moscow Exchange*

I would say so, yes. This is more or less what we have. I mean, it's a blended number. This is something we have to deal with.

ALEX KANTAROVICH – *Analyst, JP Morgan*

OK, thank you. No further questions.

OPERATOR

Your next question comes from the line of Olga Veselova. Please go ahead.

OLGA VESELOVA – *Analyst, Merrill Lynch*

I have several questions. My first question is about your slide 8, about NSD operations. From what I can hear and from what I can see in this slide, the key components for future growth of revenue in this line will not depend on the volume of securities and deposits. So what's the best way to model the fee income from NSD from depository settlement operations going forward? How should we look at it? I appreciate the guidance on the key initiatives, but what's the best way to model the revenues here? That's my first question.

EVGENY FETISOV – *CFO, Moscow Exchange*

I will try to take this. If I need, I will turn to Maria. The way we look at this, we make an assumption on the rate of growth of a particular service and this is our, say, best guess in terms of how fast we can deliver the product to the market and what would be the, say, take-up rate by the clients. So most of those will not be, say, volume related or asset volume related. So that should be your or our best guess.

OLGA VESELOVA, *Analyst, Merrill Lynch*

And when you say you look at the product and look how you implement it, and the products you mean these three components, right? OK. My next question is, what is the breakdown of net interest income in the FX and ruble if you can disclose it?

EVGENY FETISOV – *CFO, Moscow Exchange*

It's 80% to 20%

OLGA VESELOVA – *Analyst, Merrill Lynch*

OK, thank you. My third question is about potential interim dividends. If such dividends were considered, when do you think this can be done? Should there be an AGM and when?

EVGENY FETISOV – *CFO, Moscow Exchange*

I can only speculate on that. So the policy provides for interim dividends. The Board hasn't discussed it formally yet. So if this to happen, I believe that will be happening at the end of the year or early next year, but that will be just my guess as of now.

OLGA VESELOVA – *Analyst, Merrill Lynch*

But is this right that starting from this year it's possible to pay interim dividends? Am I right?

EVGENY FETISOV – *CFO, Moscow Exchange*

The policy provides for that, so I would say, yes. But again this is something for the Board to consider.

OLGA VESELOVA – *Analyst, Merrill Lynch*

OK. Makes sense. And my last question is about interest earning assets. The Company reduced them in the first quarter to get over the reduction of client balances, but I noticed an increase in investments on deposits and also investments in bonds. What limits you from more active allocation of funds into this direction? So in other words, how should we look at the proportion of deposits and bonds in total interest earning assets going forward?

EVGENY FETISOV – *CFO, Moscow Exchange*

I mean the limits are set by our Risk Management and it's basically the elements of types of instruments the Treasury can invest into and there is liquidity management day to day. So this is what limits from either being too risky. I am not sure there is a way to scientifically model that. So what we do when we think of this, we just take the, say, the amount of rubles we think that we will have and then we make an assumption of the blended rate which is linked to, say, key rate. This is the way we think about that. And then the Treasury does the best it can to beat our expectations and plans.

OLGA VESELOVA – *Analyst, Merrill Lynch*

Is this right to assume that your risk committee changed the limits in the first quarter given that the total interest bearing assets, including cash and equivalents was down, but allocation of funds and deposits was up?

EVGENY FETISOV – *CFO, Moscow Exchange*

No.

OLGA VESELOVA – *Analyst, Merrill Lynch*

No?

EVGENY FETISOV – *CFO, Moscow Exchange*

No, it's just the decision of the Treasury to reallocate from one type of assets to another.

OLGA VESELOVA – *Analyst, Merrill Lynch*

Then the question would be - is there a room to increase this proportion going forward without the revision of risk limits?

EVGENY FETISOV – *CFO, Moscow Exchange*

I just don't have this information right now.

OLGA VESELOVA – *Analyst, Merrill Lynch*

OK, thank you.

OPERATOR

Thank you, and your next question comes from the line of Andrzej Nowaczek, Please, go ahead.

ANDRZEJ NOWACZEK, *Analyst, HSBC*

I have a question on costs. If I remember well last quarter you talked about your hiring plans, but I can see that in the first quarter your headcount was unchanged. So what is the expectation for the number of employees by year-end? And also can you remind us what percent of cost is FX denominated? And in general, would you consider revising your 16 percent OpEx growth guidance? Thank you.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thank you, Andrzej. So, starting with the first question. We have actually been hiring people. We have disposed of PFTS in Ukraine, that has been a subtraction of 23 people. So we have actually hired about the same number here in Moscow. And the expectation is that we will be still adding some more, I mean, I would say up to maybe 50 people throughout the year depending on how successful we are in getting new people on board. So the question on guidance, I will stick to the same 16 percent for the year and the reason for that is that we had a fairly high base for the first quarter of last year. So I think on the full-year numbers we will get close to the 16 percent unless the situation changes substantially. And on the FX denominated part, let me get back to you on this a bit later. I just need to pull up the number.

OPERATOR

Thank you, and your next question comes from the line of Anil Sharma. Please go ahead.

ANIL SHARMA – *Analyst, Morgan Stanley*

This is Anil Sharma from Morgan Stanley. Just a couple of questions. On the derivatives case study, I'm kind of interested in the growth rates from retail, that's been pretty impressive. But could you help us think through what impact that's had actually on volumes either on sort of notional terms or contracts traded, I guess in the derivatives case? And then my second question would be, this looks like it's been quite successful. Do you have any plans to load this out into any of the other product categories, and how should we be thinking about sort of traction there? Thank you.

EVGENY FETISOV – *CFO, Moscow Exchange*

Anil, I apologize. Can you repeat the second question? The line went bad from our side.

AMIL SHARMA – *Analyst, Morgan Stanley*

Yes, I was just saying the derivatives case study. I was just wondering have you rolled out this retail initiative on other products and if you haven't, are there plans to do so and how should we thinking about the retail in the other segments?

EVGENY FETISOV – *CFO, Moscow Exchange*

OK. So starting with the latter. So we do work with retail predominantly in the Equities Market and we have started to see the increase of retail in the bonds market. If I remember correctly, it's up to 6 percent of the total trading volume, up from 0 percent, say, two years ago. We do work with retail in FX. I think the Money Market is more suited for, say, professional market participants, predominantly banks and we don't expect retail to be active there.

ANIL SHARMA – *Analyst, Morgan Stanley*

OK, understood. And then am I correct in assuming the retail is high margin?

EVGENY FETISOV – *CFO, Moscow Exchange*

It's the same as with any other clients largely. So we do charge the same fees for all the clients. So basically they provide the same margin as an institutional client.

AMIL SHARMA – *Analyst, Morgan Stanley*

OK. And then on slide 7, you show the number of clients are growing 65 percent in derivatives year over year. But then on slide 5, you've got the contract numbers. How much of this growth in contracts has come from retail?

EVGENY FETISOV – *CFO, Moscow Exchange*

I don't have the split for the first quarter between the retail and institutional in front of me right now, but my assumption will be that the ratio would stay the same. So about 47 percent will be retail. So there will be a pro rata growth from the institutional and from retail side.

AMIL SHARMA – *Analyst, Morgan Stanley*

OK, got it. Thanks.

OPERATOR

And your next question comes from the line of Andrey Pavlov-Rusinov. Please go ahead.

ANDREY PAVLOV-RUSINOV – *Analyst, Sberbank CIB*

Thanks for the call. I just got a couple of quick questions. First of all, Evgeny, you have reiterated your guidance on costs for this year. Should we also think about your CapEx the same way? It's still RUB 4 billion for this year expected?

EVGENY FETISOV – *CFO, Moscow Exchange*

Thanks for the question, Andrey. For CapEx we still do think that we will spend up to this number. So given that we haven't booked, say, a lot this quarter, I think it's up to RUB 300 million. We have about RUB 1.6 billion and confirmed contracts already. So I think we will have to reach this RUB 4 billion.

ANDREY PAVLOV-RUSINOV – *Analyst, Sberbank CIB*

OK, that's clear. And just another question, could you give us any details, if there are any details on the potential changes there on capital regulation of NCC as a non-credit banking organization, there are any new details with your communication with central banks?

EVGENY FETISOV – *CFO, Moscow Exchange*

No, there are no new details, so we're still waiting for them.

ANDREY PAVLOV-RUSINOV – *Analyst, Sberbank CIB*

OK, thanks. That's it.

OPERATOR

Your next question comes from the line of Andrey Mikhailov. Please go ahead.

ANDREY MIKHAILOV – *Analyst, Otkritie*

Thank you for the call. Question on the Money Market. It looks like in Q1 there was an increase in average commission fee for Money Market products. If you could give some color or share your view on why this happened, which particular product maybe or which kind of clients drove this spike in average commissions in the Money Market? Thank you.

EVGENY FETISOV – *CFO, Moscow Exchange*

Thanks for the question. The most obvious explanation for that is the growing share of the REPO with CCP which is the high-yielding product. So that's why the effective yield on the money market grow. And if you stay with me a second, I may check that with the numbers that I have here.

ANDREY MIKHAILOV – *Analyst, Otkritie*

OK.

EVGENY FETISOV – *CFO, Moscow Exchange*

It must be the higher share of the REPO with CCP which resulted in high yields. Thanks. Can we have the next question please?

OPERATOR

Your next question comes from the line of Maria Semikhatova. Please go ahead.

MARIA SEMIKHATOVA – *Analyst, Citibank*

Thank you all for the presentation. I do appreciate your guidance on the outlook for ruble balances, but I also wanted to hear your thoughts on specifically balances coming from the Securities Market. We see that they actually have been declining relative to the trading volumes. So just want to know your opinion, what's driving this? Do you see clients in this particular segment becoming more sophisticated in their collateral management or there are some structural changes, movement towards, I don't know, instruments with lower collateral requirements? Just kind of want to hear your view on this.

EVGENY FETISOV – *CFO, Moscow Exchange*

What we see is that we actually see a decrease in, say, miscellaneous client balances which mostly relate to client balances with NSD. So those relate to, say, non-trading related client balances. So we have seen also some declines in the margin requirements, but those would mostly be related to the Derivatives Market and FX Market, say, down from 9 percent to 8 percent. I don't have Equities Market numbers in front of me right now. There might be some reduction in the margin requirements there as well. But otherwise, we don't see any substantial shift between the different type of collateral that clients keep with us. I would say safe or FX maybe where we have a large share of FX balances which are not necessarily linked to the trading volumes.

MARIA SEMIKHATOVA – *Analyst, Citibank*

And these non-trading client balances, how material are the remaining balances? So should we expect a further decline from this factor?

EVGENY FETISOV – *CFO, Moscow Exchange*

We cannot have any expectation. These funds come and go. So, they're very difficult to, say, predict or model since they are not related to trading volumes. Those could be dividends to be paid to the shareholders. So those meaning the corporates which process dividend payments have these funds with NSD for some time or those could be other cash which is placed with NSD for settlement purposes by market participants.

MARIA SEMIKHATOVA – *Analyst, Citibank*

But in your presentation on slide 9, these clients would be part of other funds?

EVGENY FETISOV – *CFO, Moscow Exchange*

They will be part of other.

MARIA SEMIKHATOVA – *Analyst, Citibank*

I see. So, just if we look at the Securities Market separately, there is still a decline in contribution to the overall investment balances and as a percent of trading volumes just excluding this non-trading clients as well, but you're saying, you haven't seen any kind of material changes in customer behavior?

EVGENY FETISOV – *CFO, Moscow Exchange*

Nothing that we can see as a clear trend. So clients may have just less cash sitting with us for one or another reason, nothing that we can have a more scientific explanation unfortunately.

OPERATOR

Thank you, as a reminder, it is star followed by one on your telephone keypad to ask a question. And your next question comes from the line of Elena Tsareva. Please go ahead.

ELENA TSAREVA - *Sberbank Asset Management*

Thank you for the presentation. I understand that you don't provide any guidance on trading volumes and consequently on fee and commission income. But if you could just give your opinion on what could be the drivers for the fee and commission income going forward? Do you feel it could be fixed volatility on money market or placement of new debt on the market and if you have any feeling how the privatization program could be supportive for equity volume survival? So this is the question from me.

EVGENY FETISOV – *CFO, Moscow Exchange*

So the way we think about the trading volumes would normally be we look at the, say, different underlying macro drivers first. So for equities that will be GDP times velocity and largely investor sentiment towards the Russian equities market. On the Fixed Income Market, the interest rate or the dynamics of the interest rate would be the most important, say, driver and we expect situation this year to be positive for the Fixed Income Market. So as soon as the central bank continues to lower the key rates, the market gets to the lower rate. And as we know the situation with liquidity is improving we think there will be more placements both on the corporate side as we've been seeing and on the government side as well. The government has been very active in tapping the market. For the FX, the biggest, say, the core driver is the amount of foreign trade, both exports and imports, and the oil price is definitely one of the important factors there. And definitely the volatility of the oil price influences the trading volume on the FX Market. So higher the volatility in the oil price, the higher trading volumes growth or the higher the trading volumes we would expect to have on the FX Market. The Derivatives Market will be following in the underlying asset classes trading volumes and the Money Market will be largely driven by liquidity events. So, the interesting thing which we saw this year as we expected the Money Market would be, say, stabilizing in their volumes given the liquidity situation in the banking sector improves. However, what we have seen is the growth in the repo volumes and the redistribution of the volumes from the repo with the Central Bank to the repo with the CCP and from the inter-dealer repo to the repo with CCP. And that means that the market participants are actually actively using the exchange repo to redistribute liquidity regardless of the situation, say, with liquidity on the market and that the exchange has become an important, say, hub for liquidity management. And hope I had covered most of the asset classes which we've touched upon or which we covered.

ELENA TSAREVA - *Sberbank Asset Management*

Yes, thanks. And in terms of new products, do you expect to introduce new products through the end of the year and if it can provide any material impact on the fee and commission also for this year?

EVGENY FETISOV – *CFO, Moscow Exchange*

I'll be very careful with promising anything. Like I said, we have launched repo with GCC and this is something which I am actually very much looking forward to. So it's a very young product, it may take another six months to see the trajectory for growth. And I think we will see how it works.

ELENA TSAREVA - *Sberbank Asset Management*

OK. Thanks.

EVGENY FETISOV – *CFO, Moscow Exchange*

And coming back to the question of Andrey on the share of the FX spending in the total cost expenses, it ranges from, say, 9 percent to 11 percent depending on the FX rate, but I would take about 9 percent at the current rate.

OPERATOR

And once again, it is star followed by one if you'd like to ask a question. There seems to be no further questions at this time. Please continue.

EVGENY FETISOV – *CFO, Moscow Exchange*

OK. Thanks. I think if we have no further questions at this point, we may conclude the call. Thanks everyone for participation. I hope I managed to cover most or all your questions. If anything else, if anything else appear, please be free to just drop me an e-mail or call me directly. So, thank you and goodbye.

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

Thank you. Bye.

MARIA KRASNOVA - *Deputy Chairman of the Executive Board, NSD*

Thank you. Goodbye.