MOSCOW EXCHANGE

Q4 and FY 2016 Financial Results Conference Call and Webcast

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Speakers:

Alexander Afanasiev, CEO
Evgeny Fetisov, CFO
Sergey Klinkov, Director of Investor Relations

Participants asking questions:

Armen Gasparyan, Renaissance Capital
Andrew Keeley, Sberbank CIB
Mikhail Shlemov, UBS
Jason Hurwitz, VTB Capital
Olga Veselova, Bank of America Merrill Lynch
Ivan Kachkovski, Deutsche Bank
Maria Semikhatova, Citi

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

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's MOEX FY 2016 financial results conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a Q&A session, at which time if you wish to ask a question you will need to press "*1" on your telephone and wait for your name to be announced. I must advise you that this conference is being recorded today, on Thursday, 2 March 2017. I would now like to hand the conference over to your speaker today, Mr Sergey Klinkov. Please go ahead, sir.

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

Thanks. Good afternoon, everyone, and welcome to our conference call. As usual, after the prepared remarks, we will have a Q&A session. Today we have on the call Alexander Afanasiev, CEO of MOEX, and Evgeny Fetisov, CFO of MOEX.

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 and 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 all should have received our press release containing the results FY and Q4 2016. Our management presentation is available on the Company's website in the IR section. Now, I will hand the call over to Evgeny Fetisov. Evgeny, please go ahead.

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

Thanks, Sergey, and thank you all for joining us today to discuss MOEX's financial results. So, starting with slide 2. Before we start with a review of key developments and financial results of the year, I would like to remind you briefly how the operating environment has changed for MOEX. In 2016, we had a combination of much lower volatility across different asset classes, a sluggish economic recovery and the regime of sanctions against Russia remaining in place. In this environment, MOEX's diversified business model once again demonstrated its stability and resilience to external factors and we delivered another year of fees and commissions growth.

I am pleased to say that we had a number of record-breaking achievements this year. Primary placements of fixed income instruments with over one-day maturity reached a historical high of RUB 2.5 trln. Fee and commission income on the Derivatives Market reached a record high of RUB 2.1 bln thanks to increased trading volumes of commodities futures, index futures and options. MOEX's Brent futures contract was the fourth most traded Brent contract globally. Our Money Market demonstrated another year of record-breaking fee and commission income (RUB 4.8 bln) on the back of volume growth in REPO with CCP. The FX Market's outstanding volume growth in 1H 2016 positioned that market for record FY fee and commission income of RUB 4.3 bln. Assets under custody at NSD reached a historical high of RUB 36.4 trln by the year-end.

We have increased investments to further develop our infrastructure and the infrastructure of the Russian capital market. As part of that, we have completed migration to DataSpace1, the only data centre in Russia with Tier-III certification from Uptime Institute and launched Corporate Information Centre, a single source of corporate data with “golden copy” status, which will solve the problem of multiple, inconsistent corporate actions data. The legal framework for corporate actions reform went into effect. We believe this will lower both risks and costs for market participants, as all corporate actions will be processed through a single CSD platform. The Bank for International Settlements assigned the highest rating to the Russian financial markets, and on the product side, we continued to strengthen MOEX's offerings. We introduced REPO with general collateral certificates (GCCs), M-deposits (a direct market access to the money market on exchange auction technology for corporate clients), deliverable futures contracts on the most traded currency pairs, futures on ROIA and the first program of overnight bonds.

Slide 3. So, what we made is the marketplace of choice for our clients, with the growing local investor base and continued shift from foreign to local listings. Although 2016 was still a challenging year for equity capital markets in Russia, Russian issuance started to show signs of revival with seven IPOs and follow-on offerings across different sectors, from manufacturing to agriculture, oil and gas and leasing, raising a total of RUB 137 bln. We are proud that all companies chose MOEX as a venue for these capital raisings. We also had a great start to 2017. RUB 46 bln was raised via three transactions. Detsky Mir, the largest children's goods retailer in Russia and the CIS, completed an IPO, while TMK and PhosAgro, both well known to the investment community, completed SPOs.

2016 marked another significant achievement which further improved the Equities Market quality. MOEX completed the key stage of the listing reform, bringing listing requirements in line with the international standards. The reform stage resulted in a total of 72 new independent directors selected as board members of the companies included in the highest listing level. Overall, [there were changes in] the corporate governance structure, which required both highest-level issuers and standard list issuers to comply with the new requirements for the audit committee, as well as set and approve a publicly available dividend policy. The listing reform is a tectonic shift in the Russian market, which will reduce investors' non-market risks and add additional comfort for those trading in and holding Russian securities.

Now, I would like to touch on the topic of MOEX needs for capital and the new regulations that will come into force next year. The new target level for NCC's capital for 2017 has been set at RUB 55.2bln based on the CCP stress tests, as the capital should be sufficient to cover potential losses under a stress scenario and keep the NCC's business operational. The CBR requirements for the CCP capital adequacy ratio [imply that] the capital adequacy ratio should be sufficient under Basel III rules following adjustments of capital and risk-weighted assets. Later this year, NCC will apply for new licenses that will switch NCC from being regulated as a bank to the new regulation of CCPs.

The following set of regulatory ratios has been developed by the Central Bank of Russia. First, the capital adequacy ratio. NCC's own capital shall exceed the sum of “skin in the game”, the minimum capital to maintain 11% of risk-weighted assets (RWA) and a reserve of 75% of annual operating expenses. Second, adequacy of total resources to ensure there are enough funds to cover potential losses in the event of default of the two largest counterparties. Third, adequacy of the initial margin to provide a shield for market risk entailed in case of high volatility. Fourth, liquidity ratio to ensure that the CCP can immediately cover potential losses in the event of default of the two largest counterparties. Fifth, collateral concentration to ensure that the CCP is not exposed to the overconcentration of one collateral type. We believe that the new regulations will provide additional comfort for all types of market participants and ensure smooth operations of the central counterparty. It is important that the new regulation allows the business to grow faster than the capital needs do in the medium term.

Now, let us move on to our financial results. In 2016, fee and commission income grew by 11%, while operating income decreased by 5% as a result of normalisation of interest income, which declined by 16% YoY. In 2016, fees and commissions contributed 46% to total operating income vs 39% last year. The EBITDA margin remained at a strong 77.1%. Operating expenses grew by 9%, primarily due to increases in depreciation (+74% YoY), equipment and intangible assets maintenance (+41% YoY) and market makers' fees (+35% YoY). The cost-to-income ratio increased by 3.6 p.p. to 28.1%. Net income declined by 10% YoY and reached RUB 25.2 bln.

Markets: Money Market. The Money Market was the biggest contributor to fee and commission income in 2016 and also one of the fastest-growing MOEX trading markets. Trading volumes increased by 47% YoY. Volumes in the REPO segment increased by 51% YoY and the credit and deposit market's volumes grew by 15%. In a situation of liquidity surplus, REPO with the Bank of Russia was replaced with inter-dealer REPO and, in particular, REPO with CCP. REPO with CCP remained the fastest-growing instrument of the Money Market with volume growth of 2.6x YoY.

FX Market. Subdued FX volatility affected trading volumes, which grew by 6% YoY. The growth of spot trading volumes was 4% YoY, while swap trading rose by 7%. Moscow Exchange increased its market share vs OTC in foreign currency trading, with about 53% of rouble liquidity volume traded on MOEX vs 49% a year ago.

Depository and Settlement Services. Average assets under custody at the National Settlement Depository grew by 14% YoY. At the year-end, average assets reached a record RUB 36.4 trln. The growth was driven by increased market cap of the Russian equities market and issuance of new bonds.

Derivatives Market. Trading volumes increased by 23% YoY. The fastest-growing products were commodities futures, up 3.5x, index futures, +29% YoY, and options, +66% YoY. The share of currency futures declined from 67% to 56% of derivatives trading volumes in rouble terms.

Equities Market. Despite lower volatility, trading volumes in the Equities Market declined by only 1%. The retail investor base of the Equities Market continued to grow, incentivised by lower interest rates and the recent introduction of individual investment accounts. In particular, the number of active retail accounts increased by 35% YoY to more than 110,000 accounts, with ample potential for further growth.

Fixed Income Market. Trading volumes of the Fixed Income Market increased by 31% YoY. The performance was driven by new placements, which grew by 91% YoY, and was supported by strong secondary trading volumes, up 12% YoY. In 2016, primary placements of government bonds grew by 70% YoY, and new placements of corporate and other bonds with maturities of more than one day grew by 27% YoY. That substantially exceeds the growth of corporate loans granted by commercial banks over the same period.

In 2016, total fee and commission income increased by 11% and reached RUB 19.8 bn. MOEX's diversified business model allowed us to achieve a solid performance. The Money Market's fee and commission income increased by 25% YoY to RUB 4.8 bln and contributed 24% of total fees. The FX Market fees were almost flat at RUB 4.3 bln and accounted for 22% of total fee income. The fees from Depository and Settlement Services (RUB 3.6 bln, or 18% of total fees) grew by 3% YoY. The Derivatives Market fees increased by an impressive 40% to RUB 2.1 bln and contributed 10% of total fees vs 8% a year ago. The Equities and Fixed

Income Markets contributed respectively 8% and 7% of overall fees. The Equities Market fees were down 3% YoY, while fees of the bond market increased by 25% YoY.

Interest and finance income. The investment portfolio declined by 21% YoY due to lower market participant balances, especially in roubles and US dollars. In 2016, 13% of client balances were in roubles, 38% in US dollars and 48% in euros. The effective yield on the Moscow Exchange portfolio increased from 2.4 p.p. to 2.6 p.p. For your reference, the dollar LIBOR rate increased by 0.3 p.p. during the same period and the Mosprime rate decreased from 13% to 10.7%. Interest income declined by 16% YoY, driven by lower interest rates and a change in the mix and the volume of funds available for investments.

Operating expenses. OPEX for the year grew by 9%, below the full-year guidance of 12–14%. Personnel expenses increased by 3% YoY, in line with a change in the headcount. Administrative expenses increased by 15%. The fastest-growing items included in administrative and other operating expenses were depreciation of property and equipment, and equipment and intangible assets maintenance, which grew by 74% and 41%, respectively, as a result of the migration to a new data centre and an increase of the IT footprint.

CAPEX and OPEX guidance for 2017. Our capital spending in 2016 reached a peak of RUB 3.6 bln, consistent with the guidance. In 2017 and beyond, we expect CAPEX to normalise at RUB 2.5-3 bln per year. The key CAPEX projects in near future will be the new IT architecture throughout the creation of the single collateral pool, the reform of the corporate actions and the planned upgrades of hardware.

We forecast expenses in 2017 in the range of RUB 14.3-14.6 bln, which corresponds to a growth rate of 17% to 19%. These figures include double-digit growth of administrative expenses and the growth of personnel costs above inflation. The former will be driven by the recent migration to the new data centre, which will continue to affect the depreciation and the maintenance expenses, while the latter will mostly be the result of selective salary increases and the share-based payment expense.

Now I would like to hand the call over to the CEO of MOEX, Alexander Afanasiev.

ALEXANDER AFANASIEV – ***CEO, Moscow Exchange***

Thank you very much, Evgeny. Thank you, ladies and gentlemen, for your attention. Now I would like to turn the page on 2016 and talk about our main challenges and opportunities in 2017. I would like to highlight several areas, where we believe MOEX can find the next drivers for business growth. Our hard work in the previous years resulted in the creation of well-established financial infrastructure with a really wide range of products and services in a, frankly speaking, not favourable period of time for financial markets. But this year, we feel a strong tailwind determined by positive macro factors. Due to the falling interest rates for deposits, local retail investors are rapidly increasing their investments in securities. Its share increased from 11% up to 18%. The increase of individual investment accounts amounts to 1 mln, expected taxation exemptions for coupons and the decrease of allowed share of deposits for pension funds are also driving the interest of investors for the acquisition of bonds. The foreign carry traders are also investing their roubles in the local fixed income products. Volumes in primary markets increased in OFZs by 70% in 2016. In corporate bonds, they doubled. The Ministry of Finance plans to double their borrowings from the domestic market in 2017. For issuers, they shortened the time for issuing tranches of bonds from three days down to 15 minutes. We are also working with the regulators for further improvement. We opened access to our FX and REPO Markets for corporates. They will bring additional volumes, new trading strategies and longer tenors to our markets. All this will enable us to establish a full-fledged money market platform on MOEX, which has already increased its market share from 50% in 2015 up to 75% in 2016. New bond issues will increase the REPO base. The REPO with a clearing certificate is expected to become the flagship product for the Money Market. We will develop high-technology services so far not actively offered to the market, primarily market data services. We will focus on the expansion of our market data distribution and we will offer the customers both real-time and value-added market data products, which will be customised. During 2017 and at the beginning of 2018, we will provide our clients with unique cross-market trading opportunities, such as unified collateral management, unified account and cross-margining across asset classes traded on Moscow Exchange. We will also continue to expand our markets through efforts to grow the investor base with a focus on retail investors, including investments into fintech for retail support, online marketing tools, products and brand management, and educational efforts targeting individuals. We will also focus on the international flow through Sponsored Market Access to the FX market, development of international clearing membership and our clearing house getting the accreditation by EMIR and CFTC. In the mid-run, Russian corporates will become meaningful players on the FX, Money and Commodities Markets, while the corporate governance reform and the key listing rules will make the market more transparent for all types of investors and reduce non-market risks. All in all, we have a number of initiatives in our pipeline according to our strategy that will make trading at Moscow Exchange even more attractive and efficient for investors. Thank you.

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

That is great. I think we have finished the prepared remarks and now we are ready to take the questions.

Operator

Thank you. We will now begin the Q&A session. As a reminder, if you wish to ask a question, please press "*1" on your telephone and wait for your name to be announced. If you wish to cancel your request, please press "#". Your first question is coming from the line of Armen Gasparyan. Please, go ahead.

ARMEN GASPARYAN – ***Renaissance Capital***

Thank you very much. Good afternoon, gentlemen. I have several questions. First, I was wondering if you have any comments to make on the dividend front regarding the dividend payouts for 2016 and whether you are planning to start paying an interim dividend this year. Secondly, is there any update on the progress in the rollout of the unified collateral pool? Do you think that the fees that the customers will be supposed to pay for new services or offers, i.e. portfolio margining, cross-margining and risk-netting, would help you offset the decline in balances (as obviously it will allow for a more effective use of collateral and hence the interest income will subside)? My final question. We have seen Moscow Exchange introducing some new products. I am curious about the M-deposit technology. Do you think the introduction of peer-to-peer auction technology for corporates is possible sometime in the future? That would be very interesting. Thank you.

ALEXANDER AFANASIEV – ***CEO, Moscow Exchange***

Let me start. This is Alexander Afanasiev speaking. Just a couple of hours ago, the Supervisory Board of the Moscow Exchange took the decision to recommend to the General Shareholders Meeting the dividend ratio for 2016 at 69.3% based on the result of 2016.

The second question was about the cross-margining opportunities. Indeed, it is our strong strategic belief – and it was proven many times in many of our products, like implementation of T+2, for instance – that bringing to the market more efficiency for trading always leads to better results, which are usually higher than our potential losses in the interest result. We have already done a lot of calculations looking at the most active market players (those who make most use of these opportunities) and we see that they are more sensitive to the amount of collateral rather than the cost of the collateral. When they have some amount of collateral, they are using it for active trading. If they need a smaller amount of collateral for providing more trade, usually they just do more trades.

To the third point on the M-deposits. The M-deposits definitely might also lead to the peer-to-peer solutions. We are a money market platform, which always increases not only the number but also the types of our participants.

ARMEN GASPARYAN – ***Renaissance Capital***

Thank you very much. Just a follow-up on the dividend front – should we expect interim dividends to be introduced sometime in the near future?

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

This is Evgeny. Yes, the Company will be considering interim dividends later this year. Just to be very specific, the dividend recommendation for 2016 is RUB 7.68 per share.

ARMEN GASPARYAN – ***Renaissance Capital***

Great, thank you.

Operator

Thank you. Your next question is coming from the line of Andrew Keeley. Please, go ahead.

ANDREW KEELEY – ***Sberbank CIB***

Good afternoon. Thank you for the call. My question is regarding your cost growth, which I think looks quite a lot higher on the guidance than we would have expected. I mean it would be good if you could perhaps give us a little bit more detail about how you are getting to the 17-19% growth. If we look at it, staff costs growth in 2016 was very impressive. It was only 3% and that was with higher inflation, with the inflation now coming down. And on the other operating expenses side, you have already completed the move to the new data centre. I can understand that there is going to be perhaps some higher D&A expenses and maintenance costs, but still it is a bit of a struggle to be getting to this kind of 17-19% range. Thank you.

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

Thank you, Andrew, for the question. On the cost side, the way we look at this is that we expect the personnel costs to grow by 16% and we split it into the base salaries plus tax growth of 8%. The rest would be coming from the second wave of the share-based payments of the stock options programme. This will be accrued expenses, but they are expected to contribute roughly RUB 450 mln a year to the expense base. On the administrative expenses, which include IT expenses, D&A and maintenance of all the systems, we expect 20% cost growth. This is largely due to the record CAPEX investment of this year and continuous investment into the IT footprint. We will continue to run the most reliable system that we think we can achieve and this will be the priority for us.

ANDREW KEELEY – ***Sberbank CIB***

Alright. Thanks very much, Evgeny.

Operator

Thank you. Your next question is coming from the line of Mikhail Shlemov. Please, go ahead.

MIKHAIL SHLEMOV – ***UBS***

Good evening, gentlemen. Thank you very much for the call. Actually, I wanted to ask a little bit of a follow-up on the OPEX, because it looks really high. Is there absolutely no room to deliver further cost cutting, especially given how much you have invested in the IT in 2016 and before that? Also, perhaps you could elaborate on what specific changes to the share-based compensation have been done (whether it covers more people or any other changes to the existing programme)? Thank you.

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

Thank you for the question, Mikhail. So, on the latter one, this is the second [wave] of the programme, we are adding more people, so this is a broader base of the managers, say, roughly 150 people or slightly more. That is why we expect to have more accruals related to this programme.

On the IT cost side, we have made a couple of important changes to the infrastructure. As we mentioned, we have moved to the new data centre – that increases our IT footprint – and we have expanded our networks. I do not want to go into much detail on this, we have a CIO for a very detailed explanation, but now we are running and supporting a larger number of equipment pieces, namely, servers and communication equipment. In 2017, we expect to reach a certain base, which will allow us to maintain the IT expenses at a more or less stable level without such growth. As I said, one of the largest contributors to the growth were the investments, which were done throughout 2016 and specifically in 2H 2016. They amounted to RUB 3.6 bln. This is a record for the Company. This number will go down to roughly RUB 2.6 bln in 2017. This is the expected CAPEX for 2017 and then we expect it to stay within the RUB 2.5-3 bln range.

MIKHAIL SHLEMOV – ***UBS***

Thank you, Evgeny, it was very helpful. That is it from me.

Operator

Thank you. You next question is coming from the line of Jason Hurwitz. Please, go ahead.

JASON HURWITZ – ***VTB Capital***

Good evening. My first question will be related to the dividends. You have increased your payout ratio considerably. Do you think that it would be possible that you will continue to raise the dividend payout ratio in future years? What would be the constraints that might prevent that? That is first question. I will let you take that one first. Thank you.

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

Jason, this is my favourite question, as you may well know. The way we look at this, is that we think that actions speak louder than words. With the minimum payout of 55%, we are getting closer to 70% and I think you should be taking that as a base for dividends going forward. We appreciate that the market wants larger dividends, or some investors do, but we have to balance that with the capital requirements on both the NCC and NSD side, as well as to support the growth of the business.

JASON HURWITZ – ***VTB Capital***

Very good. Second question then, related to the fee and commission income. In Q4, we saw growth of fee and commission income, but it was lagging in comparison with the volume growth on many of the markets. Effectively, pricing was down in many markets. Could you give us an indication, market-by-market, if necessary, whether there is a concerted effort to bring down the pricing or if this is a one-off? How should we look at that heading into 2017? Thanks.

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

Thank you for the question. Actually, we are looking at this slightly differently. We have a contrary situation. We have a more than 20% increase in the effective yields on the Derivatives Market, and that would be more than 50% excluding the rebates, which would last for at least a year. There is some decrease in the effective yields on the Money Market, but that is due to a shorter duration of the REPO. You may remember that last year we had a decent share of longer term REPOs, which market participants did to secure liquidity. Now the situation normalises and we are seeing a higher volume, but shorter REPO durations on this market. The markets are fairly stable. We do not see any substantial changes in the pricing.

One thing that may confuse some of the readers of the reporting is that we have introduced these one-day bonds, overnight bonds. They are, in essence, a Money Market instrument priced at the level of Money Market instruments, i.e., the REPO Market. That is the only difference and a caveat to looking at the Fixed Income Market.

JASON HURWITZ – ***VTB Capital***

So, perhaps you say that we should be looking at this as if in many of these markets the pricing has not moved down *per se,* from your perspective. But from our perspective, the nature of the type of trading volumes has brought prices down, and therefore, from an assumption perspective, looking forward it does mean lower pricing. Would that be accurate?

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

No, it would not be. I think the accurate statement from my side would be that the pricing either remained stable, as in many markets, or improved, as in the Derivatives Market case. What changes is the product mix, which is a function of demand from the client side. Then you have to look at where the client demand comes from. So, if there is demand for shorter REPO operations, we will get lower effective yields. On the REPO side, it is more complex, I would say, because you have to look at the instrument, then at the term, and then you would come to the effective yield. So, it may actually change with the duration of the REPO, and it will be a function of the market supply and demand. And the interest rate also affects the yield. So, with lower interest rates on the REPO you would get lower effective yield as well.

JASON HURWITZ – ***VTB Capital***

Understood. Ok, thank you very much.

Operator

Thank you. Your next question is coming from the line of Olga Veselova. Please go ahead.

OLGA VESELOVA – ***Bank of America Merrill Lynch***

Thank you. My first question is about your ruble client balances. Could you share with us your outlook for this year as you did last year? Also, please give us your expectation of average yield on interest earning assets for this year? Thank you.

EVGENY FETISOV – *CFO, Moscow Exchange*

I would be hesitant to give you an exact number on the ruble client balances, because this is not something we can control. We are definitely looking at a lower number for this year than we had in 2016. Although, looking at the most recent data, we think this is a reasonable level, which might be expected throughout the year. We do not expect any radical changes to the structure of the client balances. On the average yield, and you are probably much more well-versed into the macro forecasting, we expect a 2 p.p. interest rate decline through 2017. Again, this is what we have right now in our heads.

OLGA VESELOVA – *Bank of America Merrill Lynch*

Thank you. My other question is about your average fees on bonds. There was a visible drop in yield in Q4. I understand that it partly was driven by the new one-day bond instrument, but not only that. Do you think the Q4 level is sustainable or we should expect some recovery this year?

EVGENY FETISOV – *CFO, Moscow Exchange*

We did not have any changes in pricing. So, what we had was due to the product mix change and most notably due to the introduction of these overnight bonds.

OLGA VESELOVA – *Bank of America Merrill Lynch*

So the answer is: you think it is sustainable?

EVGENY FETISOV – *CFO, Moscow Exchange*

We think that the pricing is there. Provided that we expect growth in the Fixed Income Market going forward and we expect growth in the regular fixed income instruments on the OFZ and corporate bond sides plus the overnight bonds, we will expect larger fees and commissions on this particular product.

OLGA VESELOVA – *Bank of America Merrill Lynch*

OK, thank you. My last question is again about the client balances, not ruble ones, but the FX client balances. Do you think that the excessive FX client balances have gone and the process of replacement of collateral in the rubles by collateral in FX is over?

EVGENY FETISOV – *CFO, Moscow Exchange*

Starting with the latter question, we think that the replacement of the ruble balances is largely over. As for the excessive client balances, it is difficult to say, as we still have a fair amount of euros, which clients keep with us. Then again, we do not necessarily know whether this is for trading purposes, collateral purposes, or they would just keep it with us. One can argue that there is some room for further decline in the euro balances or US dollar balances, but we will need to see. We think we are getting close to what we thought is a normal level of client balances overall.

OLGA VESELOVA – ***Bank of America Merrill Lynch***

Thank you.

Operator

Thank you. Your next question is coming from the line of Ivan Kachkovski. Please, go ahead.

IVAN KACHKOVSKI – ***Deutsche Bank***

Colleagues, thank you very much for the presentation. First of all, a follow-up question on client fund dynamics. I appreciate that you look for lower RUB balances in 2017 as compared to 2016, if I got you right. But if we look at any part of the client fund dynamics (which may be not under your control but influenced by your decisions on other sides of the business), particularly, your cross-collateralisation initiatives, do you expect anything significant in 2017 or mid-2018 on that front? Something that could have a significant impact on the RUB part of client balances? On the US dollar and euro side, would you say that we should probably look at FX volatility and the FX trading volumes mostly as key indicators of this not excessive, but natural level of funds? That is the first question. Thank you.

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

As for the first question on cross-collateralisation and more efficient use of client collateral, we do not expect any major shifts or changes in 2017. Going forward, in 2018, we may see an improvement there, but again, we expect more trading volumes to go through, as we used to have with the T+2 transition, and then we expect more fees and commissions from this additional service offering. I am not sure I got your question on the US dollar and euro. As we said, there is a certain link to the FX rate volatility, which drives the client balances on US dollars, euros and rubles, but there are also some funds that are kept with us by clients for different purposes. Again, it is very challenging to give an exact forecast or very clear indications on how these funds work and move.

IVAN KACHKOVSKI – ***Deutsche Bank***

OK, I got you. Thanks. My second question would be about your outlook for assets in custody. What kind of dynamics would you expect in 2017? Any particular drivers behind that? Thank you very much.

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

Going forward, we expect the growth of safekeeping fees in line with the growth of the Equities Market cap and new bond placements. We expect more bonds to be placed by both the Ministry of Finance and corporates, which should as a result drive the safekeeping fees on the NSD side.

IVAN KACHKOVSKI – ***Deutsche Bank***

Got you. Thanks very much.

Operator

Thank you. As a reminder, it is "*1" on your telephone, if you wish to ask a question. Your next question is coming from the line of Maria Semikhatova. Please, go ahead.

MARIA SEMIKHATOVA – ***Citi***

Good evening. Thank you for the presentation. I have a couple of short questions. Can you disclose the average current duration of REPO on your Money Market? How close are we to one day? You also mentioned that the effective tariff on the Derivatives Market, excluding the rebates, was almost 50% higher. I just want to confirm that these rebates were put in place when the new structure was implemented in the market. So starting from Q4 2017, should we expect that the effective tariff would be roughly 50% above the Q3 level? And the final question. It looks like your listing fees were relatively weak in Q4. I wanted to hear your thoughts on why that was the case.

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

Thank you for the questions, Maria. On the average duration for the REPO, we see it declining from six to 3.4 days. On the listing fees, it has to do more with how we account for the listing procedure. We actually started to distribute it more evenly throughout the year vs what we did in the past years. There are no changes in listing per se, but rather a more distributed recognition of these revenues. The other question was on the derivatives side. The rebate programmes that we have are limited in time. Some of them are one year, some of them are somewhat longer. They kick in with certain volumes and thresholds, and I would say that you should be expecting that in 9 to 12 months you will see a more pronounced increase in effective yields on the Derivative Market. That is correct.

MARIA SEMIKHATOVA – ***Citi***

Ok, thank you.

Operator

Thank you. We do not seem to have any further questions at this time. Please, continue.

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

If we have no further questions, there is one more thing before we conclude the call. You probably know that Evgeny is about to leave the MOEX team. I would like to give the floor over to him again.

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

Yes, thank you, Sergey. As you probably know, this is my last conference call as a member of the MOEX team. Tonight is time for me to say thank you all for cooperation and to say goodbye. I am proud to have been a member of the MOEX team and to have a chance to work with this exceptional Company and the great people who have shown the capacity to create changes and to make Russian financial infrastructure better and stronger. Working here has always been challenging, but exciting. I must say that it was hardly imaginable five years ago that MOEX would create a fully functional CSD, integrate the Clearing Centre, migrate the Equities Market to T+2, provide access to the euro clearing system, complete the listing reform, the reform of corporate actions, help create a tax incentive for individual investors, help launch individual investment accounts, and assist with changes in the pension regulations. There are many other things that the Company has done. Once again, this is exactly what the team and the Company did achieve. I have to say that I really appreciate your valuable feedback and insights throughout this period, which helped us to make better management decisions and be a well-run, open and transparent Company. My successor will definitely join a very professional and stable team. I wish him or her very good luck.

ALEXANDER AFANASIEV – ***CEO, Moscow Exchange***

As the CEO of the Company, I would also like to use this opportunity to thank Evgeny for his great work, because he was the person who actually established the full-fledged financial function in the new public company (and we are a relatively new public company, quite a young one). There were a lot of challenges around the Company, around Evgeny's work and his responsibilities, and I am happy with his work. I do believe you are also quite happy with what Evgeny has done in establishing the investor relation function. I would like to thank Evgeny again for his work and to wish him all the best in the future. Thank you.

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

Thank you.

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

I think at this point, we may conclude the call. Thanks everyone for participation.