MOSCOW EXCHANGE

MOEX Q2 2017 IFRS Results Conference Call

9 August 2017

Speakers:

- Alexander Afanasiev, CEO
- Evgeniya Abrukina, Deputy CFO
- Anton Terentiev, Director of IR

Participants asking questions:

- Mikhail Shlemov, UBS
- Olga Veselova, Bank of America Merrill Lynch
- Jason Hurwitz, VTB Capital
- Andrew Keeley, Sberbank CIB
- Andrey Polischuk, Raiffeisenbank
- Olga Naydenova, BCS

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Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's MOEX Q2 2017 IFRS results conference call. At this time, all participants are in a listen-only mode. If you require any assistance at any time, please press "*0" on your telephone keypad. This conference will be with a Q&A session, at which time if you wish to ask a question you will need to press "*1" on your telephone keypad and wait for your name to be announced. I must advise you that this conference is being recorded today, 9 August 2017. I would now like to hand the conference over to your first speaker today, Anton Terentiev, Head of Investor Relations. Please go ahead, sir.

Anton Terentiev – *Director of Investor Relations*

Thank you. Good afternoon everyone, and welcome to Moscow Exchange Q2 2017 IFRS results conference call. As usual, after the prepared remarks, we will have a Q&A session. On the call today we have Alexander Afanasiev, CEO, and Evgeniya Abrukina, Deputy CFO.

Before we start, I would like to remind you that certain statements in this presentation and during the Q&A session may relate to future events and expectations and, as such, constitute forward-looking statements. Actual results may differ materially from those projections. The Company does not intend to update these statements to reflect events occurring after the date of the call prior to the next conference call. By now, you should have received our press release containing the results for Q2 2017, and our management presentation is available on the Company's website in the IR section.

Alexander Afanasiev – *CEO*

This is Alexander Afanasiev, CEO of the Company, speaking. Excuse me for taking one more minute. I would like to point your attention to the fact that today is the first time Anton Terentiev is leading our conference call as he now represents the Company's IR. He is new onboard and we wish him a lot of success. I believe many of you are more or less acquainted with Anton because he used to be an analyst and has work experience in investment management. Welcome, Anton.

Anton Terentiev – *Director of Investor* Relations

Thank you.

Evgeniya Abrukina – *Deputy CFO*

Thank you, Anton and Alexander. This is Evgeniya. Hello, everybody. Thank you for joining us today. I will start the presentation. Let us start with slide 2, which talks about key developments in Q2 2017 and subsequent events.

MOEX's Supervisory Board recommended switching to a semi-annual dividend payments. Earlier today, the Board recommended convening an EGM of Shareholders in early September to approve an interim dividend payment of 55% of the Company's consolidated net profit for the period ended 30 June 2017 for a total of RUB 5.7 bln. The final dividend for 2017 will be based on the full year financial results in line with the Company's target to maximise shareholders' return and maintain attractiveness of the stock. Also, the Company completed dividend payments for 2016 in June, paying out a total of RUB 17.5 bln, or 69.4% of the Company's consolidated net profit for the year. We have had a change in MOEX's shareholder structure. I am glad to report that JPMorgan Chase & Co. subsidiaries increased their ownership stake in MOEX to just above 5% in May 2017. As a reminder, OppenheimerFunds, Inc. made a similar move earlier this year. In addition to that, MOEX will create a subsidiary, MOEX Innovations LLC, which will commit up to RUB 1.2 bln in the next three to four years for the purpose of investing in innovation-focused fintech companies and initiatives.

We continue to work on diversification of our client base, providing direct access to Russian corporates to MOEX markets. In April, we had the first Russian corporates join the FX Market. In July–August, eleven corporates joined the Money Market, and we will speak about the first results of this initiative in a minute. Two MOEX-listed companies completed SPOs in Q2, raising more than RUB 49 bln. We expect that capital raisings like these, among other factors, will support further growth of our Equities Market.

We remain committed to facilitating access to fund-raising opportunities for Russian companies across the market. To this end, we recently launched the Growth Sector on the Equities and Fixed Income Market. This segment will allow small and medium-sized enterprises to raise debt. We are continuously striving to improve liquidity in our trading markets. We have launched a new market-making programme for spot trading in USD/RUB on the FX Market. We expect that this programme will support FX spot volumes.

Now let me talk briefly about external developments relevant for MOEX. The maximum amount of funds that can be invested via Individual Investment Accounts per annum was increased from RUB 400,000 to RUB 1 mln, providing greater flexibility for retail investors. Another positive input for development of the retail investor base is the change in taxation of coupon income on corporate bonds. New legislation has made coupon income on corporate bonds exempt from personal income tax, effectively removing tax treatment differences between corporate bonds and bank deposits. In June 2017, the Bank of Russia amended its regulation regarding treatment of the general collateral certificates (GCC) for the purposes of regulatory ratios calculation. As a result of this change, GCCs trading volumes in July increased significantly. The volumes for the month were roughly equal to the volumes for the entire second quarter.

Now I am going to talk about direct access of Russian corporates to the FX and Money Markets, a project mentioned earlier and presented on slide 3. As you know, in April, several companies started to take advantage of direct access to the FX Market. As of the beginning of August, nine companies joined the FX Market and executed FX transactions. The list includes major exporters and insurance companies. The total volumes generated by corporates since the launch amounted to RUB 113 bln. In July, we launched deposits with the central counterparty (CCP) for corporates. Companies can now place deposits with the CCP at REPO market rates. This allows corporates to receive more favourable rates than they can earn with bank accounts. At the same time, we believe that this project will help to provide the REPO market with longer-term supply of liquidity. Since the launch, eleven Russian companies have joined and generated RUB 49 bln of trading volumes. Both projects bring in non-bank liquidity providers, which enhance the quality and depth of our markets. Now I will move to slide 4, which represents the summary of our financials. Operating income was down by 9.1% YoY mainly due to a decline in interest and other finance income, which contracted by 20.1% YoY. Fee and commission income grew by 4.2% YoY and its share in total operating income rose to 52%. This compares to 45% in Q2 2016.

Operating expenses increased by 12.7% YoY with most of the growth attributable to D&A and IT expenses. The portion of costs not related to IT grew by 4.5% YoY, showing strict control over expenses.

EBITDA declined by 13.4% YoY, while the EBITDA margin remained at a strong 74.7%. Net income declined by 17.3% YoY.

Now let us move on to slide 5. The structure of fee and commission income remained well-diversified. The largest contributors to total commissions were the Money Market (25%), Depository and Settlement Services (20%) and FX Market (19%). A 4.2% YoY increase in fee and commission income was driven by nearly equal contribution in absolute terms from Depository and Settlement Services, Money Market and Fixed Income Market. The rest of the product portfolio showed mixed results, mostly on the back of still muted volatility and subdued sentiment on the Equities Market.

Now let us turn to the interest income component. The CBR has been continuously reducing the key rate, which translated into the bond market both for corporate and government securities in the reporting period. At the same time, the amount of ruble balances also declined by 18.5% YoY going down to RUB 151 bln. The average effective yield of the portfolio nevertheless jumped to 2.4% from 2.0% in the previous quarter. This is because in Q2 2017 regular interest and finance income was supported by transactions, which took advantage of the disparity between interbank and FX swap market rates. A sustained rally in the fixed income market spurred by a visible reduction in the key rate allowed us to mark some profit on our P&L as well. As a result of the above, interest and finance income declined by 20.1% YoY. To reiterate, our investment policy prioritises liquidity and safety over returns. As such, we are trying to capture maximum yields, but not as a result of taking extra risks on the balance sheet, including currency risks.

Now I will talk about our markets, and start with the Equities Market presented on slide 7. Stock market volatility measured by RVI continued to be rather muted in Q2, with a decline of 30% YoY. Market velocity decreased from 30% to 28% YoY, yet recovered from 25% on a quarter-to-quarter basis. This combination led to a 4.1% decline in the Equities Market trading volumes. We continue to see interest from retail investors in on-exchange products and the Equities Market in particular. One of the things that clearly demonstrates it is the growth in individual investment accounts (IIAs). As of the end of Q2 2017, around 230,000 IIAs were registered vs 130,000 a year ago. And 92% of all the trading volumes generated by IIA owners are equities. We continue to see trading volumes become less concentrated in terms of trading securities. The top ten most liquid stocks accounted for 70% of all trading volumes compared to 76% in Q2 2016.

Fixed Income market is presented on slide 8. Trading volumes on the Fixed Income Market grew by 92% YoY. Most of the growth came from primary placements, which increased more than four times YoY. This amount includes RUB 2.4 trln of trading volumes of overnight bonds. Primary placements excluding overnight bonds amounted to RUB 1.3 trln, up 49% YoY. Placement of government bonds also grew by a strong 78% YoY. Overall, the total volume of placements in the bond market (excluding overnight bonds) approached the level of Q4 2016, which is the highest to date. In terms of fees from the bond market, Q2 2017 set a new record of over RUB 500 mln of fees and commissions, up 23% YoY.

Derivatives Market, slide 9. As a result of muted volatility, Derivatives Market trading volumes declined by 25% YoY, led by FX and index futures. Trading volumes of commodity derivatives continued to grow. They rose by 10% YoY and contributed 16% of total trading volumes from the Derivatives Market. Options trading volumes also advanced by 39% YoY driven mostly by index options, up 53% YoY. Derivatives Market fees and commissions declined by 4.2% YoY despite a 25% decrease in trading volumes. The effective fee was supported by changes in the product mix that favoured higher-yielding products.

Money Market, slide 10. Money Market trading volumes increased by 21% YoY. Growing trading volumes translated into higher fees, which went up 8.8% YoY. The driving force behind the growing volume was the demand for REPO with CCP. Volumes for this product increased by 52% YoY and its share in total inter-dealer REPO volumes climbed to 75%. REPO with the Bank of Russia continued to decline: trading volumes were down 57% YoY as a result of the decreased need to provide liquidity to the economy. Volumes of REPOs with GCCs through the CCP increased 2.7 times YoY in the reporting quarter. REPOs with GCCs still account for a small portion of on-exchange REPO volumes. However, given the recent changes in regulation as well as participation of corporates, it is becoming a more meaningful component of the Money Market income.

FX Market results are presented on slide 11. FX Market trading volumes increased by 14% YoY due to growing swap volumes, which were up by 29% YoY on the back of continued demand for liquidity management instruments. Spot trading volumes declined by 21% YoY as volatility was still quite muted. MOEX's market share of the on-shore FX Market was 54%, roughly the same as in Q2 2016.

Depository and settlement income. Average assets under custody increased by 8.4% YoY up to RUB 35.1 trln. Growth was primarily due to the rising number of bonds issued under custody. Fee and commission income grew by 12.4% YoY mostly driven by safekeeping fees on the back of the general increase in assets under custody.

IT services and listings. Listing and other service fees related to the Securities Market rose by 1% YoY. Sales of software and technical services grew by 5% YoY. Sales of market data and information services advanced by 4% YoY despite the continued ruble appreciation, up 15% YoY, which eroded FX-denominated portion of fees from the market data services.

Finally, I am going to present our operating expenses (slide 14). Total OPEX grew by 12.7% YoY, below the previously given guidance. Most of the growth was attributable to expenses related to IT and implementation of the CAPEX programme in 2016. D&A increased by 40.7% YoY and IT maintenance expenses were up by 25.9% YoY. The remaining administrative expenses actually decreased by 6.9% YoY. Personnel expenses grew by 11.3% YoY driven by differences in unused bonus provisions, which decreased 2.2 times YoY and are usually reversed into P&L in Q2 after the final bonus payment. Based on the results of 1H 2017, we are updating our year-end operating expense growth guidance to 15-17%.

This concludes my opening comments. Thank you very much for your attention. Now we would like to open the Q&A session.

Operator

Thank you. Ladies and gentlemen, we will now begin the Q&A session. As a reminder, if you wish to ask a question, please press "*1" on your telephone keypad and wait for your name to be announced.

Your first question comes from Mikhail Shlemov. Please ask your question.

Mikhail Shlemov – *UBS*

Good afternoon. Thank you very much for holding a conference call. Several questions from my side. Probably let us start with the interim dividend, which you announced just before the call. Any reasoning why you have set the interim dividend payout at 55%? This is, as I know, in line with the minimum payout in the dividend policy but well below the 70% you paid on a full-year 2016 basis. The second question is about NII, which was very strong in Q2. Actually, it was the first time in quite a while when NII was up QoQ. It seems like the trend has been driven by persistent FX swap income in the P&L. What exactly is driving this? Is it part of carry trade into the ruble, which you make and which has been the case in the market for the last six months? Last but not least, a bigger picture question to Mr Afanasiev. Given that you are a big marketplace for liquidity and a money marketplace to go to in Russia, what is happening with the banking sector in terms of liquidity because the situation looks quite puzzling, with structural liquidity surplus in place, however, direct REPO with the Central Bank reappearing again in scale? Thank you.

Alexander Afanasiev – *CEO*

Thank you very much for your questions. I will start with answering question 1 and 3. The first about the dividends. Our choice to recommend the dividend rate of 55% to the Supervisory Board and the shareholders' meeting was absolutely easy as it was our very neutral suggestion without setting up any signals to the market because, on the one hand, it is fully in accordance with our dividend policy, which says that 55% shall be our minimum dividend ratio. On the other hand, the year has not been finalised yet, and it is not part of the discussion of the final dividend. As you know, we were always successful in paying a much higher ratio than the one set at 55% in our dividend policy. As you reminded us, it was approximately 70% for the previous year and the year before that, about 56–57%. For us, it is very important that we are starting to pay interim dividends. It is our first try, so to say, and our idea was to be almost “neutral”. So 55% is what we should do.

Responding to your third question concerning the banking sector liquidity. Indeed, we see that in the Money Market platform of MOEX, the volumes of REPO with the Bank of Russia decreased by 57% YoY in Q2 2017. This means that the liquidity crisis, or liquidity shortage, in the banking sector has changed, and now there is a surplus of liquidity in the banking sector in general. However, we must understand that access to the Bank of Russia’s liquidity is also limited to banks, including the biggest banks. Now we see fast development of non-banking financial institutions. At the same time, the volumes of our flagship product, REPO with CCP, increased by 52%. This means that we see a move of the liquidity from the line, so to say, between the Bank of Russia and the biggest banks to the very wide spreading out of liquidity across the entire financial sector. We are the beneficiary of this process because the Bank of Russia’s auctions, although organised in our venues and on our platform, are not a 100% on-exchange product, while REPO with CCP is. Also, we see increased interest of the corporate sector to participate directly in our Money Market platform. That is why we see a strong increase in volumes using the clearing certificates: the increase was approximately 160% QoQ. However, when we look at the July volumes of REPO with clearing certificates alone, they were pretty much the same as the volumes of the whole Q2 2017 – despite the fact that Q2 saw a record high in volumes. This means that the current demand for liquidity in the financial sector is still there but there is demand represented by different types of market players, not only by the biggest banks, and we have a platform for that. As for question 2, I will ask Evgeniya to answer.

Evgeniya Abrukina – *Deputy CFO*

The high results in the interest income from the FX revaluation in comparison to Q2 2016 is driven by cross-currency swaps revaluation, which is the result of our arbitrage trades which we mentioned in the previous call when we were disclosing the results of Q1 2017. It is a spread available in the market between the interbank and swap rates which we used, and this trend was there: in Q2, we still used the same set of liquidity management tools as we did in Q1. Mikhail, does that answer your questions?

Mikhail Shlemov – *UBS*

Yes, thank you. That is helpful but I would like to follow up on swaps a little bit. Are these spreads between the interbank and FX swaps basically a consequence of the carry trade which is happening in the ruble assets, or not?

Alexander Afanasiev – *CEO*

I would say not. It is rather the result of increasing opportunity represented by the difference in the USD and EUR rates. Because, a big part of such swaps was USD/EUR, the other one was in USD/RUB. For USD/RUB swaps, our Treasury was to buy rubles and sell US dollars. For EUR/USD swaps, it was to buy euros in the first leg and to sell euros in the second leg.

Mikhail Shlemov – *UBS*

So you played short USD vs long EUR and RUB.

Alexander Afanasiev – *CEO*

Yes.

Mikhail Shlemov – *UBS*

OK, that is helpful, thank you very much.

Evgeniya Abrukina – *Deputy CFO*

You are welcome.

Operator

Thank you, the next question comes from Olga Veselova.

Olga Veselova – *Bank of America Merrill Lynch*

Thank you. My first question is about your costs outlook. Why do you revise costs growth for the full year so moderately? Do you expect any spikes in the next quarters, which you did not have in the first half of the year? I will ask my next question after you answer.

Evgeniya Abrukina – *Deputy CFO*

Thank you for your question, Olga. We revised our guidance because some of our costs are dollar or FX denominated costs. We were planning our budget last year using the RUB/USD rate forecast. It was a market consensus based on public information, including that of the Ministry of Finance, Ministry of Economic Development, and a number of investment banks, so we just used a consensus. It turned out that the actual RUB/USD rate for the first half of the year was lower than the consensus last year used by us for our budgeting and planning. You can see the result in our guidance review, because we already have saved those expenses.

Olga Veselova – *Bank of America Merrill Lynch*

Yes, I understand that you revised down. My question was why you revised so little.

Evgeniya Abrukina – *Deputy CFO*

First of all, we also looked at the market outlook in terms of the RUB/USD rate for the second half of the year. The market expects this rate to grow, so we need to be careful in our planning. We traditionally have some growth in the expenditure in Q3 and Q4 due to the way we run our business. The other reason is that some costs, which are driven by our previous CAPEX programs, are already included in our intangible or fixed assets and amortized into P&L.

Olga Veselova – *Bank of America Merrill Lynch*

Let me rephrase my question. Do you think that the second half of the year will be materially different from the first half in terms of costs?

Evgeniya Abrukina – *Deputy CFO*

It should not be materially different. We expect a seasonal cost growth in comparison to Q1 and Q2, but it should not be material.

Olga Veselova – *Bank of America Merrill Lynch*

OK, thank you. My second question is about your average yield on bonds. It was very erratic in Q2, but also in Q1. I understand that it was partly driven by the 1-day ruble bonds from VTB. But even if we adjust the yield to this 1-day bond, it was still rather erratic. Could you talk a bit about this average yield on bonds? What was driving the change in the past couple of quarters?

Evgeniya Abrukina – *Deputy CFO*

Just to clarify the question: do you mean the yield on our investment portfolio, which includes bonds, or do you mean the volumes on the Fixed Income Market?

Olga Veselova – *Bank of America Merrill Lynch*

Sorry, let me clarify: I take the revenue from bonds in fees line and divide them into trading volumes. There was no major revision of tariffs, so I would assume that the revenue yield in the bonds segment, i.e. in fees from bonds and fixed income instruments, should be pretty stable, but it was not. Why do you think it was not stable in the past quarters?

Alexander Afanasiev – ***CEO***

I see that in the bonds market, our volumes without the effect of 1-day bonds or overnight bonds were up approximately 20% on a YoY basis, and our fees were up by around 23%, so it is approximately in line with the increase in volumes. And I see in OFZs: the increase in volumes amounted to 36% and to 33% in fees, which is also pretty much aligned with each other.

Olga Veselova – ***Bank of America Merrill Lynch***

So you believe that there was no major change in the mix of volumes in the Fixed Income Market that could lead to this. I would appreciate it if we further discuss it offline.

Alexander Afanasiev – ***CEO***

OK, thank you.

Olga Veselova – ***Bank of America Merrill Lynch***

My last question is about your management team. Why is the appointment of the new CFO taking so much time and when do you expect this to finally happen?

Alexander Afanasiev – ***CEO***

We expect the appointment in September, when we have our Supervisory Board meeting, i.e. by the end of September. It took some time because we are very careful in setting up our management team.

Olga Veselova – ***Bank of America Merrill Lynch***

Thank you.

Operator

Thank you. The next question comes from Jason Hurwitz. Please ask your question.

Jason Hurwitz – ***VTB Capital***

Good evening. I wanted to ask for a little bit more color on the interest income. First of all, we noticed that for the second quarter in a row, the interest expense line has been significant. Could you give us some colour on what is going on there – and whether we should view this as something rather stable going forward? Could you also comment further on how we might look, going forward, at the difference between the yields on FX portion of assets that you are holding versus other finance income portions, like the AFS securities gains and FX gains? Would we expect to see the same high amounts of these other portions going forward? Thanks.

Evgeniya Abrukina – ***Deputy CFO***

The interest expense is the interest expense on the swap funding. As for your second question regarding the FX yield, this will depend on the market and what is available on the market.

Jason Hurwitz – ***VTB Capital***

It would seem that, even if we take into account interest expense, the yields on FX were very close to zero if we do not include the portion of FX gains and AFS securities gains. Would you say this is accurate? What I mean is that if we only take the interest expense and subtract what would be a logical amount of interest for the ruble portions, then it would appear that the yields on the FX portions are very close to zero. Is that inaccurate?

Alexander Afanasiev – ***CEO***

The interest expense comes only from the RUB/USD and USD/EUR swaps. When we make the first leg of the swap, it looks like it causes some interest expense. Maybe we could talk about it offline.

Jason Hurwitz – *VTB Capital*

Skipping the part about interest expense, I was talking about the interest income part of it. If we take a logical yield on the ruble portions of securities that you are holding, then it would almost seem to imply that you are not earning anything, or anything significant, on the FX portions, even though dollar rates have been higher. Could you comment on that? Have you just been taking a different investment approach or trying to target some of these FX gains instead of interest income? Is it something different that you are doing with your portfolio or is it more of a one-off and we should go back to seeing the portfolio the way we saw it before this quarter?

Alexander Afanasiev – *CEO*

OK, I hope that I've got it. Of course, we also receive some interest results in hard currencies, not only in rubles and not only from the swaps. We can earn something on the dollar account: euros are almost zero but dollars are not, because of some interest which can be gained from the deposits. We also maintain a portfolio of Eurobonds, which are denominated in dollars and in euros. The yields are the usual USD and EUR yield plus Russian premium or the premium for some particular companies. That is why there is part of the interest results in USD and EUR, which is gained not because of the swaps, but as a result of investing USD and EUR balances.

Jason Hurwitz – *VTB Capital*

I appreciate that you do not report on specifics of these breakdowns, but can you comment on the fact that it appears that yields on this portion of the portfolio were extraordinarily low, particularly given the increase in USD rates?

Anton Terentiev – *Director of IR*

Jason, what kind of ruble rate are you applying to the ruble part of the portfolio? We have to know the equation before giving an answer. Are you applying 7% or maybe 10%?

Jason Hurwitz – *VTB Capital*

Sure. At the moment I'm applying about 9.4% for the ruble portion.

Anton Terentiev – *Director of IR*

That is much higher than the money market at the moment. You know, we have a conservative policy managing the ruble portfolio. I think that the yield you are applying is above the money market yield. It is a blended yield for corporates, but not for the money market and not for the government securities.

Jason Hurwitz – *VTB Capital*

OK, that is helpful. Thanks very much.

Operator

Thank you. The next question comes from Andrew Keeley. Please ask your question.

Andrew Keeley – *Sberbank CIB*

I am just going to ask one more question on these FX swaps. Has there been any material change in your treasury strategy in 2017 in terms of your risk appetites and your willingness to take bigger positions, in terms of your views on currency moves? If I look at the last year, in three of the four quarters of the last year, you made a net loss on FX swaps. My question: going forward, can we expect a more material line in your interest income – but can that be a material line in a positive or negative way? Thank you.

Alexander Afanasiev – *CEO*

Thank you for your question. The swaps are not a risk part of our treasury strategy. It is the utilisation of the market's current disproportions in terms of comparing the yields in different currencies which are available for placements for us as the NCC and which are used either for funding or lending. If they are used for funding, then we can see negative results on particular swaps, but see positive results or additional positive results on investments of money and vice versa, like now. When we see an opportunity in a different way - i.e. the dollar rates available for us used to be better than for the market - then you have a positive result in swaps, which covers some potentially decreased results in deposits. It is not a change in our risk policy – it is that currency swap in Russia is a money market product.

Andrew Keeley – *Sberbank CIB*

That is very clear now and very helpful. Thank you. Another question is on the dividends. Could you confirm that in theory you could pay out close to 100% of your second half profit? You have only paid out 55% of your first half profit, which I think is certainly quite a bit lower than I would be expecting.

Alexander Afanasiev – *CEO*

The decision of the final annual dividend will be made based on the total result of the company for the whole year. It will not be based on the second half result. Compared to the second half result, theoretically it might be even over 100%. If we assume that the second half result is the same (and mind you, this is not a forecast, but just as an example), and if the decision is made to pay out much more than 55% for instance, then parts of the profit for both the first half and the second half of the year can be equally used. So, 55% does not mean that we are in any case limited in making a better decision after the year ends.

Andrew Keeley, *Sberbank CIB*

This is exactly what I have been looking for. Thank you.

Alexander Afanasiev – *CEO*

After the end of the year, we will distribute our annual results and not the results of the second half of the year.

Andrew Keeley – *Sberbank CIB*

OK, thank you!

Operator

Thank you. The next question comes from the line of Andrey Polischuk. Please ask your question.

Andrey Polischuk – *Raiffeisenbank*

Hello, thank you for the presentation. Could you please update us on the Unified Collateral Pool project? When does the project kick in? Maybe you have any details on the probable fees for such service. Thank you.

Alexander Afanasiev – *CEO*

Thank you for a very good question. It is really one of our flagship projects – together with increase in the number and types of our customers, clearing certificates, REPO, and so on. Actually, we already started realization of this project. According to our plan, we are implementing some of the new functionalities for the market on a step by step basis. In May 2016, we already introduced calendar spreads and inter-product spreads in the FX spot market. Now all the liquid pairs of the currencies, which are traded on Moscow Exchange (in all tenors), are practically cross-margined according to portfolio principle. In March 2017, we introduced inter-calendar spreads in OFZ trading. Now, OFZs are traded practically as a Money Market product using different tenors, or different maturities of these bonds, like in the Money Market trading. I do believe that it helped to increase the role of the order book in OFZs compared with book transactions. The share of order book in the total trading of OFZs in 2013 used to be close to 13%. In 6M 2017, it was 38%, and it is very beneficial for the Exchange. The next step will be this autumn, when we do two things. First, we will allow the most active brokers and banks to maintain just one account or group of accounts in one of our securities trading systems. However, the security placed there as collateral may be used in all other systems and groups of assets. The second point is that we will unify the requirements for collateral in all asset classes which are trading now. At the end of Q1 2018 (i.e. approximately in spring 2018), we will do a big reform of risk management in the Derivatives Market. We will provide two main things. Firstly, we will introduce inter-calendar spreads between different maturities of the futures for the same underlying asset. Secondly, we will establish cross-margining links between the underlying asset trading in the spot market and derivatives trading (futures and options). Finally, by the end of 2018, we will provide some portfolio cross-margining opportunities combining all the markets, except the Commodities Market.

Andrey Polischuk – *Raiffeisenbank*

Thank you very much. You said that in autumn, most active traders would start using the first part of this project – could you tell me how much do they actually trade? What is their share of total trading volumes?

Alexander Afanasiev – *CEO*

I mentioned active traders not as those involved in any particular group of products, such as FX (we have some banks that are very active in FX only) – by active traders I meant ones who use different markets. We modelled this process, and according to this model, we believe that there is a technical benefit of maintaining just one account and trading using one account instead of having many accounts at the same time. It does not imply anything else except the comfort of trading, and we believe that initially, the number of those active brokers will be around 10–15.

Andrey Polischuk – *Raiffeisenbank*

Thank you very much.

Operator

Thank you. The next question comes from Olga Naydenova. Please ask your question.

Olga Naydenova – *BCS*

Hello, Alexander. I would like to follow up with the Unified Collateral Pool. Any understanding of the pricing in that product would be helpful. It might be just the logic behind it or anything you can think of.

Alexander Afanasiev – *CEO*

Thank you very much for the question. This matter has not been finally decided yet because it is part of our discussions with the market, in user committees, and in the Exchange Council. The difficulty here is that we will increase our fee result and in particular our clearing result, because it will be a clearing fee. The number of products for trading will not change, but the quality of clearing will. That is why we will charge our market participants for our clearing services. The second point is brokers, who will benefit from the new opportunities. They are definitely ready to pay. The difficulty is only in finding a formula, which will prevent too much harm to brokers who will not be trading in different products and making arbitrage in different products. Like a forex trader – if he likes to stay a forex trader, he will not get any benefits from our Unified Pool project. This is currently the point of our discussions with the market, i.e. what shall be charged, in particular the formula. We will come to a result in September this year, I believe.

Olga Naydenova – *BCS*

OK, thank you very much.

Alexander Afanasiev – *CEO*

It will be charged.

Olga Naydenova – *BCS*

Yes, that is quite clear, thank you. One more question, maybe a technical one. In the Money Market, we constantly see different prices, and my understanding is that it reflects the maturity of REPOs. What was the average in Q2 and how should we look at the average contract maturity in the Money Market going forward, what are the drivers there?

Evgeniya Abrukina – *Deputy CFO*

The average maturity of Money Market products has declined YoY from 3.9 days to 2.7 days together with the whole market. It was mainly affected by REPOs with the Bank of Russia, which significantly declined, from 11 to 5 days. At the moment, the maturity of REPO with CCP is around 2.4 days, which is pretty much the same as a year ago.

Alexander Afanasiev – *CEO*

There is one more point that is important: corporates, who are our new customers in the Money Market, intend to play for longer tenors. From that angle, we expect some increases in maturities.

Olga Naydenova – *BCS*

Thank you very much.

Operator

Thank you. Once again, if you wish to ask a question, press "*1" on your telephone keypad and wait for your name to be announced. There are no further questions at this time, please continue.

Anton Terentiev – *Director of IR*

OK, ladies and gentlemen, that means we can wait for one or two more minutes for final concluding questions, or if there are none, we will wrap it up.

Operator

Once again, if you wish to ask a question, press "*1" on your telephone keypad.

Anton Terentiev – *Director of IR*

OK then, I can see there are no further questions. I think we should conclude the call. Thank you everybody for participating. We are looking forward to hearing from you at our Q3 results call.